

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1223
 Ways and Means

(Delegate Haynes, *et al.*)

Budget and Taxation

Sales and Use Tax - Production Activity - Taxable Laundering Services

This bill alters the definition of production activity under the State sales and use tax to include laundering, maintaining, or preparing textile products in providing the taxable service of commercial cleaning or laundering of textiles for a buyer who is engaged in a business that requires the recurring service of commercial cleaning or laundering of the textiles. As a result, specified tangible personal property purchased by persons involved in the commercial cleaning or laundering of textiles would be exempt from the State sales and use tax.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$150,000 annually, beginning in FY 2007. No effect on expenditures.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Production activity includes laundering, maintaining, or preparing textile products for rental. Production activity does not include maintaining tangible personal property, except textile products for rental and production machinery and equipment. Retail sale does not include a sale of tangible personal property if the buyer intends to use or incorporate the tangible personal property in a production activity as a material or part of other tangible personal property to be produced for sale. The sales and use tax does not apply to a sale of tangible personal property used directly and predominantly in a production activity at any stage of operation on the production activity site from the handling of raw material or components to the movement of the finished product, if the tangible personal property is not installed so that it becomes real property.

Background: The State sales and use tax is the State's second largest source of general fund revenue accounting for approximately \$3.5 billion in fiscal 2007. The Maryland sales and use tax rate is currently set at 5.0%.

State Fiscal Effect: The Comptroller's Office indicates that it currently collects approximately \$150,000 in sales taxes annually from businesses that have been identified as being exempt under the bill. Confidentiality restrictions prevent the Comptroller from disclosing the number of taxpayers and the exact amount of taxes collected each year. However, assuming a constant level of purchases by these businesses, general fund revenues would decrease by approximately \$150,000 annually, beginning in fiscal 2007.

The revenue loss associated with the bill could be greater, to the extent that: (1) large item purchases are made in a year; and (2) there are other businesses that provide commercial laundry services to businesses that own their own linens, as opposed to the practice of laundering linens that are owned by the laundry and leased to the customers.

Small Business Effect: Purchases made by businesses that provide commercial cleaning services for businesses requiring recurring cleaning would be exempt from the sales and use tax. *The 2002 Economic Census*, conducted by the U.S. Census Bureau, indicates that there are 612 establishments in Maryland that provide dry cleaning and laundry services (not coin operated). There are 35 uniform and linen supply businesses in the State.

Additional Information

Prior Introductions: None.

Cross File: SB 389 (Senator Jones, *et al.*) – Budget and Taxation.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2006
ncs/hlb

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