

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 36 (Senators Harris and Stone)
Budget and Taxation

Sales and Use Tax - Exemption - Veterans Organizations

This bill exempts from the Maryland sales and use tax a sale made to a bona fide nationally organized and recognized veterans' organization or an auxiliary unit or society of the organization, if the organization is qualified as tax exempt under Section 501 (c) (19) of the Internal Revenue Code.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues would decrease, depending on the amount of sales made to veterans' organizations in the State. Based on the experience in other states, the decrease in general fund revenues could range from \$269,000 to \$518,000 annually. The proposed FY 2007 budget assumes a general fund revenue decrease of \$275,000 for sales to veterans' organizations.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The State sales and use tax rate is 5%. However, sales made to several different types of organizations are exempt from the sales and use tax as provided under Section 11-204 of the Tax – General Article. These include sales made to: (1) tax exempt cemetery companies; (2) a credit union organized under the laws of the State or

of the United States; (3) specified nonprofit organizations; (4) specified nonprofit incorporated senior citizens' organizations if the sale does not exceed \$500; (5) a volunteer fire company or department or volunteer ambulance company or rescue squad located in the State made to carry on the work of the company, department, or squad; (6) a nonprofit parent-teacher association located in the State if the association makes the purchase to contribute the property to a school to which a sale is exempt; and (7) a nonprofit organization made to carry on its work, if the organization is qualified as tax exempt under Section 501(c)(4) of the Internal Revenue Code and is engaged primarily in providing a program to render its best efforts to contain, clean up, and otherwise mitigate spills of oil or other substances occurring in United States coastal and tidal waters.

The sales tax also does not apply to a sale of food if the proceeds are used to support a bona fide nationally organized and recognized veterans' organization or auxiliary.

Background: There are 134 veterans' organizations in the United States that are chartered by Congress. In Maryland, there are 151 American Legion posts, 113 Sons of the American Legion posts, and 129 American Legion auxiliary posts. In addition, the Veterans of Foreign Wars has 108 posts in Maryland.

The following states have a general exemption from the sales tax for sales to veterans' organizations: Alabama (state headquarters only), Florida, Minnesota (if the material is to be used for charitable, civic, education, etc. uses and not for social, recreational, or profit, etc. uses), New Jersey, New York, Oklahoma (for the Disabled American Veterans, Department of Oklahoma only), and South Carolina. **Exhibit 1** shows the estimated revenue loss in several states that have adopted sales tax exemptions similar to the exemption proposed by this bill. The revenue loss ranges from \$300,000 in Minnesota, \$600,000 in Florida, and \$1 million in New York. On a per capita basis, the revenue loss ranges from \$0.03 per resident in Florida to \$0.06 per resident in Minnesota. In New Jersey, the revenue loss is projected at \$2,000 per veteran facility.

State Fiscal Effect: General fund revenues will decrease as a result of the exemption from the sales tax being provided to sales made to qualified veterans' organizations. However, the amount of the revenue decrease depends on the amount of sales made to qualifying veterans' groups and the value of these sales, which cannot be reliably estimated.

As a point of reference, the current exemption provided for sales to fire, rescue, and ambulance companies is expected to cost the State approximately \$1.6 million in sales tax revenues in fiscal 2006; the exemption provided for sales of under \$500 to nonprofit senior citizens organizations is expected to have a minimal effect on revenues.

For illustrative purposes only, the *Tax Expenditure Report* for fiscal 2006 indicates that the sales tax exemption for food sold by qualified veterans' organizations for consumption on their premises is estimated to reduce State sales tax revenues by \$1.4 million in fiscal 2006. Assuming these organizations purchase the food and supplies for half the price at which they sell the prepared food and assuming that half of these food and supply purchases are already exempt under the food exemption, sales tax revenues from the organizations' purchases would decline by \$350,000 annually. Additional exempt purchases of major items for the organizations' facilities could cause the revenue loss to be higher. Based on the experience in other states, the decrease in general fund revenues could range from \$269,000 to \$518,000 annually, as illustrated in **Exhibit 2**.

The Administration's proposed legislative package includes a proposal (SB 227/HB 308) to exempt sales to qualified veterans' organizations and the proposed fiscal 2007 budget includes a general fund revenue reduction in the amount of \$275,000 for this purpose.

Additional Information

Prior Introductions: Similar bills were introduced as SB 6/HB 1219 in the 2005 session and as SB 3/HB 409 in the 2004 session. No action was taken by the Senate Budget and Taxation Committee or the House Ways and Means Committee in either 2004 or 2005.

Cross File: HB 1043 (Delegate Impallaria, *et al.*) – Ways and Means.

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

Fiscal Note History: First Reader - January 24, 2006
ncs/hlb Revised - Clarification - February 9, 2006

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Exhibit 1
Cost of Sales Tax Exemption to Veterans' Organizations

	<u>Current Exemption¹</u>	<u>Population²</u>	<u>Estimated Annual Revenue Loss</u>	<u>Per Capita Revenue Loss</u>
Florida	General exemption for sales to veterans' organizations	17,789,864	\$600,000	\$0.034
Minnesota	Sales of specified tangible personal property	5,132,799	\$300,000	\$0.058
New Jersey	General exemption for sales to veterans' organizations	8,717,925	\$2,000 per facility	
New York	General exemption for sales to veterans' organizations, except for shops, bars, and restaurants operated by the organization	19,254,630	\$1,000,000	\$0.052
Average Per Capita Cost				\$0.048

¹Various State Codes; ²Maryland Department of Planning/U.S. Census Bureau

Exhibit 2
Estimated Maryland Cost of Sales Tax Exemption to Veterans' Organizations

	<u>Population¹</u>	<u>Estimated Cost Per Capita</u>	<u>Estimated Annual Revenue Loss</u>
Estimated Cost – Per Capita Basis	5,600,388	\$0.048	\$268,819
Estimated Cost – Per Location Basis	<u>Estimated Locations</u>	<u>Estimated Cost Per Location</u>	<u>Estimated Annual Revenue Loss</u>
American Legion	151	\$2,000	\$302,000
Veterans of Foreign Wars	108	\$2,000	\$216,000
Total	259	\$2,000	\$518,000

¹Maryland Department of Planning/U.S. Census Bureau
