

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 579 (Delegate Glassman)
 Ways and Means

Sales and Use Tax - Thoroughbred Race Horses - Maryland-Bred Race Fund

This bill requires the Comptroller to distribute the sales and use tax collected on the sale of thoroughbred race horses at a claiming race to the Maryland-Bred Race Fund.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Special fund revenues could increase by approximately \$319,900 in FY 2007, with a corresponding general fund revenue reduction. Future years reflect a 10% annual decrease in thoroughbred race horse sales. No effect on expenditures.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$319,900)	(\$287,900)	(\$259,100)	(\$233,200)	(\$209,900)
SF Revenue	319,900	287,900	259,100	233,200	209,900
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Sales and use tax revenues are distributed as follows: (1) an amount necessary to pay sales and use tax refunds is distributed to a refund account; (2) an

amount necessary to administer sales and use tax laws is distributed to an administrative cost account; (3) 45% of sales and use taxes collected on short-term vehicle rentals is distributed monthly to the Transportation Trust Fund; (4) revenue from the Dorchester County hotel surcharge is distributed to the Dorchester County Economic Development Fund; and (5) all remaining revenue is distributed to the general fund.

Background: The Maryland-Bred Race Fund was established in 1962. The fund consists primarily of revenue from the percentage of the takeout from all horse races held at thoroughbred tracks. The fund is then apportioned between purses for stakes races for Maryland-bred horses and awards given to the owners and breeders. In order to be a registered Maryland-bred horse eligible for the awards, a horse must be foaled in Maryland. Additionally, the horse must meet one of the following requirements: the breeder of the horse must reside in Maryland for more than nine months before the registration; the horse must be conceived in Maryland in the previous season; or the horse's dam must have been sent to Maryland to foal and after foaling was covered by a Maryland stallion during the season of the horse's birth.

Owner awards are paid when Maryland-bred horses win races other than stakes races and certain other races. Breeders' awards and stallion awards are paid when a Maryland-bred horse wins or places in any stakes race in the State. Finally, yearling show bonus awards are given to the four highest winning two-year-olds and three-year-olds shown at the annual Maryland Horse Breeders Association show.

The sales and use tax is the State's second largest source of general fund revenues 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: Special fund revenues could increase by approximately \$319,900 and general fund revenues could decrease by the same amount in fiscal 2007 as shown in **Exhibit 2**, based on the following facts and assumptions:

- sales taxes collected from the sale of thoroughbred race horses claiming races totaled \$394,931 in fiscal 2005, as shown in **Exhibit 1**;
- sales will decline by 10% annually, based on the decline in sales in fiscal 2003 to 2005; and
- the State sales and use tax is 5%.

Exhibit 1
Sales and Use Tax Collections – Sale of Thoroughbred Horse at Claiming Races
Fiscal 2001 – 2005

	<u>Sales</u>	<u>Tax Collected</u>	<u>Sales Percent Change</u>
FY 2001	11,220,740	561,037	
FY 2002	11,241,420	562,071	0.18%
FY 2003	9,656,500	482,825	-16.41%
FY 2004	8,831,000	441,550	-9.35%
FY 2005	7,898,620	394,931	-11.80%

Source: Maryland Racing Commission; Department of Legislative Services

Exhibit 2
Estimated Special Fund Revenue Increase
Fiscal 2007 – 2011

	<u>Estimated Sales</u>	<u>Special Fund Revenue Increase</u>
FY 2007	6,397,882	319,894
FY 2008	5,758,094	287,905
FY 2009	5,182,285	259,114
FY 2010	4,664,056	233,203
FY 2011	4,197,651	209,883

To the extent that the sale of thoroughbred horses at claiming races declines more or less than the 10% decline assumed in the estimate, special fund revenue increases, and corresponding general fund decreases, will vary accordingly.

Additional Information

Prior Introductions: None.

Cross File: SB 183 (Senator Hooper, *et al.*) – Budget and Taxation.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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ncs/rhh

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