

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 573 (Delegate Conaway)
Economic Matters

Business Regulation - Chain Restaurants and Hotels - Discounts

This bill requires chain hotels and restaurants to offer discounts to military personnel, senior citizens, and veterans of at least 10% on the total price of food or lodging. A customer qualifying for the discount must present valid identification and may not apply more than one discount to each transaction.

Fiscal Summary

State Effect: Potential significant impact on sales and use taxes generated from restaurant and hotel transactions.

Local Effect: Potential impact on tax revenues for local jurisdictions that levy taxes on hotel revenue.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Any discounts provided to military personnel, senior citizens, or veterans are at the discretion of the retailer and are not required by law.

Background: The Maryland Restaurant Association estimates that there are 9,000 restaurants in Maryland. Because the bill does not provide a definition of a chain restaurant, the number of establishments affected cannot be accurately determined. As a reasonable proxy, the National Restaurant Association estimates that 7 out of every 10 restaurants nationwide are independently owned. Applying this percentage to Maryland

restaurants, it is possible that the bill could apply to 2,700 establishments; however, it is possible that the number could be significantly higher if applied to independently owned franchises.

The bill also applies to Maryland hotels. The Maryland Hotel and Lodging Association estimates that there are 600 hotels in the State, the majority of which are also independently owned. The number of hotels affected by the bill would depend on the interpretation of chain hotel.

The U.S. Census Bureau estimates that there were 5,600,000 people living in Maryland in 2005. Of this number:

- an estimated 645,000 people age 65 or older live in Maryland (although the bill defines senior citizen as an individual who is at least 62 years old, those data are not readily available);
- 480,000 veterans live in Maryland; and
- 25,000 active duty personnel in the armed forces live in Maryland.

The number of people who would apply for the discount provided in the bill cannot be accurately determined because these populations are not exclusive and only one discount may be applied to each transaction. In addition, nonresidents would be eligible for the discount if they provide valid identification.

State Revenues: Maryland restaurant sales exceeded \$8 billion in fiscal 2006, generating almost \$407 million in sales and use taxes. Likewise, hotel revenues exceeded \$1 billion, generating \$61 million in sales and use taxes.

The effect of the bill on total restaurant and hotel revenues is unknown. Variables include the definition of a chain establishment and the number of establishments in that category, the number of people taking advantage of the discount, and the extent to which the discount generates more activity in the restaurant and hotel sectors. Based on fiscal 2006 data, every 1% change in restaurant revenues would result in a \$4 million change in State sales and use tax revenue; every 1% change in hotel revenues would result in a \$0.6 million change in State sales and use tax revenues.

Local Revenues: To the extent that local jurisdictions levy additional taxes on hotel receipts, local revenues could be affected. The effect of the bill would depend on the amount of the local tax, the number of affected establishments, the number of people

taking advantage of the discount, and the extent to which the discount generates more demand among chain hotels.

Small Business Effect: The effect on small business would largely depend on the definition of chain restaurant and hotel. To the extent that small businesses qualify as chain restaurants and hotels, revenue could be affected. Chain establishments located in communities with a significant number of residents impacted by the bill (*e.g.*, restaurants located near Fort Meade) could realize a significant impact from the bill to the extent that those establishments do not currently provide discounts.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Department of Veterans Affairs, Office of Administrative Hearings, Comptroller's Office, U.S. Census Bureau, Restaurant Association of Maryland, Maryland Hotel and Lodging Association, Department of Legislative Services

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