Department of Legislative Services

Maryland General Assembly
2007 Special Session

FISCAL AND POLICY NOTE

House Bill 18 (Delegates Ross and Kaiser)
Ways and Means

Sales and Use Tax - Services

This bill imposes the State sales and use tax on specified services by expanding the definition of a taxable service to include tanning, tattoo, or body piercing services; swimming pool or hot tub cleaning; interior decorating; or home moving services.

The bill takes effect January 1, 2008.

Fiscal Summary

State Effect: General fund revenues could increase by $6.5 million in FY 2008 and $14.6 million by FY 2012. Future year revenues represent tax collections on an annualized basis and projected sales tax growth that incorporates a 5.0% decline in taxable sales. Expenditures would not be affected.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	$6.5	$13.4	$13.8	$14.2	$14.6
Expenditure	$0	$0	$0	$0	$0
Net Effect	$6.5	$13.4	$13.8	$14.2	$14.6

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill imposes the State sales and use tax on a variety of services listed in **Exhibit 1**.

Exhibit 1
Potential Revenue Resulting from the Taxation of Specified Services
($ in Millions)

Service Category	FY 2008	FY 2009
Tanning	$0.4	$0.9
Tattoo or Body Piercing	*	*
Swimming Pool/Hot Tub Cleaning	1.3	2.7
Interior Decorating	1.5	3.1
Home Moving[1]	3.3	6.7
Total	**$6.5**	**$13.4**

*Estimate unavailable or revenue assumed to be minimal.
[1] Estimate excludes office moving.

Source: *U.S. Economic Census*, 1997 and 2002; *Consumer Expenditure Survey*, 2005 Bureau of Labor Statistics

Current Law: The following services are subject to the State sales and use tax: • fabrication, printing, or production of tangible personal property by special order; • 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; • cleaning of a commercial or industrial building; • cellular telephone or other mobile telecommunications services; • "900," "976," "915," and other "900"-type telecommunications services; • custom calling services provided in connection with basic telephone service; • telephone answering services; • pay-per-view television services; • credit reporting; • security services, including detective, guard, or armored car services; • security systems services; • transportation services for transmission, distribution, or delivery of electricity or natural gas, if the sale or use of the electricity or natural gas is subject to the sales and use tax; and • prepaid telephone calling arrangements.

Although they are not considered services under the State sales and use tax, the tax also applies generally to such items as rentals of tangible personal property, restaurant meals, hotel rooms, and utilities (although specific exemptions are allowed for residential purchases of electricity and gas).

Background: The sales and use tax is the State's second largest source of general fund revenue accounting for $3.5 billion in fiscal 2008 and $3.7 billion in fiscal 2009. Historically, the State sales and use tax has been imposed broadly on the sale or use of tangible personal property, but only narrowly on a few specifically enumerated taxable services. Over the past few decades, the growth in sales and use tax revenues has not kept pace with the growth in personal income, as the tax base has eroded due to several factors. One major contributing factor cited for the erosion of the sales tax base is a major shift that has occurred in the national economy from the consumption of goods, the traditional base of the tax, to the consumption of services.

About half the states that impose sales taxes limit taxation of services to utilities, rentals of property, restaurant meals, hotel rooms, and admissions and amusements. Only six states have taxes that generally apply to all services (including two that impose gross receipts taxes on businesses that are not technically sales taxes). About 10 states impose the sales tax broadly on services related to tangible personal property, such as fabrication, installation, and repair services. Several states also tax at least a few other personal services, and a few states also tax some business services.

Among surrounding jurisdictions, New Jersey, Pennsylvania, West Virginia, and the District of Columbia tax a broad range of repair services, including automotive repairs. Pennsylvania and West Virginia tax some business services, and West Virginia also taxes some personal services. Delaware, which does not have a retail sales tax, is considered to have a broad taxation of services under its gross receipts tax, which applies to most businesses.

State Revenues: General fund revenues could increase by $6.5 million in fiscal 2008 and by $13.4 million in fiscal 2009 from taxing the additional services listed in the bill. This estimate is based on data from the two most recent (1997 and 2002) *Economic Census* reported from the U.S. Census Bureau, recent *Consumer Expenditures Surveys* conducted by the Bureau of Labor Statistics, and the *Personal Consumption Expenditure Report* prepared by the Bureau of Economic Analysis. Exhibit 1 outlines the potential revenue resulting from each of the services subject to the sales tax under the bill in fiscal 2008 and 2009 assuming a 5.0% reduction in taxable sales. The estimate is based only on those services where there was either consumption or expenditure data available upon which to base an estimate.

Future year revenues are expected to increase by approximately 3% annually. The 5.0% decline in taxable sales reflects sales that no longer are subject to Maryland sales tax for two reasons: (1) the sale does not take place at all because the cost dissuades the purchaser; or (2) the sale is diverted to a neighboring state where the service is not subject to a sales tax or the sales tax rate is lower. To the extent that the impact on sales volume varies from what is projected, sales tax revenues would rise or decline correspondingly.

State Expenditures: The Comptroller's Office has advised on similar bills in the past that requiring some businesses to collect the sales tax that do not currently collect it could require more auditing to ensure compliance, which could result in a redeployment of existing audit personnel. The redeployment of personnel could reduce the effectiveness of current auditors in generating revenues from audits.

Small Business Effect: As discussed above, increasing the number of services subject to the sales tax in Maryland may result in a decline in consumer purchases of these services from State providers. To the extent possible, residents may purchase more services in neighboring states where these services are not taxed (or are taxed at a lower tax rate) or may choose not to purchase these services at all. The extent to which this may happen cannot be reliably estimated, but the majority of Maryland residents live within a short distance to a neighboring state and therefore could have access to service providers located in other states. While the percentage will vary from service to service, it is likely that many of the service providers in each of the service categories in Exhibit 1 are small businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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