

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1521
 Ways and Means

(Delegate Murphy, *et al.*)

Budget and Taxation

Sales and Use Tax - Exemption - Veterans' Organizations

This bill extends the termination date for a State sales and use tax exemption for sales to specified veterans' organizations from June 30, 2009, to June 30, 2012.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund revenues would decrease by \$481,500 and Transportation Trust Fund revenues would decrease by \$33,500, in FY 2010. Future years reflect a 3% increase in tax-exempt purchases through FY 2012. Expenditures would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$0	(\$481,500)	(\$496,000)	(\$510,900)	\$0
SF Revenue	0	(33,500)	(34,500)	(35,500)	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$515,000)	(\$530,500)	(\$546,400)	\$0

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Chapters 217 and 218 of 2006 provided for a three-year State sales and use tax exemption for sales made to a bona fide nationally organized and recognized

veterans' organization or an auxiliary of the organization or its units, if the organization is qualified as tax exempt under Section 501 (c) (19) of the Internal Revenue Code.

With enactment of Chapter 6 of the 2007 special session, the State sales and use tax rate is 6% (effective January 3, 2008). The State sales and use tax does not apply to sales made by a bona fide religious organization, if the sale is made for the general purposes of the organization. In addition, sales made by the following organizations are also exempt from the State sales and use tax including:

- a gift shop at a mental hospital operated by the Department of Health and Mental Hygiene;
- a hospital thrift shop operated by volunteers;
- specified vending facilities operated under the Maryland Vending Program for the Blind; and
- an elementary or secondary school or a nonprofit parent-teacher organization for the sale of magazine subscriptions in a fund-raising campaign.

Sales made to certain organizations are exempt from the State sales and use tax as provided under Section 11-204 of the Tax – General Article, including sales made to:

- tax exempt cemetery companies;
- credit unions;
- nonprofit organizations;
- nonprofit senior citizens' organizations if the sale does not exceed \$500;
- a volunteer fire or ambulance company or rescue squad;
- a nonprofit parent-teacher association; and
- a nonprofit organization qualified as tax exempt under Section 501(c)(4) of the Internal Revenue Code for the purpose of mitigating spills of oil or other substances occurring in U.S. coastal and tidal waters.

To qualify as an organization to which a sale is exempt, the organization must file an application for an exemption certificate with the Comptroller. The Comptroller may treat the possession of an effective determination letter of status under Section 501(c)(3) or (13) of the Internal Revenue Code from the Internal Revenue Service as evidence that an organization qualifies.

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.

Chapter 210 of 2006 provided a State sales and use tax exemption for sales made by bona fide churches, religious, or nonprofit organizations that are exempt from taxation under Section 501(c)(3) of the IRC if the sales are made at an auction sale and the proceeds are used to carry on the exempt purposes of the church or organization. Chapter 210 limited the exemption to that portion of the sale price that qualifies for a deduction under the federal income tax as a charitable contribution.

Background: The sales and use tax is the State's second largest source of general fund revenue accounting for \$3.7 billion in fiscal 2008 and \$4.2 billion in fiscal 2009, according to the March 2008 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states.

Exhibit 1
Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%
Maryland	6%
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%

State Fiscal Effect: Total sales tax revenues would continue to decrease from fiscal 2010 through 2012 from the extension of the sales and use tax exemption proposed by the bill. The *Tax Expenditure Report* for fiscal 2008 indicates that the current sales and use tax exemption for sales made to qualified veterans' organizations will reduce total sales tax revenues by approximately \$500,000 in fiscal 2009. It is estimated that purchases made by these exempt organizations increase by 3% annually. Accordingly, State revenues would decrease by \$515,000 in fiscal 2010.

Chapter 6 of the 2007 special session also altered the distribution of sales and use tax revenues by requiring that 6.5% of revenues, after specified distributions, be diverted to the TTF beginning July 1, 2008. The exemption proposed by the bill would therefore reduce general fund revenues by approximately \$481,500 and TTF revenues by \$33,500

in fiscal 2010. Future years reflect a 3% increase in tax-exempt purchases through fiscal 2012.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mll/hlb

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