

**Department of Legislative Services**  
Maryland General Assembly  
2008 Session

**FISCAL AND POLICY NOTE**

Senate Bill 151 (Senator Colburn, *et al.*)  
Budget and Taxation

**Sales and Use Tax - Rate - Eastern Shore Counties**

This bill decreases the State sales and use tax rate from 6% to 5% for counties on the Eastern Shore, which includes Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, Wicomico, and Worcester.

The bill takes effect July 1, 2008.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease \$49.6 million in FY 2009 and \$59.4 million by FY 2013. Transportation Trust Fund revenues could decrease \$3.4 million in FY 2009 and \$4.1 million by FY 2013. Future year revenue losses reflect the current sales and use tax revenue forecast.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$49.6)	(\$52.2)	(\$54.5)	(\$56.9)	(\$59.4)
TTF Revenue	(3.4)	(3.6)	(3.8)	(4.0)	(4.1)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$53.1)	(\$55.8)	(\$58.3)	(\$60.8)	(\$63.5)

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

**Local Effect:** None.

**Small Business Effect:** Meaningful.

## Analysis

**Current Law:** Chapter 6 (HB 5) of the 2007 special session increased the State sales and use tax to 6%, effective January 3, 2008. Chapter 6 also authorized vendors, beginning January 3, 2008, to assume or absorb all or any part of the sales and use tax imposed on a retail sale or use and to pay that tax on behalf of the buyer. It repeals the prohibition against a vendor advertising, stating, or otherwise holding out that the vendor will assume or absorb, will not add to the taxable price, or will refund any part of the sales and use tax imposed on a retail sale or use.

**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 \$4.3 billion in fiscal 2009, according to the most recent 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%, includes 1% for local jurisdictions
West Virginia	6%

---

**State Fiscal Effect:** Total sales tax revenues would decrease by \$53.1 million in fiscal 2009 and by \$63.5 million in fiscal 2013. In addition to increasing the sales and use tax rate from 5% to 6%, 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. As a result, the rate change proposed by the bill would reduce general fund revenues by \$49.6 million in fiscal 2009 while reducing TTF revenues by \$3.4 million. **Exhibit 2** shows the estimated decrease in general fund and TTF revenues resulting from the bill. The estimate is based on the following facts and assumptions:

- Eastern Shore counties account for 7.7% of the State's population.

- The Eastern Shore counties specified in the bill contributed approximately 7.3% of total sales and use tax collections in fiscal 2007, according to collection data from the Comptroller’s Office.
- The percentage of collections is assumed to be the same for future years.
- Total sales and use tax revenues are estimated to be \$4.6 billion in fiscal 2009.

Future year revenue losses are based on the current sales and use tax revenue forecast.

It is important to note, however, that the sales tax collection by county data has limitations with regards to accuracy; primarily, the actual allocation of sales tax collection may differ somewhat from what is reported. For example, when larger businesses with many locations across the State remit sales tax collections, they may attribute collections, to one “primary” location or they may simply allocate collections evenly across all locations. In either case, the actual collections for any one establishment may not be totally accurate. As a result, the actual revenue decrease could vary depending on the actual amount of sales and use taxes collected from the Eastern Shore counties.

---

**Exhibit 2**  
**Estimated Revenue Decrease – SB 151**  
**(\$ in Millions)**

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
GF Revenues	(\$49.6)	(\$52.2)	(\$54.5)	(\$56.9)	(\$59.4)
TTF Revenues	(3.4)	(3.6)	(3.8)	(\$4.0)	(4.1)
<b>Total</b>	<b>(\$53.1)</b>	<b>(\$55.8)</b>	<b>(\$58.3)</b>	<b>(\$60.8)</b>	<b>(\$63.5)</b>

---

**Small Business Effect:** To the extent that small retail businesses located on the Eastern Shore are adversely affected due to lost sales resulting from increasing the sales and use tax to 6%, reducing the tax rate would presumably mitigate any negative effects. As noted, the fiscal note for Chapter 6 assumed a 0.95% reduction in sales due to the tax rate increase. As a point of reference, this would result in approximately \$9,500 in recouped sales for a business with \$1.0 million in gross sales. However, the actual effect could vary from business to business. **Exhibit 3** provides information on select economic indicators for counties in Maryland. Eastern Shore counties are highlighted.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - January 28, 2008  
mll/hlb

---

Analysis by: Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

**Exhibit 3**  
**Economic Indicators for Maryland Counties**

County	<u>Population</u>	<u>Average Weekly Wage</u>		<u>Unemployment Rate</u>		<u>Median Household Income</u>		<u>Median Home Price</u>	
	July 2006	CY 2006	Percent of State Average	CY 2006	CY 2007	CY 2006	Percent of State Average	FY 2007	Percent of State Average
Allegany	72,831	\$575	64.8%	5.7%	5.5%	\$38,400	57.7%	\$109,875	34.9%
Anne Arundel	509,300	856	96.5%	3.3%	3.3%	79,950	120.0%	339,900	107.9%
Baltimore City	631,366	945	106.5%	6.4%	6.2%	37,850	56.8%	159,625	50.7%
Baltimore	787,384	848	95.6%	4.0%	3.9%	63,150	94.8%	262,850	83.4%
Calvert	88,804	728	82.1%	3.2%	3.1%	87,400	131.2%	324,900	103.1%
<b>Caroline</b>	<b>32,617</b>	<b>581</b>	<b>65.5%</b>	<b>4.3%</b>	<b>4.5%</b>	<b>47,200</b>	<b>70.9%</b>	<b>275,000</b>	<b>87.3%</b>
Carroll	170,260	639	72.0%	3.2%	3.2%	75,050	112.7%	340,000	107.9%
<b>Cecil</b>	<b>99,506</b>	<b>782</b>	<b>88.2%</b>	<b>4.4%</b>	<b>4.2%</b>	<b>62,100</b>	<b>93.2%</b>	<b>260,000</b>	<b>82.5%</b>
Charles	140,416	691	77.9%	3.2%	3.2%	78,450	117.8%	348,475	110.6%
<b>Dorchester</b>	<b>31,631</b>	<b>606</b>	<b>68.3%</b>	<b>5.7%</b>	<b>6.2%</b>	<b>42,500</b>	<b>63.8%</b>	<b>214,000</b>	<b>67.9%</b>
Frederick	222,938	774	87.3%	3.1%	3.1%	80,650	121.1%	329,900	104.7%
Garrett	29,859	504	56.8%	5.0%	4.7%	40,850	61.3%	145,500	46.2%
Harford	241,402	753	84.9%	3.6%	3.6%	74,600	112.0%	269,900	85.7%
Howard	272,452	938	105.7%	2.9%	2.8%	93,050	139.7%	392,000	124.4%
<b>Kent</b>	<b>19,983</b>	<b>610</b>	<b>68.8%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>49,750</b>	<b>74.7%</b>	<b>264,000</b>	<b>83.8%</b>
Montgomery	932,131	1,084	122.2%	2.9%	2.8%	87,500	131.4%	437,750	139.0%
Prince George's	841,315	880	99.2%	4.1%	4.0%	70,250	105.5%	325,000	103.2%
<b>Queen Anne's</b>	<b>46,241</b>	<b>597</b>	<b>67.3%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>73,800</b>	<b>110.8%</b>	<b>378,911</b>	<b>120.3%</b>
St. Mary's	98,854	930	104.8%	3.4%	3.2%	63,200	94.9%	315,000	100.0%
<b>Somerset</b>	<b>25,774</b>	<b>628</b>	<b>70.8%</b>	<b>5.5%</b>	<b>5.6%</b>	<b>35,250</b>	<b>52.9%</b>	<b>159,900</b>	<b>50.8%</b>
<b>Talbot</b>	<b>36,062</b>	<b>635</b>	<b>71.6%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>54,350</b>	<b>81.6%</b>	<b>360,000</b>	<b>114.3%</b>
Washington	143,748	673	75.9%	4.4%	4.6%	51,650	77.6%	239,450	76.0%
<b>Wicomico</b>	<b>91,987</b>	<b>641</b>	<b>72.3%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>47,350</b>	<b>71.1%</b>	<b>200,000</b>	<b>63.5%</b>
<b>Worcester</b>	<b>48,866</b>	<b>502</b>	<b>56.6%</b>	<b>6.4%</b>	<b>6.1%</b>	<b>53,100</b>	<b>79.7%</b>	<b>265,000</b>	<b>84.1%</b>
Maryland	5,615,727	\$887	100.0%	3.9%	3.8%	\$66,600	100.0%	\$315,000	100.0%

Source: Department of Labor, Licensing, and Regulation; Maryland Department of Planning; State Department of Assessments and Taxation

