

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1197 (Delegate Walkup, *et al.*)
 Ways and Means

Sales and Use Tax - Exemption - Library Book Sales by Nonprofit Organizations

This bill exempts from the State sales and use tax the sale of books by a nonprofit organization that is authorized by a public library system to perform auxiliary services.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund revenues would decrease by \$4,800 and Transportation Trust Fund (TTF) revenues would decrease by \$300 annually beginning in FY 2009. Future year revenue losses assume constant book sales. Expenditures would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$4,800)	(\$4,800)	(\$4,800)	(\$4,800)	(\$4,800)
SF Revenue	(300)	(300)	(300)	(300)	(300)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$5,100)	(\$5,100)	(\$5,100)	(\$5,100)	(\$5,100)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: 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.

Background: With enactment of Chapter 6 (HB 5) of the 2007 special session, the sales and use tax is imposed at a rate of 6% (effective January 3, 2008). 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.

State Fiscal Effect: Twenty public library systems have Friends of the Library groups, nonprofit organizations, that raise revenues for the library. Only 12 of these groups sell books including those in the following counties: Baltimore, Cecil, Charles, Garrett, Harford, Howard, Kent, Montgomery, Prince George's, St. Mary's, Washington, and Worcester. In fiscal 2007, these groups reported \$86,350 in revenue through the sale of books.

Assuming a constant level of sales, the exemption under the bill would reduce total sales and use tax revenues by approximately \$5,200 annually, beginning in fiscal 2009. 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 exemption proposed by the bill would reduce general fund revenues by \$4,844 in fiscal 2009 while reducing TTF revenues by \$337 in fiscal 2009.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mcp/hlb

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