

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

FISCAL AND POLICY NOTE

House Bill 994 (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, 2009.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$59,000 and Transportation Trust Fund (TTF) revenues decrease by \$3,300 annually beginning in FY 2010. Future year revenues assume a constant level of book sales. Expenditures are not affected.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$59,000)	(\$59,000)	(\$59,000)	(\$59,000)	(\$58,300)
SF Revenue	(\$3,300)	(\$3,300)	(\$3,300)	(\$3,300)	(\$4,000)
Expenditure	0	0	0	0	0
Net Effect	(\$62,300)	(\$62,300)	(\$62,300)	(\$62,300)	(\$62,300)

*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:** The sales and use tax is the State's second largest source of general fund revenue accounting for \$3.7 billion in both fiscal 2009 and 2010, according to the December 2008 revenue forecast. In addition, the TTF is projected to receive \$0.2 billion in sales and use tax revenues in both fiscal 2009 and 2010. **Exhibit 1** shows the sales and use tax rates in surrounding states.

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**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%

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**State Fiscal Effect:** Twenty public library systems have Friends of the Library groups, nonprofit organizations, that raise revenues for the library. Only 15 of these groups sell books including those in the following counties: Anne Arundel, Baltimore City, Calvert, Caroline, Cecil, Charles, Dorchester, Frederick, Garrett, Harford, Kent, Montgomery, Prince George's, St. Mary's, and Worcester. In fiscal 2008, these groups reported \$1.04 million in revenue through the sale of books. Assuming a constant level of sales, the exemption provided by the bill will reduce total sales and use tax revenues by approximately \$62,300 annually, beginning in fiscal 2010; however, the actual revenue decrease may vary from year to year, depending on actual book sales.

Chapter 10 of 2008 altered the distribution of sales and use tax revenues by requiring that, for fiscal 2009 through 2013, 5.3% of revenues be distributed to the TTF. Beginning in fiscal 2014, the amount distributed to the TTF increases to 6.5%. Accordingly, extending the exemption will reduce general fund revenues by approximately \$59,000 and TTF revenues by \$3,300 in fiscal 2010. Beginning in fiscal 2014, general fund revenues would decrease by \$58,300 and TTF revenues would decrease by \$4,000.

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**Additional Information**

**Prior Introductions:** HB 1197 of 2008 received a favorable report from the House Ways and Means Committee, but a vote was not taken by the full House.

**Cross File:** None.

**Information Source(s):** Maryland State Department of Education, Department of Legislative Services

**Fiscal Note History:** First Reader - March 5, 2009  
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