

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

FISCAL AND POLICY NOTE

House Bill 1016 (Delegate Jennings, *et al.*)  
 Ways and Means

Sales and Use Tax - Rate

This bill decreases the State sales and use tax rate from 6% to 5%.

The bill takes effect July 1, 2009.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$587.6 million in FY 2010 and Transportation Trust Fund (TTF) revenues decrease by \$32.9 million. Future year revenue losses reflect the current sales and use tax revenue forecast. Expenditures are not affected.

| (\$ in millions) | FY 2010   | FY 2011   | FY 2012   | FY 2013   | FY 2014   |
|------------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenue       | (\$587.6) | (\$632.5) | (\$676.3) | (\$714.2) | (\$742.0) |
| SF Revenue       | (\$32.9)  | (\$35.4)  | (\$37.9)  | (\$40.0)  | (\$51.6)  |
| Expenditure      | 0         | 0         | 0         | 0         | 0         |
| Net Effect       | (\$620.5) | (\$667.9) | (\$714.2) | (\$754.2) | (\$793.5) |

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

**Local Effect:** None.

**Small Business Effect:** Meaningful.

Analysis

**Current Law:** The State sales and use tax rate is 6%.

**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, 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 and the District of Columbia.

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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<br>0% sales tax on clothing |
| Virginia             | 5%; 2.5% for food, both rates include 1%<br>for local jurisdictions   |
| West Virginia        | 6%  |

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**State Fiscal Effect:** Total sales tax revenues will decrease by \$620.5 million in fiscal 2010 and by \$793.5 million in fiscal 2014. 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 TTF. Beginning in fiscal 2014, the amount distributed to TTF increases to 6.5%. Accordingly, reducing the sales and used tax rate to 5% will reduce general fund revenues by approximately \$587.6 million and TTF revenues by \$32.9 million in fiscal 2010. The estimate assumes a 0.95% increase in taxable sales resulting from the rate reduction. **Exhibit 2** shows the estimated decrease in general fund and TTF revenues resulting from the bill.

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**Exhibit 2**  
**Estimated Revenue Decrease – HB 1016**  
**(\$ in Millions)**

|              | <u>FY 2010</u>   | <u>FY 2011</u>   | <u>FY 2012</u>   | <u>FY 2013</u>   | <u>FY 2014</u>   |
|--------------|------------------|------------------|------------------|------------------|------------------|
| GF Revenues  | (\$587.6)        | (\$632.5)        | (\$676.3)        | (\$714.2)        | (\$742.0)        |
| TTF Revenues | (32.9)           | (35.4)           | (37.9)           | (40.0)           | (51.6)           |
| <b>Total</b> | <b>(\$620.5)</b> | <b>(\$667.9)</b> | <b>(\$714.2)</b> | <b>(\$754.2)</b> | <b>(\$793.5)</b> |

**Small Business Effect:** To the extent that small retail businesses located in Maryland have been 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. The fiscal note for Chapter 6 of the 2007 special session 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.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 10, 2009  
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