

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 855

(Montgomery County Delegation)

Ways and Means

Budget and Taxation

Sales and Use Tax - Exemption - Lodging at a Corporate Training Center

This bill exempts from the State sales and use tax the sale of a right to occupy a room or lodgings as a transient guest at a dormitory or other lodging facility that (1) is operated solely in support of a corporate or any other headquarters, training, conference, or awards facility or campus; (2) provides lodging solely for employees, contractors, vendors, and other invitees of the corporation that owns the dormitory or lodging facility; and (3) does not offer lodging services to the general public.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: General fund revenues decrease by at least \$351,300 and Transportation Trust Fund (TTF) revenues decrease by at least \$19,700, beginning in FY 2011. Expenditures are not affected.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	(\$351,300)	(\$351,300)	(\$351,300)	(\$346,800)	(\$346,800)
SF Revenue	(\$19,700)	(\$19,700)	(\$19,700)	(\$24,100)	(\$24,100)
Expenditure	0	0	0	0	0
Net Effect	(\$370,900)	(\$370,900)	(\$370,900)	(\$370,900)	(\$370,900)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A right to occupy a room or lodgings as a transient guest is subject to the State's 6% sales and use tax.

Background: The sales and use tax is the State's second largest source of general fund revenue accounting for \$3.5 billion in fiscal 2010 and \$3.7 billion in fiscal 2011, according to the December 2009 revenue forecast. In addition, TTF is projected to receive \$0.2 billion in sales and use tax revenues in both fiscal 2010 and 2011. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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: Currently the Lockheed Martin Corporation's Center for Leadership Excellence (CLE), located in Bethesda, is the only corporate training center in the State that has been identified as meeting the requirements of the bill. CLE opened in February 2009; it is a 300,000 square foot conference center and lodging facility located next to the Lockheed Martin corporate headquarters. The facility is used to support corporate training courses, meetings, and conferences, and includes 183 guest rooms, a 250 seat amphitheatre, eight training rooms, a restaurant, and fitness center.

CLE is utilized by Lockheed Martin employees only and is not open to the public. Lockheed Martin has over 140,000 employees spread across many business units and programs and the costs for the training center have to be allocated back to the business units or programs for which the employees or contractors work.

When an employee goes to CLE and utilizes the dormitory and/or classrooms, Lockheed Martin allocates the reasonable costs (with no profit) of those services to the employee. Each employee who travels for business holds a Lockheed Martin credit card to which he or she charges all business travel expenses, including the costs incurred at CLE. Upon returning to his or her operating unit, the employee submits an expense report and receipts to Lockheed Martin detailing the various expenses charged to the credit card. Upon review and approval of the expense report, Lockheed Martin debits the credit card (reversing the charge) and credits the costs to the appropriate business unit or program.

Lockheed Martin reports paying approximately \$340,000 in sales taxes between February 2009 and the end of the calendar year. Assuming a full year of operations, it is estimated that total sales and use tax revenues will decrease by approximately \$370,900 beginning in fiscal 2011. 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%. Based on the information provided above, general fund revenues will decrease by \$351,251 (94.7%) and TTF revenue will decrease by \$19,658 (5.3%) in fiscal 2011.

Montgomery County advises that the United States Postal Service also operates a training center in Bethesda. However, because the USPS facility is open to and can be used by the general public, it is not expected to qualify for the exemption provided by the bill.

To the extent that other corporate training centers meet the requirements of the bill, general fund and TTF revenues will decrease accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Montgomery County, Lockheed Martin Corporation, Department of Legislative Services

Fiscal Note History: First Reader - March 19, 2010
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