

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 688
Ways and Means

(Delegate Kipke, *et al.*)

Sales and Use Tax - Exemption - Rain Barrels

This bill exempts the purchase of a rain barrel from the State sales and use tax. A rain barrel is defined as a system consisting of at least a 55-gallon drum, vinyl hose, polyvinyl chloride couplings, and a screen grate to keep out debris and insects. The system must be intended to collect and store rainwater from a roof that would otherwise be lost to runoff and diverted to storm drains and streams.

The bill takes effect January 1, 2011, and terminates December 31, 2011.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund (TTF) revenues decrease in FY 2011 and 2012. The amount of the decrease depends on the number of rain barrels purchased and the cost of each. State expenditures are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The State sales tax rate is 6.0%. There is no exemption for the purchase of rain barrels. Title 11, Subtitle 2 of the Tax-General Article specifies current exemptions from the sales 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: The exemption provided by the bill will decrease general fund and TTF revenue in the second half of fiscal 2011 and the first half of fiscal 2012, as a result of the bill's January 1, 2011 effective date and December 31, 2011 termination date. The revenue decrease in each fiscal year depends on the number and price of rain barrels purchased.

Prices for rain barrel systems that may be eligible for the sales tax exemption range from around \$80 to over \$250. Sales taxes imposed on these systems would therefore range from \$4.80 to over \$15 per rain barrel. **Exhibit 2** shows the potential impact on State revenues at various sales levels based on a \$165 sales price for each system. With 2.3 million real property accounts, the sale of 25,000 rain barrels represents approximately 1% of total homes in the State.

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%.

Exhibit 2
Potential Impact on State Revenues – Rain Barrels Exemptions

<u>Number of Rain Barrels</u>	<u>Total</u>	<u>GF</u>	<u>TTF</u>
1,000	\$10,000	\$9,470	\$530
5,000	50,000	47,350	2,650
10,000	100,000	94,700	5,300
15,000	150,000	142,050	7,950
20,000	200,000	189,400	10,600
25,000	250,000	236,750	13,250

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 16, 2010
ncs/hlb

Analysis by: Michael Sanelli

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