

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 739 (Senator Jacobs, *et al.*)
Budget and Taxation

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, 2010.

Fiscal Summary

State Effect: General fund revenues decrease by \$579.5 million in FY 2011 and Transportation Trust Fund (TTF) revenues decrease by \$32.4 million. Future year revenue losses reflect the current sales and use tax revenue forecast. General fund expenditures increase by \$98,600 in FY 2011 for computer programming and notification costs.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	(\$579.5)	(\$614.0)	(\$649.4)	(\$670.0)	(\$691.0)
SF Revenue	(\$32.4)	(\$34.4)	(\$36.3)	(\$46.6)	(\$48.0)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$612.0)	(\$648.4)	(\$685.8)	(\$716.6)	(\$739.1)

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 \$3.5 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 Revenues: Total sales tax revenues will decrease by \$611.9 million in fiscal 2011 and by \$739.1 million in fiscal 2015. 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 \$579.5 million and TTF revenues by \$32.4 million in fiscal 2011. 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.

Exhibit 2
Estimated Revenue Decrease – SB 739
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
GF Revenues	(\$579.5)	(\$614.0)	(\$649.4)	(\$670.1)	(\$691.0)
TTF Revenues	(32.4)	(34.4)	(36.3)	(46.6)	(48.0)
Total	(\$611.9)	(\$648.4)	(\$685.8)	(\$716.6)	(\$739.1)

State Expenditures: The Comptroller's Office will incur a variety of one-time expenditures to administer the sales tax rate increase, including notification costs relating to mailing and postage and minimal computer programming modifications. As a result, general fund expenditures increase by \$98,600 in fiscal 2011. The estimate is based on computer programming costs of \$24,500 and notifying 130,000 sales tax account holders of the changes under the bill at an average cost of \$0.57 per account.

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.

Additional Information

Prior Introductions: HB 1016 of 2009 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Kent, Washington, and Worcester counties; cities of Frederick and Havre de Grace; Comptroller's Office; Department of Legislative Services

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mlm/hlb

Analysis by: Michael Sanelli

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