

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 675

(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, 2011.

Fiscal Summary

State Effect: General fund revenues decrease by \$602.6 million and Transportation Trust Fund (TTF) revenues decrease by \$33.7 million in FY 2012. Future year revenue losses reflect the current sales and use tax revenue forecast. General fund expenditures increase by \$88,550 in FY 2012 for computer programming and notification costs.

| (\$ in millions) | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|------------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenue | (\$602.6) | (\$638.1) | (\$665.7) | (\$691.7) | (\$718.8) |
| SF Revenue | (\$33.7) | (\$35.7) | (\$46.3) | (\$48.1) | (\$50.0) |
| GF Expenditure | \$.1 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$636.4) | (\$673.8) | (\$712.0) | (\$739.8) | (\$768.8) |

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 fiscal 2011 and \$3.8 billion in fiscal 2012,

according to the December 2010 revenue forecast. In addition, TTF is projected to receive \$228.7 million and \$237.6 million in sales and use tax revenues in fiscal 2011 and 2012, respectively. **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 | 6% |
| Maryland | 6% |
| Pennsylvania | 6% plus 1% or 2% in certain local jurisdictions |
| Virginia | 5%; 2.5% for food, both rates include 1% for local jurisdictions |
| West Virginia | 6%; 3% for food |

State Revenues: Total sales and use tax revenues will decrease by \$636.3 million in fiscal 2012 and by \$768.8 million in fiscal 2016. 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 percentage of revenues distributed to TTF increases to 6.5%. Accordingly, reducing the sales and use tax rate to 5% will reduce general fund revenues by approximately \$602.6 million and TTF revenues by \$33.7 million in fiscal 2012. 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 675
(\$ in Millions)

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| GF Revenues | (\$602.6) | (\$638.1) | (\$665.7) | (\$691.7) | (\$718.8) |
| TTF Revenues | (33.7) | (35.7) | (46.3) | (48.1) | (50.0) |
| Total | (\$636.3) | (\$673.8) | (\$712.0) | (\$739.8) | (\$768.8) |

State Expenditures: The Comptroller's Office will incur a variety of one-time expenditures to administer the sales tax rate decrease, including notification costs relating to mailing and postage and minimal computer programming modifications. As a result, general fund expenditures increase by \$88,550 in fiscal 2012. The estimate is based on computer programming costs of \$12,500 and notifying 130,000 sales tax account holders of the changes under the bill at an average cost of \$0.585 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% beginning in January 2008, reducing the tax rate would presumably mitigate any negative effects. The fiscal and policy 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 million in gross sales. However, the actual effect would vary from business to business.

Additional Information

Prior Introductions: SB 739 and HB 1286 were introduced in the 2010 session. The Senate Budget and Taxation Committee and House Ways and Means Committee took no action on either bill. The House Ways and Means Committee took no action on HB 1016 in the 2009 session.

Cross File: None.

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

Fiscal Note History: First Reader - March 7, 2011
mm/jrb

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