

Department of Legislative Services
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 19

(Senator Peters, *et al.*)

Budget and Taxation

Ways and Means

Sales and Use Tax - Exemption - Veterans' Organizations

This bill repeals the termination date for a State sales and use tax exemption for sales made to specified veterans' organizations. Under current law, the exemption terminates June 30, 2012.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: General fund revenues decrease by \$87,000 in FY 2013. Future years reflect 1.3% annual increases in sales. Expenditures are not affected.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	(\$87,000)	(\$88,000)	(\$89,000)	(\$90,000)	(\$91,100)
Expenditure	0	0	0	0	0
Net Effect	(\$87,000)	(\$88,000)	(\$89,000)	(\$90,000)	(\$91,100)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Chapters 217 and 218 of 2006 provided for a three-year State sales and use tax exemption for sales made to a bona fide nationally organized and recognized veterans' organization or an auxiliary of the organization or its units, if the organization is qualified as tax exempt under Section 501 (c)(19) of the Internal Revenue Code. Chapter 506 of 2009 extended the termination date to June 30, 2012.

The State sales and use tax rate is 6%. The tax does not apply to sales made by a bona fide religious organization, if the sale is made for the general purposes of the organization. In addition, sales made by the following organizations are also exempt from the State sales and use tax including:

- a gift shop at a mental hospital operated by the Department of Health and Mental Hygiene;
- a hospital thrift shop operated by volunteers;
- specified vending facilities operated under the Maryland Vending Program for the Blind; and
- an elementary or secondary school or a nonprofit parent-teacher organization for the sale of magazine subscriptions in a fundraising campaign.

Sales made to certain organizations are also exempt from the State sales and use tax as provided under Section 11-204 of the Tax – General Article, including sales made to:

- tax-exempt cemetery companies;
- credit unions;
- nonprofit organizations;
- nonprofit senior citizens' organizations if the sale does not exceed \$500;
- a volunteer fire or ambulance company or rescue squad;
- a nonprofit parent-teacher association;
- a nonprofit organization qualified as tax exempt under Section 501(c)(4) of the Internal Revenue Code for the purpose of mitigating spills of oil or other substances occurring in U.S. coastal and tidal waters; and
- a veterans' organization or an auxiliary of the organization or its units, if the organization is qualified as tax exempt under Section 501 (c)(4) of the Internal Revenue Code.

To qualify as a tax-exempt organization, the organization must file an application for an exemption certificate with the Comptroller. The Comptroller may treat the possession of an effective determination letter of status under Section 501(c)(3) or (13) of the Internal Revenue Code from the Internal Revenue Service as evidence that an organization qualifies for the exemption.

The sales tax also does not apply to a sale of food if the proceeds are used to support a bona fide nationally organized and recognized veterans' organization or auxiliary.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.0 billion in both fiscal 2012 and 2013, according to the December 2011 revenue forecast. **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%
	9% for alcoholic beverages
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%; 2% for food

State Fiscal Effect: General fund revenues will decrease beginning in fiscal 2013 from the extension of the sales and use tax exemption proposed by the bill. Based on the following facts and assumptions, total sales and use tax revenues will decrease by approximately \$87,000 in fiscal 2013:

- The *Tax Expenditure Report* indicates that the current sales and use tax exemption for charitable or nonprofit sales will reduce total sales tax revenues by approximately \$1.8 million in fiscal 2012.
- Approximately 20% of these sales are applicable to taxable sales to bona fide veterans' organizations.
- There are 486 veterans' organizations located in Maryland of which 100 have been issued a sales tax exemption certificate; these organizations will have approximately \$2,000 in taxable sales associated with maintenance and administration costs.
- The *Tax Expenditure Report* indicates that the current sales and use tax exemption for sales made by qualified veterans' organizations will reduce total sales tax revenues by approximately \$100,000 in fiscal 2012.

Future year revenues reflect a 1.3% annual increase in tax-exempt purchases beginning in fiscal 2014. To the extent more organizations are granted sales tax exemption certificates and sales to these organizations are more or less than estimated, sales tax revenues will decrease accordingly.

Additional Information

Prior Introductions: None.

Cross File: HB 319 (Delegate Proctor, *et al.*) – Ways and Means.

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

Fiscal Note History: First Reader - February 6, 2012
ncs/jrb

Analysis by: Michael Sanelli

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