

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 232
Ways and Means

(Delegate Vitale, *et al.*)

Budget and Taxation

Sales and Use Tax - Exemption - Parent-Teacher Organization Fundraisers

This bill exempts from the State sales and use tax sales made by a parent-teacher organization or other organization within an elementary or secondary school in the State or within a local school system in the State.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2014. The amount of the decrease depends on the number of eligible organizations and the amount of taxable sales made by these organizations each year. Under one set of assumptions, general fund revenues may decrease by approximately \$260,100 annually.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The State sales and use tax does not apply to sales made by the following organizations:

- a bona fide religious organization, if the sale is made for the general purposes of the organization;
- 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 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 from the Internal Revenue Service as evidence that an organization qualifies for the exemption.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.1 billion in fiscal 2013 and \$4.3 billion in fiscal 2014, according to the December 2012 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% or 2% in certain local jurisdictions
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

State Fiscal Effect: General fund revenues will decrease beginning in fiscal 2014. The amount of the decrease depends on the number of eligible organizations and the amount of taxable sales made by these organizations each year. The amount of annual sales made by these organizations cannot be reliably estimated.

The Maryland State Department of Education reports that for the 2011-2012 school year there were 1,454 public schools and 1,441 nonpublic schools in the State. If, *for illustrative purposes only*, it is assumed that each school in the State has at least one parent-teacher organization and each organization has \$1,000 in taxable sales in a year and each of the 24 local school systems have at least one parent-teacher organization and each of these organizations has \$60,000 in taxable sales in a year, general fund revenues will decrease by approximately \$260,100 annually.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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