

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 1277
Ways and Means

(Delegate Cardin, *et al.*)

Sales and Use Tax - Ammunition - Developmental Disabilities Funding

This bill establishes a 50% sales tax rate on the taxable price of ammunition. Revenues collected from the sales tax on ammunition must be distributed to the Waiting List Equity Fund (WLEF).

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund revenues decrease by a significant amount beginning in FY 2014 and special fund revenues increase by a significant amount beginning in FY 2014. Under one set of assumptions, general fund revenues decrease by \$967,000 and special fund revenues increase by \$8.0 million annually. General fund expenditures increase by \$281,350 in FY 2014 for computer programming and notification costs at the Comptroller's Office.

Local Effect: None.

Small Business Effect: Potential meaningful. The bill may have a significant negative impact on some retailers – primarily gun shops, sporting goods stores, and department stores that sell ammunition.

Analysis

Current Law: The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. 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

Background: A developmental disability is a condition attributable to a mental or physical impairment that results in substantial functional limitations in major life activities and which is likely to continue indefinitely. Examples include autism, blindness, cerebral palsy, deafness, epilepsy, intellectual disability, and multiple sclerosis. The Developmental Disabilities Administration (DDA) provides direct services to these individuals in three State residential centers and through funding of a coordinated service delivery system that supports the integration of these individuals into the community. Because the majority of the individuals served are Medicaid-eligible, the State receives federal matching funds for services provided to Medicaid enrolled individuals.

WLEF was established to ensure that funding associated with serving individuals in a State residential center follows them to the community when they are transitioned to a community-based care setting and that any funds remaining be used to provide community-based services to individuals on the waiting list. WLEF funds may not be used to supplant funds for emergency placements or transitioning youth.

In the 2011 session, the legislature appropriated an additional \$15 million to DDA for fiscal 2012 based on its concern over the lack of services available to meet the demand from individuals with developmental disabilities. Funding was provided through Chapter 571 of 2011 (SB 994), which increased the State sales and use tax rate imposed on alcoholic beverages from 6% to 9% and required a supplementary appropriation of

\$15 million for DDA to fund services to individuals on DDA's waiting list. Specifically, funding had to be used to assist individuals in the Crisis Resolution and Crisis Prevention categories of the waiting list. The \$15 million supplementary appropriation was also partially matched by federal funds based on the number of individuals served in the Crisis Resolution category.

Ultimately, in fiscal 2012, DDA spent an additional \$18.0 million in general funds and \$5.0 million in matching federal funds to serve those on the waiting list, exceeding its \$15.0 million general fund appropriation by \$3.0 million. DDA used \$12.1 million to place individuals in the Crisis Resolution category into ongoing services, doubling the number of placements over fiscal 2011. All individuals in the Crisis Prevention category of the waiting list were eligible for up to \$10,000 in one-time assistance for Services of Short Duration (SSD). DDA used \$10.9 million to provide SSD to 1,172 individuals in the Crisis Prevention category.

DDA was able to increase placements due to the implementation of an expedited process of initiating services. This new process streamlined the initial assessment of needs, the individual plan development, and the funding process. DDA also implemented new procedures to review challenging cases at the department level and coordinated additional supports through various service delivery systems, such as mental health services, to meet unique needs.

It should be noted that due to increased outreach efforts by DDA, more people came onto the waiting list in fiscal 2012 than in fiscal 2011. In total, 322 people were added to the Crisis Resolution category in fiscal 2012, compared to 163 in fiscal 2011. Similarly, 667 people were added to the Crisis Prevention category in fiscal 2012, as compared to 588 in fiscal 2011. As of January 15, 2013, 87 people were in the Crisis Resolution category, and 1,327 people remained in the Crisis Prevention category.

State Revenues: General fund revenues decrease and special fund revenues increase beginning in fiscal 2014 due to the increase in the sales and use tax rate imposed on sales of ammunition and the redirection of existing sales tax revenues from ammunition sales to the Waiting List Equity Fund. However, the magnitude of these revenue changes cannot be reliably estimated, as there is currently no accurate way to track or estimate the amount of ammunition sold in the State each year.

According to a survey by the U.S. Fish and Wildlife Service, Americans spent \$7.7 billion on hunting equipment in 2011, including \$1.3 billion on ammunition. If it is assumed that Maryland residents purchased hunting equipment and ammunition proportionate to the nation as a whole, Maryland residents spent approximately \$16 million on ammunition for hunting related activities in 2011.

For illustrative purposes only, if it is assumed that Maryland residents spend approximately \$16 million annually on ammunition for hunting related activities, the 50% ammunition tax proposed by the bill would decrease general fund revenues by approximately \$967,000 and increase special fund revenues for WLEF by approximately \$8.0 million annually. However, it is important to note that these estimates do not include any nonhunting related ammunition sales. As a result, this example may understate the potential revenue impacts of the bill.

State Expenditures: The Comptroller's Office will incur a variety of one-time expenditures to administer the sales tax rate changes, including form changes, notification costs relating to mailing and postage, and computer programming modifications. As a result, general fund expenditures increase by \$281,350 in fiscal 2014. The estimate includes \$204,000 in computer programming changes and \$77,350 in notification costs.

Additional Comments: According to the National Conference of State Legislatures, in 2013, three states other than Maryland are considering ammunition tax bills: California, Connecticut, and New Jersey.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Comptroller's Office, Department of State Police, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2013
ncs/jrb

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