

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 365 (Senator Getty, *et al.*)
Budget and Taxation

Sales and Use Tax - Rate Reduction

This bill reduces the State sales and use tax rate from 6% to 5% and reduces the State sales and use tax rate on alcoholic beverages from 9% to 5% beginning in fiscal 2015.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund revenues decrease by \$765.7 million in FY 2015. Future year revenue losses reflect the current sales and use tax revenue forecasts. General fund expenditures increase by \$59,500 in FY 2015 for computer programming and notification costs.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$765.7)	(\$804.5)	(\$839.2)	(\$871.0)	(\$900.6)
SF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$765.8)	(\$804.5)	(\$839.2)	(\$871.0)	(\$900.6)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

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%.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.2 billion in fiscal 2014 and \$4.4 billion in fiscal 2015, according to the December 2013 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	5.75%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia *	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

*An additional State tax of 0.7% is imposed on sales in localities in Northern Virginia and the Hampton Roads region.

State Revenues: General fund revenues will decrease by \$765.7 million in fiscal 2015 and by \$900.6 million in fiscal 2019, based on the current sales tax revenue forecast.

Reducing the general sales and use tax rate to 5% will reduce general fund revenues by approximately \$649.7 million in fiscal 2015 and by approximately \$766.0 million in fiscal 2019. Reducing the alcoholic beverage sales tax rate from 9% to 5% in fiscal 2015 will reduce general fund revenues by approximately \$116.0 million in fiscal 2015 and by approximately \$134.6 million in fiscal 2019. The estimate assumes a 0.95% increase in taxable general sales and a 2.5% increase in alcoholic beverage sales resulting from the sales tax rate reductions.

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 \$59,500 in fiscal 2015. The estimate is based on notifying 100,000 sales tax account holders of the changes under the bill at an average cost of \$0.595 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 the increase in the sales and use tax rate to 6% in January 2008, reducing the tax rate would presumably help 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 after the rate is reduced to 5%. However, the actual effect would vary from business to business.

Additional Information

Prior Introductions: None.

Cross File: HB 347 (Delegate Schuh, *et al.*) - Ways and Means.

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

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ncs/jrb

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