

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

House Bill 928 (Delegate Walker)
 Ways and Means

Sales and Use Tax - Agricultural Products and Equipment - Repeal of Exemption

This bill repeals a sales and use tax exemption for sales of specified agricultural products and equipment.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: General fund revenues increase by an estimated \$212.2 million in FY 2016 and by \$251.2 million in FY 2020 due to the elimination of the tax exemption. Expenditures are not affected.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$212.2	\$221.4	\$230.9	\$240.8	\$251.2
Expenditure	0	0	0	0	0
Net Effect	\$212.2	\$221.4	\$230.9	\$240.8	\$251.2

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 does not apply to a sale of the following items if used for an agricultural purpose: (1) livestock; (2) feed or bedding for livestock; (3) seed, fertilizer, fungicide, herbicide, or insecticide; (4) baler twine or wire; and (5) fuel for use in farm equipment or a farm tractor.

The sales and use tax also does not apply to the following if bought by a farmer: (1) a container to transport farm products that the farmer raises to market; (2) specified farm vehicles when used in farming; (3) a milking machine, when used in farming; (4) fabrication, processing, or service, by a sawmill, of wood products for farm use in which the farmer retains title; and (5) farm equipment when used to raise livestock; prepare, irrigate, or tend the soil; or plant, service, harvest, store, clean, dry, or transport seeds or crops.

Except for flowers, sod, decorative trees and shrubs, and any other product that is usually sold by a nursery or horticulturist, the sales and use tax does not apply to a sale of an agricultural product by a farmer.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.3 billion in fiscal 2015 and \$4.5 billion in fiscal 2016, according to the December 2014 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%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
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%; plus 0.5% or 1% in certain municipalities

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

State Fiscal Effect: The Department of Budget and Management's *Tax Expenditures Report* for fiscal 2014 estimates that the current sales and use tax exemption for sales of agricultural products and equipment will reduce general fund revenues by approximately \$195.1 million in fiscal 2014. Based on annual growth rates for the value of the exemption

in the *Tax Expenditure Report*, this estimate assumes the value of the exemption will increase by 4.3% annually. As a result, it is estimated that repealing this exemption will increase general fund revenues by approximately \$212.2 million in fiscal 2016 and by \$251.2 million in fiscal 2020.

Small Business Effect: Maryland farms, many of which are small businesses, would pay sales tax on the purchase of certain farm equipment and supplies beginning in fiscal 2016. The 2012 U.S. Census of Agriculture indicates that there were 12,256 farms in Maryland in 2012. Maryland farms incurred approximately \$1.9 billion in various production expenses; had machinery and equipment valued at \$1.4 billion or an average of \$115,900 per farm; and had a net cash farm income of approximately \$477.0 million.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 27, 2015
mar/jrb

Analysis by: Michael Sanelli

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