

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

Senate Bill 789 (Senator Muse)
 Budget and Taxation

**Sales and Use Tax - Exemption - Nonprofit Organizations Authorized to Perform
 Auxiliary Library Services**

This bill exempts from the State sales and use tax sales to and by a nonprofit organization that is authorized by a public library system to perform auxiliary services.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: General fund revenues decrease by at least \$378,400 annually beginning in FY 2016. Expenditures are not affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	(\$378,400)	(\$378,400)	(\$378,400)	(\$378,400)	(\$378,400)
Expenditure	0	0	0	0	0
Net Effect	(\$378,400)	(\$378,400)	(\$378,400)	(\$378,400)	(\$378,400)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Sales made to certain organizations are 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 bona fide nationally organized and recognized tax exempt veterans organization or auxiliary.

As provided under Section 11-204 of the Tax-General Article, the State sales and use 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;
- an elementary or secondary school or a nonprofit parent-teacher organization for the sale of magazine subscriptions in a fundraising campaign; and
- a parent-teacher organization or other organization within an elementary or secondary school in the State or within a school system in the State.

To qualify as an organization to which a sale is exempt, 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.

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 \$4.3 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: General fund revenues decrease by at least \$378,400 annually beginning in fiscal 2016, as discussed below.

Twenty county library systems in the State, including those in Allegany, Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Cecil, Charles, Dorchester, Frederick, Garrett, Harford, Howard, Kent, Montgomery, Queen Anne's, St. Mary's, Talbot, Washington, and Wicomico counties, have a Friends of the Library or similar group, which are nonprofit organizations that raise revenues and perform other services for the local libraries.

The Comptroller's Office has identified nine of these groups as having filed sales and use tax returns in fiscal 2014. Total sales and use taxes remitted by these groups totaled approximately \$378,400. As a result, the sales tax exemption for sales made by nonprofit groups that perform auxiliary services for local libraries will reduce general fund revenues by approximately \$378,400 annually beginning in fiscal 2016, assuming a constant level of sales and that no other groups meet the definition of performing auxiliary library services. However, the actual revenue decrease may vary from year to year, depending on actual sales made by these various organizations.

In addition to a sales tax exemption for sales made by these nonprofit organizations, the bill also provides a sales tax exemption for sales made to these organizations. As a result, general fund revenues will decrease beginning in fiscal 2016. The amount of the revenue

decrease depends on the number of eligible organizations and the amount of taxable purchases made by these organizations each year. The amount of annual purchases made by these organizations cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore County, Charles and Montgomery counties, cities of Frederick and Havre de Grace, Maryland State Department of Education, Comptroller's Office, Department of Legislative Services

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