

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 540 (Delegate Lam, *et al.*)
Ways and Means

Sales and Use Tax - Exemption - Trade-Ins and Core Charges

This bill alters the definition of taxable price under the State sales and use tax to exempt the value of used components, parts, or batteries (core value) received from the purchaser of a component, part, or battery for an automobile, a truck, or a marine engine.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by a potentially significant amount beginning in FY 2017. Under one set of assumptions, general fund revenues decrease by \$1.6 million annually beginning in FY 2017. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2017.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Taxable price for the sales and use tax does not include the value of a used component or part (core value) received from a purchaser of the following remanufactured truck parts: (1) an air brake system; (2) an engine; (3) a rear axle carrier; or (4) a transmission.

The current sales and use tax exemption is estimated to reduce general fund revenues by approximately \$100,000 annually.

Background: The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$4.5 billion in fiscal 2016 and \$4.7 billion in fiscal 2017, according to the December 2015 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 in localities in Northern Virginia and the Hampton Roads region.

State Fiscal Effect: General fund revenues decrease by a potentially significant amount beginning in fiscal 2017. The amount of the decrease depends on the taxable core value of specified used automobile, truck, or marine engine components, parts, or batteries sold in the State each year.

For illustrative purposes, annual general fund revenues may decrease by approximately \$1.6 million beginning in fiscal 2017 based on the following facts and assumptions:

- Maryland represents 1.87% of the U.S. population;
- according to the U.S. Bureau of Labor Statistics, Americans spent approximately \$106.1 billion for automotive repairs and maintenance in 2014;
- 30% of automotive repair expenditures are for auto parts (rather than labor);
- according to the U.S. Department of Commerce, the remanufactured auto parts industry had approximately \$40 billion in sales nationally in 2010; and
- the core value of the part is equal to 25% of the price.

The estimate does not include an estimate as to the core value of used marine engine components that would be exempt under the bill. To the extent that the actual impacts differ from the assumptions used in the estimate, the effect of the exemption on general fund revenues will vary accordingly.

The Comptroller's Office would incur a one-time expenditure increase of \$81,300 in fiscal 2017 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Census Bureau, Bureau of Labor Statistics, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2016
min/jrb

Analysis by: Michael Sanelli

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