

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 720

(Senator Eckardt)

Budget and Taxation

Sales and Use Tax - Exemption - All-Terrain or Utility-Terrain Vehicles for
Agricultural Purposes

This bill exempts from the State sales and use tax the purchase of an all-terrain or utility-terrain vehicle by a farmer when used exclusively for an agricultural purpose on the farmer's property.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease by a potentially significant amount beginning in FY 2018. The amount of the decrease depends on the number of all-terrain or utility-terrain vehicles purchased for farm use each year and the taxable price of each vehicle. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2018.

Local Effect: None.

Small Business Effect: Potential meaningful. Depending on the price of the all-terrain vehicle purchased, farms that are small businesses could realize a significant reduction in sales taxes paid.

Analysis

Current Law: The State sales and use tax does not apply to the sale of the following items for an agricultural purpose: livestock; feed or bedding for livestock; seed, fertilizer, fungicide, herbicide, or insecticide; baler twine or wire; and fuel for use in farm equipment

or a specified farm tractor. If bought by a farmer, the following is not subject to the sales and use tax: a container to transport farm products that the farmer raises to market; a specified farm vehicle, when used in farming; a milking machine, when used in farming; fabrication, processing, or service, by a sawmill, of wood products for farm use in which the farmer retains title; and 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 \$4.6 billion in fiscal 2017 and \$4.7 billion in fiscal 2018, according to the December 2016 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	0.0%
District of Columbia	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6.0%; 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 27 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 FY 2018. The amount of the decrease depends on the number of all-terrain or utility-terrain vehicles purchased for farm use each year and the taxable price of each vehicle.

The Motor Vehicle Administration (MVA) advises that all-terrain vehicles used for farm use are not subject to the motor vehicle titling tax but are, instead, subject to the State sales and use tax. As such, MVA has no data on the number of all-terrain vehicles in the State that are currently used for farming purposes. The 2012 Census of Agriculture indicates that there are approximately 12,300 farms in Maryland. An Internet search indicates that the price of all-terrain vehicles ranges from inexpensive models costing less than \$1,000, to models costing \$15,000 or more. It is not known how many all-terrain vehicles may be purchased each year for farm use.

As a point of reference, and *for illustrative purposes only*, if 1,000 all-terrain vehicles are purchased for farm use each year with an average purchase price of \$9,000, general fund revenues decrease by approximately \$540,000. However, the actual effect on general fund revenues depends on the number of vehicles purchased for farm use and the taxable purchase price.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2018 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: None.

Cross File: HB 1112 (Delegate Mautz, *et al.*) - Ways and Means.

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

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