

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1132 (Senators Mathias and Simonaire)
Budget and Taxation

**Sales and Use Tax - Exemption - Sales by Nonprofit Organizations Raising Funds
to Assist Veterans**

This bill exempts from the State sales and use tax a sale by a nonprofit organization whose principal focus is raising funds to assist veterans of the U.S. Armed Forces if no less than 88% of the proceeds from the sales are used to assist those veterans.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2018. The amount of the decrease depends on the number of nonprofit organizations that qualify for the exemption and the amount of sales made by these organizations. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2018.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Sales made to certain organizations are exempt from the State sales and use tax, 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.

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.

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 \$4.6 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 beginning in fiscal 2018. The amount of the decrease depends on the number of nonprofit organizations that qualify for the exemption provided by the bill and the amount of sales made by these organizations, neither of which can be reliably estimated.

The U.S. House of Representatives' Committee on Veterans' Affairs lists 46 federally chartered veterans' service organizations. In addition, there are numerous other organizations that assist veterans that are not federally chartered. However, the amount of exempt sales that these organizations may make cannot be reliably estimated. As a point of reference, general fund revenues will decrease by \$60,000 for each \$1.0 million of exempt sales.

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: HB 1315 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: HB 922 (Delegate Anderton, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office; Department of Veterans Affairs;
Department of Legislative Services

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