

Department of Legislative Services  
Maryland General Assembly  
2017 Session

FISCAL AND POLICY NOTE  
First Reader - Revised

House Bill 113  
Ways and Means

(Delegate Wivell)

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Sales and Use Tax Exemption - Target Redevelopment Area - Definition

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This bill expands the definition of a target redevelopment area for purposes of a State sales and use tax exemption for specified construction material and warehousing equipment to include the property in Washington County that was previously the site of the Fort Ritchie military installation.

The bill takes effect July 1, 2017.

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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 value of eligible materials that are purchased for use on specified property in Washington County. 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.

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Analysis

**Current Law:** Chapters 603 and 604 of 2016 exempt from the State sales and use tax a sale of construction material or warehousing equipment if the material or equipment is purchased by a person solely for use in a specified target redevelopment area in Baltimore County and the buyer provides the vendor with evidence of eligibility for the exemption issued by the Comptroller.

A target redevelopment area is any real property owned or leased by a person in Baltimore County that (1) was previously owned at any time by Bethlehem Steel Corporation or any of its subsidiaries and (2) was, as of January 1, 2016, the subject of an approved application for participation in a specified voluntary cleanup program under provisions of the Environment Article.

Construction material is defined as an item of tangible personal property that is used to construct or renovate a building, a structure, or an improvement on land and that typically loses its separate identity as personal property once incorporated into the real property. Construction material includes building materials, building systems equipment, landscaping materials, and supplies.

Warehousing equipment is defined as equipment used for material handling and storage, including racking systems, conveying systems, and computer systems and equipment.

**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.

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**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.

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In September 2016, Washington County assumed ownership of the Fort Ritchie property from PenMar Development Corp. in order to develop a new mixed use development (Cascade Town Centre) on the site.

**State Fiscal Effect:** General fund revenues decrease by a potentially significant amount beginning in fiscal 2018. The amount of the decrease depends on the value of eligible construction material and warehousing equipment that is purchased for use on the specified property in Washington County.

In fiscal 2016, the State collected \$589.7 million in sales and use taxes from various building and construction related categories, including \$14.4 million from businesses that filed a sales and use tax return with an address in Washington County. As a point of reference, if purchases of eligible materials made by businesses in Washington County for use in the area of the county specified by the bill equal 5% of these collections, general fund revenues would decrease by \$721,000 annually.

The Comptroller's Office would 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.

**Small Business Effect:** Small businesses located in the area designated under the bill will potentially benefit from decreased costs for materials and equipment. Conversely, any small businesses that are competitors of these businesses and do not qualify for the tax exemption will be at a competitive disadvantage due to higher material and equipment costs.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Washington County; Comptroller's Office; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - January 30, 2017  
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