

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 272
 Ways and Means

(Delegate Cluster, *et al.*)

Sales and Use Tax - Rate Reduction

This bill reduces the general State sales and use tax rate from 6% to 5%. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund revenues decrease by \$701.8 million in FY 2019 and by \$771.8 million in FY 2023. Future year revenue losses reflect the current sales and use tax revenue forecasts. General fund expenditures increase by \$81,300 in FY 2019.

| (\$ in millions) | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|------------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenue | (\$701.8) | (\$720.4) | (\$735.2) | (\$752.7) | (\$771.8) |
| GF Expenditure | \$0.1 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$701.9) | (\$720.4) | (\$735.2) | (\$752.7) | (\$771.8) |

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background: The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%.

The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2018 and \$4.7 billion in fiscal 2019,

according to the December 2017 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 eligible food items; both rates include 1.0% for local jurisdictions |
| West Virginia | 6.0% plus 0.5% (in two municipalities) or 1.0% (in 37 municipalities) |

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

State Revenues: Reducing the general sales and use tax rate to 5% will reduce general fund revenues by approximately \$701.8 million in fiscal 2019 and by approximately \$771.8 million in fiscal 2023. The estimate assumes a 0.95% increase in general taxable sales resulting from the sales tax rate reductions.

State Expenditures: The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2019 to notify the approximately 130,000 sales and use tax account holders of the sales tax rate change.

Small Business Effect: Retailers in Maryland could benefit from an increase in sales resulting from the decrease in the sales tax rate specified by the bill. Chapter 6 of the 2007 special session increased the general sales and use tax rate from 5% to 6%, and the fiscal and policy note for that legislation assumed a 0.95% reduction in sales due to the tax rate increase. As a point of reference, this would result in approximately \$9,500 in recouped sales for a business with \$1 million in gross sales after the rate is reduced back to 5%. However, the actual effect would vary from business to business.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mm/hlb

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