

**Department of Legislative Services**  
 Maryland General Assembly  
 2018 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 457 (Senator Salling, *et al.*)  
 Budget and Taxation

**Sales and Use Tax - Rate Reduction**

This bill reduces the general State sales and use tax rate from 6% to 5% and the State sales and use tax rate on alcoholic beverages from 9% to 5%. **The bill takes effect July 1, 2018.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$836.2 million in FY 2019. Future year revenue losses reflect the current sales and use tax revenue forecast. General fund expenditures increase by \$81,300 in FY 2019.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$836.2)	(\$859.5)	(\$879.2)	(\$901.8)	(\$926.1)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$836.3)	(\$859.5)	(\$879.2)	(\$901.8)	(\$926.1)

*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:** The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. Chapters 571 and 572 of 2011 increased the sales tax rate on the sale of an alcoholic beverage from 6% to 9%. The general 6% tax rate applies to charges for labor, materials, or property used in connection with the sale of an alcoholic beverage and to a mandatory gratuity or service charge in the nature of a tip for serving food or any type of beverage to a group containing more than 10 individuals.

**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 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.

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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 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.

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**State Revenues:** General fund revenues will decrease by \$836.2 million in fiscal 2019 and by \$926.1 million in fiscal 2023, based on the current sales tax revenue forecast.

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. Reducing the sales tax rate on alcoholic beverages from 9% to 5% will reduce general fund revenues by approximately \$134.4 million in fiscal 2019 and by approximately \$154.2 million in fiscal 2023. The estimate assumes a 0.95% increase in general taxable sales and a 3.0% increase in sales of alcoholic beverages 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 changes.

**Small Business Effect:** Retailers in Maryland could benefit from an increase in sales resulting from the decrease in the sales tax rates 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.

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### **Additional Information**

**Prior Introductions:** SB 659 of 2016 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 365 and HB 347 of 2014 received a hearing in the Senate Budget and Taxation Committee and House Ways and Means Committee, respectively, but no further action was taken on either bill.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 12, 2018  
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Analysis by: Michael Sanelli

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