

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 545

(Senator Salling)

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, 2019.**

Fiscal Summary

State Effect: General fund revenues decrease by \$882.6 million in FY 2020. Future year revenue losses reflect the current sales and use tax revenue forecast. General fund expenditures increase by \$81,300 in FY 2020.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$882.6)	(\$902.8)	(\$923.8)	(\$945.6)	(\$967.8)
Expenditure	0	0	0	0	0
Net Effect	(\$882.6)	(\$902.8)	(\$923.8)	(\$945.6)	(\$967.8)

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: 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 \$4.9 billion in fiscal 2019 and \$5.0 billion in fiscal 2020, according to the December 2018 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	6.0%; 10.0% for liquor sold for on-the-premises consumption and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified 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 41 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region and an additional 1.7% is imposed in localities in the Historic Triangle.

State Revenues: General fund revenues will decrease by \$882.6 million in fiscal 2020 and by \$967.8 million in fiscal 2024, 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 \$747.3 million in fiscal 2020 and by approximately \$812.5 million in fiscal 2024. Reducing the sales tax rate on alcoholic beverages from 9% to 5% will reduce general fund revenues by approximately \$135.4 million in fiscal 2020 and by approximately \$155.3 million in fiscal 2024. The estimate assumes a 0.95% increase in general taxable sales and a 3.67% 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 2020 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 by business.

Additional Information

Prior Introductions: SB 457 of 2018 received an unfavorable report from the Senate Budget and Taxation Committee. 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): Montgomery County; Maryland Association of Counties; Maryland Municipal League; Comptroller's Office; Department of Legislative Services

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