

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 106 (Senator Serafini)
Budget and Taxation

Sales and Use Tax Exemption - Target Redevelopment Area - Washington County

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 property in Washington County that is part of the (1) Town Centre at Cascade; (2) Mount Aetna Technology Park; (3) Friendship Business Park; (4) Vista Business Park; or (5) Showalter Business Park. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund revenues decrease by a potentially significant amount beginning in FY 2020. General fund expenditures increase by \$81,300 in FY 2020.

Local Effect: None.

Small Business Effect: Potential meaningful.

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 \$4.9 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 off-the-premises consumption and restaurant meals, liquor for consumption on the premises, tickets to specified sporting events, 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 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.

House Bill 113 of 2017 would have expanded 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.

State Fiscal Effect: General fund revenues decrease by a potentially significant amount beginning in fiscal 2020. The amount of the decrease depends on the value of eligible construction material and warehousing equipment that is purchased for use at the specified property in Washington County.

In fiscal 2018, the State collected \$643.9 million in sales and use taxes from various building and construction related categories, including \$15.2 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 10% of these collections, general fund revenues decrease by \$1.5 million annually.

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 change.

Small Business Effect: Small businesses located in and around the areas 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.

Additional Information

Prior Introductions: HB 754 of 2018 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: HB 51 (Delegates Wivell and McKay) - Ways and Means.

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

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