

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 668 (Senator Guzzone)
 Budget and Taxation

Sales and Use Tax - Vendor Collection Credit - Job Training Organizations

This bill authorizes a qualified job training organization to claim a sales tax vendor collection credit in an amount equal to 100% of the gross amount of the sales and use taxes that are collected by the vendor. A vendor must file a timely sales and use tax return to qualify for the vendor credit. A vendor who claims the vendor credit under the bill, may not claim another vendor credit. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund revenues decrease by at least \$2.1 million in FY 2020. Future years reflect a 3% annual increase in sales. General fund expenditures increase by \$25,000 in FY 2020.

| (\$ in millions) | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|------------------|---------|---------|---------|---------|---------|
| GF Revenue | (\$2.1) | (\$2.2) | (\$2.2) | (\$2.3) | (\$2.3) |
| GF Expenditure | \$0.0 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$2.1) | (\$2.2) | (\$2.2) | (\$2.3) | (\$2.3) |

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: A vendor may apply to the Secretary of Labor, Licensing, and Regulation to be certified as a qualified job training organization. Within 30 days of receiving an application, the Secretary must make a determination on whether the vendor is a qualified

job training organization. A vendor who claims the sales tax vendor collection credit must submit a report to the Secretary by January 31 that includes, for the previous year, (1) the amount of credits claimed; (2) the amount spent by the vendor on job training and employment services; and (3) the number of individuals receiving job training and employment services.

A qualified job training organization is defined as an organization that (1) is located in the State; (2) is tax exempt under Internal Revenue Code 501(c)(3); (3) conducts retail sales of donated items; and (4) provides job training and employment services to individuals with workplace disadvantages or disabilities. In addition, the organization must use a majority of its revenue for job training and job placement programs (1) that assist individuals with growth in employment hours; (2) for individuals with low-income, workplace disadvantages, disabilities, or barriers to employment; or (3) for veterans.

The Comptroller must adopt regulations to implement this vendor credit.

Current Law: In order to cover expenses for collecting the State sales tax, persons filing timely returns are allowed to take a vendor credit against the gross tax remitted in an amount equal to 1.2% of the first \$6,000 collected and 0.9% of the excess, capped at \$500 per filing period (monthly basis).

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.

The Comptroller's Office reports that the sales tax vendor credit reduced general fund revenues by \$25.1 million in fiscal 2018.

State Revenues: General fund revenues decrease beginning in fiscal 2020. The amount of the revenue decrease depends on (1) the number of qualified job training organizations certified by the Department of Labor, Licensing, and Regulation (DLLR); (2) the amount of taxable sales made by these organizations; and (3) the amount of sales and use taxes collected by each organization.

The Comptroller's Office reports that one nonprofit organization may be eligible for the new vendor credit under the bill. Based on sales reported by that organization for fiscal 2017, it is estimated that the organization remitted approximately \$2.0 million in sales and use taxes. Assuming a 3% annual increase in sales and the amount of the current vendor credit that is provided, it is estimated that general fund revenues will decrease by approximately \$2.1 million in fiscal 2020 and by \$2.3 million in fiscal 2024, to the extent the organization qualifies and is certified for the new vendor credit.

To the extent that other job training organizations become certified to receive the new vendor credit, general fund revenues will decrease accordingly.

State Expenditures: DLLR currently administers several federal income tax credit programs, including the Work Opportunity Tax Credit. Since federal funds are used to administer these tax credit programs, the department anticipates the need to hire one contractual tax credit processor at a cost of \$60,650 in fiscal 2020 to administer the new State program. This estimate includes salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

However, as it is unknown how many job training organizations will apply for the new vendor credit, the Department of Legislative Services advises that administering the new program could likely be handled with DLLR's existing budgeted resources, at least initially. To the extent that additional personnel become necessary in the future, the department can request additional resources during the annual budget process.

The Comptroller's Office will incur a one-time computer programming cost of \$25,000 in fiscal 2020 to add a check box to the sales and use tax return form to indicate the new vendor credit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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mm/hlb

Analysis by: Michael Sanelli

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