

Department of Legislative Services  
Maryland General Assembly  
2020 Session

**FISCAL AND POLICY NOTE**  
**Third Reader - Revised**

Senate Bill 185

(Senator Jennings)

Budget and Taxation

Ways and Means

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**Sales and Use Tax Exemption – Qualified Opportunity Zones in Baltimore County and Target Redevelopment Areas in Washington County**

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This bill exempts 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 qualified opportunity zone in Baltimore County or a target redevelopment area in Washington County. To qualify for the exemption, the buyer must provide the vendor with evidence of eligibility for the exemption issued by the Comptroller. **The bill takes effect July 1, 2020, and terminates June 30, 2030.**

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**Fiscal Summary**

**State Effect:** General fund revenues decrease by a potentially significant amount in FY 2021 through 2030. The amount of the decrease depends on the value of eligible construction material and warehousing equipment that is purchased for use in a qualified opportunity zone in Baltimore County or a target redevelopment area in Washington County. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2021.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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**Analysis**

**Bill Summary:** A qualified opportunity zone is defined as any real property owned or leased by a person in Baltimore County that (1) was designated as an enterprise zone and

an opportunity zone by January 1, 2020 and (2) was previously owned at any time by the United States or its subsidiaries, successors, or assigns.

A target redevelopment area is defined as any real property owned or leased by a person in Washington County that (1) was designated as an enterprise zone as of January 1, 2020, and was previously owned at any time by CSX Railroad or its subsidiaries, successors, or assigns or (2) was previously owned at any time by the United States or its subsidiaries, successors, or assigns.

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.

**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 \$5.0 billion in fiscal 2020 and 2021, according to

the December 2019 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	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; and 8.0% for specified soft drinks
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; 2.5% for specified essential personal hygiene items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 45 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.

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The Middle River Depot is a 50-acre site, with a 2.0 million square foot plant, in Baltimore County where B-26 bombers were manufactured during World War II. The site was purchased by Blue Ocean Realty in 2019. Previously, the site was sold by the General Services Administration to Middle River Station Development LLC in 2007.

**State Fiscal Effect:** General fund revenues decrease by a potentially significant amount in fiscal 2021 through 2030. The amount of the decrease depends on the value of eligible construction material and warehousing equipment that is purchased for use in a qualified opportunity zone in Baltimore County or a target redevelopment area in Washington County.

In fiscal 2019, the State collected \$674.0 million in sales and use taxes from various building and construction related categories, including \$102.4 million from businesses that filed a sales and use tax return with an address in Baltimore County and \$15.8 million from businesses that filed a sales and use tax return with an address in Washington County.

The Comptroller's Office would incur a one-time expenditure increase of \$81,300 in fiscal 2021 to notify the approximately 130,000 sales and use tax account holders of the sales tax change. In addition, the office notes that it may need additional personnel to verify compliance with the new exemption depending on the number of businesses that are eligible.

**Small Business Effect:** Small businesses located in the area 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 will be at a competitive disadvantage due to higher material and equipment costs.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 27 (Delegates Szeliga and Arikan) - Ways and Means.

**Information Source(s):** Department of Commerce; Comptroller's Office; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - January 20, 2020  
rh/hlb Third Reader - March 16, 2020  
Revised - Amendment(s) - March 16, 2020

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Analysis by: Michael Sanelli

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