

Department of Legislative Services  
Maryland General Assembly  
2021 Session

FISCAL AND POLICY NOTE  
First Reader

Senate Bill 11 (Senator Ellis)  
Budget and Taxation

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Sales and Use Tax - Agricultural Purpose Exemption - Seedlings and Fruit Trees

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This bill adds seedlings and fruit trees to the list of agricultural use items that are exempt from the State sales and use tax. **The bill takes effect July 1, 2021.**

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Fiscal Summary

**State Effect:** General fund revenues decrease beginning in FY 2022. General fund expenditures increase by \$81,300 in FY 2022.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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Analysis

**Current Law:** The sale of the following items are exempt from the State sales and use tax if used for an agricultural purpose: (1) livestock; (2) feed or bedding for livestock; (3) seed, fertilizer, fungicide, herbicide, or insecticide; (4) baler twine or wire; (5) fuel for use in farm equipment or a farm tractor.

*State Sales and Use Tax*

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.7 billion in fiscal 2021 and \$4.9 billion in fiscal 2022, according to the December 2020 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, soft drinks 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 1.0% in all municipalities

\*An additional state tax of 0.7% is imposed in localities in Central Virginia, Northern Virginia, and the Hampton Roads region; 1.0% is imposed in Halifax County; and an additional 1.7% is imposed in localities in the Historic Triangle.

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**State Fiscal Effect:** General fund revenues decrease beginning in fiscal 2022. The amount of the revenue decrease depends on the quantity and cost of seedlings and fruit trees used for agricultural purposes that are sold each year, neither of which can be reliably estimated.

As a point of reference, the Department of Budget and Management's *Tax Expenditures Report* for fiscal 2020 estimates that the sales and use tax exemption for agricultural use products reduced general fund revenues by approximately \$245.5 million in fiscal 2020.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2022 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

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## **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Maryland Department of Agriculture; Department of Natural Resources; Department of Legislative Services

**Fiscal Note History:** First Reader - January 25, 2021

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