

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1019
Ways and Means

(Delegate Buckel)

Sales and Use Tax - Vendor Collection Credit

This emergency bill authorizes eligible vendors who employ less than 50 individuals to retain an increased vendor credit for retail sales made during calendar 2021. A vendor must file a timely sales and use tax return or consolidated return in order to be eligible for the increased vendor credit. The amount of the vendor credit allowed is equal to 15% of the first \$10,000 of the gross amount of sales and use tax that the vendor is required to pay with each return. The maximum credit amount is limited to \$1,500 in each month a return is filed. This credit would be claimed in lieu of the standard vendor credit authorized under current law. However, a vendor may claim a credit in an amount equal to the difference between the current credit and the credit under the bill for a retail sale made after December 31, 2020 but before the effective date of the bill. The Comptroller must pay these vendor credits from the Sales and Use Tax Refund Account. **The bill terminates January 31, 2022.**

Fiscal Summary

State Effect: General fund revenues decrease by a significant amount beginning in FY 2021 and continuing in FY 2022. The amount of the revenue decrease depends on the number of eligible vendors and the amount of the vendor credit each is able to claim during calendar 2021. General fund expenditures increase by \$141,300 in FY 2021.

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses will benefit from an increased vendor collection credit for calendar 2021.

Analysis

Current Law: In order to cover expenses for collecting the State sales and use 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). The sales and use tax vendor credit is estimated to total \$20.7 million in fiscal 2021 and \$21.2 million in fiscal 2022.

Chapter 39 of 2021 (SB 496), the Recovery for the Economy, Livelihoods, Industries, Entrepreneurs, and Families (RELIEF) Act, authorizes eligible vendors to retain an increased vendor credit for the three consecutive months following the enactment of the legislation. The amount of the vendor credit allowed is equal to the lesser of the amount of sales and use tax collected during the month the vendor qualifies for the increased credit or \$3,000. In order to be eligible, (1) a vendor must file a timely sales and use tax return or consolidated return and (2) the gross amount of sales and use tax remitted with the return may not exceed \$6,000. This credit has to be claimed in lieu of the standard vendor credit. It is estimated that this provision of Chapter 39 will reduce general fund revenues by \$185.8 million in fiscal 2021.

State Revenues: The bill authorizes eligible vendors to retain an increased vendor credit of up to \$1,500 per month for retail sales made during calendar 2021. As a result, general fund revenues decrease by a significant amount beginning in fiscal 2021 and continuing in fiscal 2022. The amount of the revenue decrease cannot be reliably estimated and depends on the number of eligible vendors and the amount of the vendor credit each is able to claim during calendar 2021.

The Comptroller does not collect employment data for sales and use tax account holders, so there is not an accurate way to determine the number of vendors who employ fewer than 50 individuals nor the amount of sales and uses taxes they remit to the Comptroller each month. As a point of reference and *for illustrative purposes only*, the Comptroller's Office performed an analysis of sales and use tax returns at various sales and use tax remittance levels, as well as data on small businesses in Maryland, and estimated that the vendor credit proposed by the bill could reduce general fund revenues by between \$1.0 million and \$8.0 million in calendar 2021. However, the actual revenue decrease depends on the number of eligible vendors and the amount of the vendor credit each is able to claim each month.

State Expenditures: As noted, the Comptroller's Office does not currently collect employment data on sales and use tax returns. As a result, the Comptroller's Office advises that a new form or form redesign will be necessary to add a new field for the number of employees for vendors claiming the credit. In addition, the tax system will require programming changes and testing to capture and store the new information in an accessible

format. The Comptroller's Office reports that the form changes will require a one-time expenditure of \$60,000 in fiscal 2021.

Also, the Comptroller's Office will 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 vendor collection credit change.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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rh/hlb

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