

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 67 (Delegate R. Long)
 Ways and Means

Sales and Use Tax – Alteration of Rate Due to Inflation

This emergency bill alters the State sales and use tax rate for years in which a specified change to the Consumer Price Index (CPI) occurs.

Fiscal Summary

State Effect: General fund revenues decrease by \$943.7 million and special fund revenues decrease by \$116.6 million in FY 2024, based on the current sales and use tax and CPI forecasts. General fund expenditures increase by \$124,300 in FY 2024 and FY 2025.

| (\$ in millions) | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 |
|------------------|-------------|---------|---------|---------|---------|
| GF Revenue | (\$943.7) | \$0 | \$0 | \$0 | \$0 |
| SF Revenue | (\$116.6) | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | \$0.1 | \$0.1 | \$0 | \$0 | \$0 |
| Net Effect | (\$1,060.5) | (\$0.1) | \$0.0 | \$0.0 | \$0.0 |

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: By June 1 of each year, the Comptroller must determine the inflation rate based on the CPI for All Urban Consumers for the 12 months ending on the preceding April 30. If the inflation rate determined by the Comptroller for the 12 months ending on the preceding April 30 is at least 6%, the sales and use tax rate for the 12-month period beginning on July 1 decreases to 5%.

If the inflation rate determined by the Comptroller is less than 6%, the sales and use tax rate remains at 6%. By June 1, of each year, the Comptroller must announce the inflation rate that was determined for the preceding year and the sales and use tax rate that will be in effect beginning for the 12-month period beginning July 1.

The CPI for All Urban Consumers is defined as the index published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor that is the United States city average of all items in a basket of consumer goods and services.

Current Law: The State sales and use tax rate is 6%. The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$6.2 billion in fiscal 2023 and 2024, according to the December 2022 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; 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%; 1.0% for eligible food items; 1.0% for specified essential personal hygiene items; both rates include 1.0% for local jurisdictions |
| West Virginia | 6.0% plus 1.0% in specified municipalities |

*An additional state tax of: (1) 0.7% is imposed in localities in Central Virginia, Northern Virginia and the Hampton Roads region; (2) 1.0% in Charlotte, Gloucester, Halifax, Henry, Northampton, and Patrick counties; and (3) 1.7% is imposed in localities in the Historic Triangle. The sales and use tax rate for food and personal hygiene products decreased to 1.0% as of January 1, 2023.

Blueprint for Maryland's Future Fund

Chapter 33 of 2022 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Chapter 33 requires the Comptroller, after making certain other distributions, to pay to the Blueprint for Maryland's Future Fund (BMFF) the following percentage of the remaining sales and use tax revenues:

- 9.2% for fiscal 2023;
- 11.0% for fiscal 2024;
- 11.3% for fiscal 2025;
- 11.7% for fiscal 2026; and
- 12.1% for fiscal 2027 and each subsequent fiscal year.

Chapter 33 also repealed the distribution of sales and use tax revenues to the BMFF from marketplace facilitators, certain out-of-state vendors, and specified digital products or digital codes.

State Revenues: Reducing the general sales and use tax rate from 6% to 5% will reduce total sales and use tax revenues by approximately \$1.1 billion in fiscal 2024. The estimate is based on: (1) the current sales and use tax revenue forecast; (2) the current CPI forecast, as shown in **Exhibit 2**; and (3) a 0.94% increase in general taxable sales resulting from the sales and use tax rate reduction. Future year revenue decreases depend on future CPI changes. As shown in Exhibit 2, the inflation rate, as determined by the CPI, for fiscal 2023 is estimated at 7.2%, which will trigger a State sales and use tax rate decrease for fiscal 2024.

Exhibit 2
CPI Forecast
12 Months Ending April 30

| <u>Fiscal Year</u> | <u>CPI</u> | <u>% Change</u> |
|--------------------|------------|-----------------|
| 2023 | 298.0 | 7.2% |
| 2024 | 307.2 | 3.1% |
| 2025 | 314.2 | 2.3% |
| 2026 | 320.8 | 2.1% |
| 2027 | 327.5 | 2.1% |
| 2028 | 334.2 | 2.1% |

CPI: Consumer Price Index

Source: Moody's Analytics; Department of Legislative Service

As noted, Chapter 33 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Therefore, any decrease in State sales and use tax revenues will also reduce BMFF revenues. Based on the estimate above, general fund revenues decrease by approximately \$943.7 million, and BMFF revenues decrease by approximately \$116.6 million in fiscal 2024.

State Expenditures: The Comptroller's Office will incur an expenditure increase of \$124,300 in both fiscal 2024 and 2025 to notify the approximately 130,000 sales and use tax account holders of the sales and use tax rate change and for tax system software modifications. These expenditures will occur in any year when the sales and use tax rate is changed.

Small Business Effect: Retailers in Maryland could benefit from an increase in sales resulting from a decrease in the sales and use tax rate. As a point of reference, a 0.94% increase in general taxable sales would result in approximately \$9,400 in recouped sales for a business with \$1 million in gross sales after the rate is reduced to 5%. However, the actual effect would vary by business.

Additional Information

Prior Introductions: Similar legislation has been introduced within the past three years. See HB 1405 of 2022.

Designated Cross File: None.

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

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km/hlb

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