

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 659 (Senator Salling, *et al.*)
 Budget and Taxation

Sales and Use Tax - Rate Reduction

This bill reduces the general State sales and use tax rate from 6% to 5% and reduces the State sales and use tax rate on alcoholic beverages from 9% to 5%.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by \$817.9 million in FY 2017. Future year revenue losses reflect the current sales and use tax revenue forecasts. General fund expenditures for administrative costs in the Comptroller’s Office increase by \$81,300 in FY 2017.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$817.9)	(\$847.4)	(\$876.0)	(\$908.5)	(\$941.5)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$817.9)	(\$847.4)	(\$876.0)	(\$908.5)	(\$941.5)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background: The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%.

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.5 billion in fiscal 2016 and \$4.7 billion in fiscal 2017, according to the December 2015 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%
District of Columbia	5.75%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6%; 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food; both rates include 1% for local jurisdictions
West Virginia	6% plus 0.5% or 1% in certain municipalities

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

State Revenues: General fund revenues will decrease by \$817.9 million in fiscal 2017 and by \$941.5 million in fiscal 2021, based on the current sales tax revenue forecast.

Reducing the general sales and use tax rate to 5% will reduce general fund revenues by approximately \$694.3 million in fiscal 2017 and by approximately \$800.0 million in fiscal 2021. Reducing the sales tax rate on alcoholic beverages from 9% to 5% in fiscal 2017 will reduce general fund revenues by approximately \$123.6 million in fiscal 2017 and by approximately \$141.5 million in fiscal 2021. The estimate assumes a 0.95% increase in general taxable sales and a 3.0% increase in sales of alcoholic beverages resulting from the sales tax rate reductions.

State Expenditures: The Comptroller's Office would incur a one-time expenditure increase of \$81,300 in fiscal 2017 to notify the approximately 130,000 sales and use tax account holders of the sales tax rate changes.

Small Business Effect: Retailers in Maryland could benefit from an increase in sales resulting from the decrease in the sales tax rates specified by the bill. Chapter 6 of the

2007 special session increased the general sales and use tax rate from 5% to 6%, and the fiscal and policy note for that legislation assumed a 0.95% reduction in sales due to the tax rate increase. As a point of reference, this would result in approximately \$9,500 in recouped sales for a business with \$1 million in gross sales after the rate is reduced back to 5%. However, the actual effect would vary from business to business.

Additional Information

Prior Introductions: SB 365 and HB 347 of 2014 received a hearing in the Senate Budget and Taxation Committee and House Ways and Means Committee, respectively, but no further action was taken on either bill.

Cross File: None.

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

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kb/jrb

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