

**Department of Legislative Services**  
Maryland General Assembly  
2013 Session

**FISCAL AND POLICY NOTE**

Senate Bill 653

(Senators Edwards and Brinkley)

Budget and Taxation

**Sales and Use Tax - Mass Transit**

This bill increases the State sales and use tax rate from 6% to 6.5% in any county in which the Maryland Transit Administration (MTA) or the Washington Metropolitan Area Transit Authority (WMATA) provides any service. The bill establishes a Mass Transit Account in the Transportation Trust Fund (TTF). The Comptroller is required to distribute 7.7% of sales and use tax revenues collected on sales in these counties into the Mass Transit Account to pay for the cost of light rail and Metro subway transit facilities and transit service in those jurisdictions. Of the funds in TTF that are not credited to the Mass Transit Account, the Maryland Department of Transportation (MDOT) may not budget an amount to pay transit costs in excess of the amount budgeted for that purpose in fiscal 2012 unless the excess amount is paid from the Mass Transit Account.

The bill takes effect July 1, 2013.

**Fiscal Summary**

**State Effect:** TTF revenues increase by \$314.1 million in FY 2014. General fund revenues decrease by \$15.5 million in FY 2014. General fund expenditures increase by \$0.3 million in FY 2014 due to implementation costs at the Comptroller's Office.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(\$15.5)	(\$16.1)	(\$16.8)	(\$17.7)	(\$18.5)
SF Revenue	\$314.1	\$327.0	\$341.9	\$359.0	\$375.8
GF Expenditure	\$.3	\$0	\$0	\$0	\$0
Net Effect	\$298.3	\$310.9	\$325.1	\$341.3	\$357.3

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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### Analysis

**Current Law:** The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at 9%. Local governments in Maryland are not authorized to impose general sales taxes. Certain local governments are authorized to levy selected sales taxes on certain categories of sales, the most common of which are utility, hotel rental, and parking taxes.

**Background:** The sales and use tax is the State's second largest source of general fund revenue, accounting for \$4.1 billion in fiscal 2013 and \$4.3 billion in fiscal 2014, according to the December 2012 revenue forecast. The sales tax on rental vehicles is expected to generate \$54.4 million in total revenues in fiscal 2014. **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%
District of Columbia	6%
Maryland	6%
	9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

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#### *Transportation Trust Fund*

TTF is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. MDOT issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. MTA, Motor Vehicle Administration, Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures.

The tax and fee revenues allocated to TTF include motor fuel taxes, titling taxes, vehicle registration fees, a portion of the rental car sales and corporate income taxes, and other miscellaneous motor vehicle fees.

**State Revenues:** The bill increases the State sales and use tax rate from 6% to 6.5% in any county in which MTA or WMATA provides any service. According to MDOT, the impacted counties are Baltimore City and Anne Arundel, Baltimore, Calvert, Cecil, Charles, Frederick, Harford, Howard, Montgomery, Prince George's, Queen Anne's, St. Mary's, and Washington counties. The Comptroller is required to distribute 7.7% of sales and use tax revenues collected on sales in these counties into the Mass Transit Account established by the bill. As a result, TTF revenues will increase by \$314.1 million in fiscal 2014. General fund revenues will decrease by an estimated \$15.5 million in fiscal 2014. The decrease in general fund revenues is attributable to revenues from the 9% sales tax rate on the sale of alcoholic beverages that are included within the required 7.7% distribution to the Mass Transit Account.

This estimate is based upon fiscal 2012 sales tax collections, by county, as reported by the Comptroller. The estimate accounts for some level of consumers shifting sales to other jurisdictions without the higher sales tax. The estimate also assumes that, to the extent consumers do decide to shop in another jurisdiction in order to avoid the higher tax, these sales will remain in the State rather than going to another state. As a result, existing revenues from the State sales tax are assumed to be unaffected by any change in sales resulting from the higher sales tax rate in certain jurisdictions.

The revenue estimates are based on data showing sales tax revenue collections by county; however, this data has limitations with regards to accuracy, as the actual allocation of sales tax revenues may differ somewhat from what is reported. For example, when larger businesses with many locations across the State remit sales tax collections, they may attribute collections to one "primary" location or may simply allocate collections evenly across all locations. In either case, the actual collections for any one establishment may not be totally accurate. As a result, the actual revenue increase in a county could vary depending on the actual amount of sales and use taxes collected in the various counties.

In addition, the bill caps funding for transit expenditures at fiscal 2012 funding levels. Any increase in transit funding in these jurisdictions must come from the sales tax revenue credited to the Mass Transit Account.

**State Expenditures:** The Comptroller's Office will incur one-time expenditures to administer the sales tax rate changes, including form changes, notification costs relating to mailing and postage, and computer programming modifications. As a result, general fund expenditures may increase by \$298,300 in fiscal 2014.

**Small Business Effect:** Increasing the sales tax rate in some jurisdictions may result in a decline in consumer purchases of goods and services from retailers in the affected jurisdictions. To the extent possible, residents may purchase items in other jurisdictions, or even other states where the tax rate is lower. The extent to which this may happen cannot be reliably estimated, but it would not be difficult for some residents to shop in a local jurisdiction in the State with a 6% tax rate.

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### **Additional Information**

**Prior Introductions:** SB 589 of 2012, a similar bill, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 19, 2013  
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