

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1193 (Delegate Wivell)
 Ways and Means

Sales and Use Tax Refund - Target Redevelopment Area - Washington County

This bill authorizes an individual to claim a tax refund for sales and use taxes paid for the purchase of specified construction material or warehousing equipment if the purchase was made solely for the use in a target redevelopment area in Washington County. To qualify for the tax refund, the purchase must be made between January 1, 2021, and December 31, 2025. The Comptroller may not issue more than \$500,000 in sales and use tax refunds in a fiscal year. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund revenues decrease by up to \$500,000 annually in FY 2022 through 2027. The amount of the revenue decrease in any year depends on the value of eligible construction material and warehousing equipment that is purchased for use in a target redevelopment area in Washington County and the number of refunds claimed. General fund expenditures increase by \$30,000 in FY 2022 for sales and use tax form changes.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	\$0	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)
GF Expenditure	\$0	\$30,000	\$0	\$0	\$0
Net Effect	\$0	(\$530,000)	(\$500,000)	(\$500,000)	(\$500,000)

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: The Comptroller must adopt regulations to carry out the provisions of the bill and to specify criteria and procedures for the application for and approval of sales and use tax refunds. The tax refunds must be claimed in the calendar year immediately following the purchase. In addition, the Comptroller must approve all claims that qualify for refunds on a first-come, first-served basis.

A target redevelopment area is an area located within a boundary of an industrial or business park designated by the Washington County Commissioners.

Construction material is defined as an item of tangible personal property that is used to construct or renovate a building, a structure, or an improvement on land and that typically loses its separate identity as personal property once incorporated into the real property. Construction material includes building materials, building systems equipment, landscaping materials, and supplies.

Warehousing equipment is defined as equipment used for material handling and storage, including racking systems, conveying systems, and computer systems and equipment.

Current Law: Chapters 603 and 604 of 2016 exempt from the State sales and use tax a sale of construction material or warehousing equipment if the material or equipment is purchased by a person solely for use in a specified target redevelopment area in Baltimore County and the buyer provides the vendor with evidence of eligibility for the exemption issued by the Comptroller.

A target redevelopment area is any real property owned or leased by a person in Baltimore County that (1) was previously owned at any time by Bethlehem Steel Corporation or any of its subsidiaries and (2) was, as of January 1, 2016, the subject of an approved application for participation in a specified voluntary cleanup program under provisions of the Environment Article.

Construction material is defined as an item of tangible personal property that is used to construct or renovate a building, a structure, or an improvement on land and that typically loses its separate identity as personal property once incorporated into the real property. Construction material includes building materials, building systems equipment, landscaping materials, and supplies.

Warehousing equipment is defined as equipment used for material handling and storage, including racking systems, conveying systems, and computer systems and equipment.

Background: The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$5.0 billion in fiscal 2020 and 2021, according to the December 2019 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; 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 0.5% (in one municipality) or 1.0% (in 45 municipalities)

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

State Fiscal Effect: General fund revenues decrease by up to \$500,000 annually in fiscal 2022 through 2027. The amount of the revenue decrease in any year depends on the value of eligible construction material and warehousing equipment that is purchased for use in a target redevelopment area in Washington County and the number of sales and use tax refunds claimed. The delayed fiscal impact is due to the requirement that the tax refund be filed in the calendar year immediately following the purchase of the construction material and warehousing equipment.

In fiscal 2019, the State collected \$674.0 million in sales and use taxes from various building and construction related categories, including \$15.8 million from businesses that filed a sales and use tax return with an address in Washington County.

The Comptroller’s Office would incur a one-time expenditure increase of \$30,000 in fiscal 2022 to make modifications to the sales and use tax refund application form (Form ST205).

Small Business Effect: Small businesses located in the area designated under the bill will potentially benefit from decreased costs for materials and equipment. Conversely, any small businesses that are competitors of these businesses and do not qualify for the sales tax refund designation will be at a competitive disadvantage due to higher material and equipment costs.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 358 (Senators Serafini and Edwards) - Budget and Taxation.

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

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mr/hlb

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