

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 582
Ways and Means

(Cecil County Delegation)

Budget and Taxation

Cecil County - Sales and Use Tax Exemption - Federal Facilities Redevelopment
Areas

This bill exempts 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 federal facilities redevelopment area in Cecil County. To qualify for the exemption, the buyer must provide the vendor with evidence of eligibility for the exemption issued by the Comptroller. **The bill takes effect July 1, 2021, and terminates June 30, 2031.**

Fiscal Summary

State Effect: General fund revenues decrease by a potentially significant amount in FY 2022 through 2031. The amount of the decrease depends on the value of eligible construction material and warehousing equipment that is purchased for use in a federal facilities redevelopment area in Cecil County. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2022.

Local Effect: None.

Small Business Effect: Potential Meaningful.

Analysis

Bill Summary: A federal facilities redevelopment area is defined as any real property in Cecil County that (1) was previously owned at any time by the federal government; (2) was transferred from the federal government to the State or to the Bainbridge Development Corporation; and (3) is entirely under the environmental oversight and management of a

specified State hazardous substance response plan or the voluntary cleanup program (VCP) under provisions of the Environment Article.

Construction material is defined as an item of tangible personal property that (1) is used to construct or renovate a building, a structure, or an improvement on land or infrastructure, including water, sewer, and other utility systems and (2) 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 VCP under provisions of the Environment Article.

Chapter 639 of 2020 exempts 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 qualified opportunity zone in Baltimore County or a target redevelopment area in Washington County. To qualify for the exemption, the buyer must provide the vendor with evidence of eligibility for the exemption issued by the Comptroller. The provisions of Chapter 639 sunset June 30, 2030.

Bainbridge Corporation

Chapter 494 of 1999 established the Bainbridge Development Corporation as a public instrumentality to develop the former Bainbridge Naval Training Center, which is a 1,200 acre site in Cecil County.

State Sales and Use Tax

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.7 billion in fiscal 2021 and \$4.9 billion in fiscal 2022,

according to the December 2020 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, soft drinks 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 1.0% in all municipalities

*An additional state tax of 0.7% is imposed in localities in Central Virginia, Northern Virginia, and the Hampton Roads region; 1.0% is imposed in Halifax County; and an additional 1.7% is imposed in localities in the Historic Triangle.

State Fiscal Effect: The Maryland Department of the Environment (MDE) VCP provides State oversight for the voluntary cleanup of properties contaminated by hazardous substances with the goals of (1) encouraging the investigation of eligible properties known or perceived to be contaminated; (2) protecting public health and the environment at these properties; (3) accelerating the cleanup of eligible properties; and (4) providing liability releases and finality to the cleanup of eligible properties. MDE’s website identifies 15 sites in Cecil County that are VCP sites, including 1 that is part of the Bainbridge Naval Training Center.

General fund revenues decrease by a potentially significant amount in fiscal 2022 through 2031. The amount of the decrease depends on the value of eligible construction material and warehousing equipment that is purchased for use in a qualified federal facilities redevelopment area in Cecil County.

In fiscal 2020, the State collected \$692.5 million in sales and use taxes from various building and construction related categories, including \$2.7 million from businesses that filed a sales and use tax return with an address in Cecil County.

The Comptroller's Office would incur a one-time expenditure increase of \$81,300 in fiscal 2022 to notify the approximately 130,000 sales and use tax account holders of the sales tax change. In addition, the office notes that it may need additional personnel to verify compliance with the new exemption depending on the number of businesses that are eligible.

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 will be at a competitive disadvantage due to higher material and equipment costs.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 294 (Senator Gallion, *et al.*) - Budget and Taxation.

Information Source(s): Cecil County; Comptroller's Office; Maryland Department of the Environment; Department of Legislative Services

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