

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1057 (Delegate Buckel)
 Ways and Means

Sales and Use Tax – Rate Reduction

This bill reduces the general State sales and use tax rate from 6% to 5% for taxable goods and services, except for a retail sale of tangible personal property or a taxable service that is made through the Internet. This exception does not apply if (1) the tangible personal property purchased online is not intended, by the purchaser or retailer, to be delivered, transported, or shipped to the State by the retailer or (2) a taxable service purchased online will not occur in the State. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: General fund revenues decrease by up to \$718.5 million in FY 2022 and by \$799.1 million in FY 2026, based on the current sales and use tax revenue forecast. General fund expenditures increase by \$81,300 in FY 2022.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$718.5)	(\$740.4)	(\$762.0)	(\$780.2)	(\$799.1)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$718.5)	(\$740.4)	(\$762.0)	(\$780.2)	(\$799.1)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: 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 \$4.7 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 Revenues: Reducing the general sales and use tax rate from 6% to 5% for purchases that are not made online will reduce general fund revenues by up to \$718.5 million in fiscal 2022 and by up to \$799.1 million in fiscal 2026. The estimate (1) is based on the current sales and use tax revenue forecast and (2) assumes a 0.94% increase in general taxable sales resulting from the sales and use tax rate reduction.

The general fund revenue forecast assumes \$546.8 million in sales and use tax revenues from certain remote sellers and marketplace facilitators in fiscal 2022 and \$696.3 million in fiscal 2026. These remote sellers include only those sellers who lack nexus in the State and are required to collect the sales and use taxes after the Wayfair decision. Marketplace facilitators are third-party sellers on sites such as Amazon that were not collecting and

remitting sales and use taxes themselves prior to the Wayfair decision. However, these types of remote sellers do not represent all Internet sales made in Maryland. For example, sales and use taxes collected for anything that Amazon sells directly (not via a third-party seller) goes entirely to the general fund. In addition, sales and use taxes collected from online sales made by retailers such as Walmart, Target, or Home Depot are also distributed to the general fund. There is not an estimate available for the percentage of sales and use tax collections from online sales made by sellers with nexus in Maryland. As such, the actual amount of the general fund revenue decrease resulting from the sales and use tax rate decrease under the bill will be less than the maximum amount stated above.

Chapter 735 of 2019 required a marketplace facilitator and a marketplace seller to collect and remit the State sales and use tax under specified circumstances. Chapter 735 also specified that the first \$100.0 million in sales taxes collected from marketplace facilitators and certain out-of-state vendors be distributed to the general fund and revenues in excess of \$100.0 million from these sales and use taxes be distributed to the Blueprint for Maryland's Future Fund (Blueprint Fund). These sales are not subject to the sales and use tax rate decrease under the bill and are excluded from the estimate. As a result, Blueprint Fund revenues are not affected.

State Expenditures: The Comptroller's Office will 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 and use tax rate change.

Small Business Effect: Retailers in Maryland could benefit from an increase in sales resulting from the decrease in the sales and use tax rate specified by the bill. 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 back to 5%. However, the actual effect would vary by business.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Baltimore City; Harford and Wicomico counties; City of Laurel; Maryland Municipal League; Comptroller's Office; State Department of Assessments and Taxation; Department of Legislative Services

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