

Department of Legislative Services  
 Maryland General Assembly  
 2008 Session

FISCAL AND POLICY NOTE

House Bill 250 (Delegate Morhaim, *et al.*)  
 Ways and Means

Sales and Use Tax - Tanning Services

This bill expands the definition of taxable service so that the State sales and use tax is imposed on a tanning service and requires that the revenues be distributed to the Health Care Coverage Fund.

The bill takes effect July 1, 2008.

Fiscal Summary

**State Effect:** Special fund revenues could increase by \$545,600 in FY 2009. Future year revenues reflect a 3% annual growth in sales. Expenditures would not be directly affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	\$545,600	\$561,900	\$578,800	\$596,200	\$614,000
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$545,600	\$561,900	\$578,800	\$596,200	\$614,000

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

Analysis

**Current Law:** The following services are subject to the State sales and use tax:

- fabrication, printing, or production of tangible personal property by special order;
- commercial cleaning or laundering of textiles for a buyer who is engaged in a business that

requires the recurring service of commercial cleaning or laundering of the textiles; • cleaning of a commercial or industrial building; • cellular telephone or other mobile telecommunications services; • “900,” “976,” “915,” and other “900”-type telecommunications services; • custom calling services provided in connection with basic telephone service; • telephone answering services; • pay-per-view television services; • credit reporting; • security services, including detective, guard, or armored car services; • security systems services; • transportation services for transmission, distribution, or delivery of electricity or natural gas, if the sale or use of the electricity or natural gas is subject to the sales and use tax; and • prepaid telephone calling arrangements.

Although they are not considered services under the State sales and use tax, the tax also applies generally to such items as rentals of tangible personal property, restaurant meals, hotel rooms, and utilities (although specific exemptions are allowed for residential purchases of electricity and gas).

In addition, Chapter 3 of the 2007 special session expanded the definition of taxable service to include computer services beginning in fiscal 2009 – the provision terminates on June 30, 2013.

**Background:** Historically, the State sales and use tax has been imposed broadly on the sale or use of tangible personal property, but only narrowly on a few specifically enumerated taxable services. Over the past few decades, the growth in sales and use tax revenues has not kept pace with the growth in personal income, as the tax base has eroded due to several factors. One major contributing factor cited for the erosion of the sales tax base is a major shift that has occurred in the national economy from the consumption of goods, the traditional base of the tax, to the consumption of services.

About half the states that impose sales taxes limit taxation of services to utilities, rentals of property, restaurant meals, hotel rooms, and admissions and amusements. Only 6 states have taxes that generally apply to all services (including 2 that impose gross receipts taxes on businesses that are not technically sales taxes). About 10 states impose the sales tax broadly on services related to tangible personal property, such as fabrication, installation, and repair services. Several states also tax at least a few other personal services, and a few states also tax some business services.

Among surrounding jurisdictions, New Jersey, Pennsylvania, West Virginia, and the District of Columbia tax a broad range of repair services, including automotive repairs. Pennsylvania and West Virginia tax some business services, and West Virginia also taxes some personal services. Delaware, which does not have a retail sales tax, is considered to have a broad taxation of services under its gross receipts tax, which applies to most businesses.

**State Fiscal Effect:** State revenues for the Health Care Coverage Fund could increase by \$545,600 in fiscal 2009 from taxing tanning services. This estimate is based on data from the 2002 *Economic Census* reports from the U.S. Census Bureau. The estimate reflects an estimated 6.0% decline in the taxable base resulting from the imposition of the sales tax on these services, and is based on the following facts and assumptions:

- Maryland businesses in the “other personal care services” category, which include tanning salons, reported receipts of approximately \$31.5 million in 2002;
- tanning services represent 25% of the “other personal care services” category; and
- sales increase by 3% annually from 2002 to the present.

Future year revenues are assumed to increase by approximately 3% annually. The 6% decline in taxable sales reflects sales that no longer are subject to Maryland sales tax for two reasons: • the sale does not take place at all because the cost dissuades the purchaser; or • the sale is diverted to a neighboring state where the service is not subject to a sales tax or the tax rate is lower. To the extent that the impact on sales volume varies from what is projected, sales tax revenues would rise or decline correspondingly.

**Small Business Effect:** Applying the sales tax to tanning services could result in a decline in consumer purchases of these services from State providers. To the extent possible, residents may purchase these services in neighboring states where these services are not taxed (or are taxed at a lower tax rate) or may choose not to purchase these services at all. The extent to which this may happen cannot be reliably estimated, but the majority of Maryland residents live within a short distance to a neighboring state and therefore could have access to service providers located in other states.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller’s Office, U.S. Census Bureau, Department of Legislative Services

**Fiscal Note History:** First Reader - March 10, 2008  
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