

## Sales and Use Tax Exemptions

- Tangible personal property, used in a production activity, which is not installed so that it becomes real property
- Property used/consumed for various research and development purposes
- Geothermal or solar energy equipment
- Agricultural purposes and products
  - Sales of various items for an agricultural purpose
  - Sales of agricultural products by a farmer except for items commonly sold by a nursery
- Food
  - Food for off premise consumption by substantial grocery business
  - Crabs for off premise consumption
  - Snack food through vending machines
  - Various “health” foods through vending machines
- Various medicines, medicinal supplies, medical records, health and physical aids, and hygienic aids
- Mining purpose
  - Wood products for use in a mine
  - Diesel fuel for use in reclamation of land which had been mined for coal
- Printing use and publications
  - Various photographic materials used in production of another item
  - Direct mail advertising to be distributed outside the State
- Various products used in the harvesting of seafood, and fuel or repair parts for commercial fishing vessels
- Services
  - Personal, professional, or insurance services
  - Custom computer software services
  - Optional computer software maintenance contracts
- Deliverable end item testing equipment used to perform a contract for the United States Department of Defense
- Computer programs intended to be reproduced for sale or incorporated into another computer program which is intended for sale
- Appliances meeting certain efficiency requirements
  - Certain “Energy Star products” will be tax free for one weekend in 2011
- Property or service used directly in film production activity
- Certain clothing and footwear sold during a seven day period in August
- Electricity, fuel, or other utility used to produce snow for commercial purposes
- Laundering, maintaining, or preparing textile products for rental
- Equipment used to manufacture bakery goods for resale if cost at least \$2,000 and operate a substantial grocery

## Streamlined Sales Tax

### Background

- Created in 2000 and administered by the Streamlined Sales Tax Governing Board
- Agreement among participating states and volunteer taxpayers intended to provide consistency and simplicity in the collection of sales and use taxes
- Currently 20 states are full members and 3 are associate members
- Maryland has a statute which acknowledges the Streamlined Sales and Use Tax Agreement (SSUTA)
  - The statute also directs the Comptroller is to prepare legislation required to adopt the agreement once Congress enacts legislation requiring remote sellers to collect and remit sales and use taxes

**Comment [ITD1]:** Background: US Supreme Court held Quill v. North Dakota because the existing sales tax system was too complicated to impose on a business that does not have physical presence in the state. The court decided that only Congress had authority to allow state require sales tax from remote sellers

### Characteristics

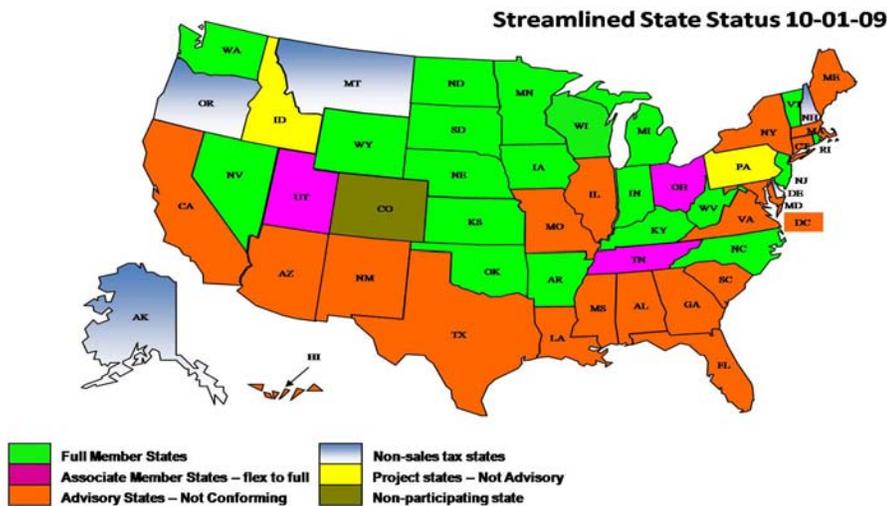
- Standardizes definitions which differ, some significantly, from state to state (Food/Candy)
- Does not allow caps or thresholds in application of rates or exemptions
- Applies rounding rule in calculation of tax owed vs. bracket method
- Limits municipalities to only tax items which the state taxes
  - Fuels
  - Utilities
  - Space Rentals
  - Controlled Dangerous Substances
- Applies destination based sourcing vs. origin based sourcing
- Requires sellers to use either Certified Automated System (CAS) or Certified Service Providers (CSP)
  - CAS- Software which calculates the tax imposed in each jurisdiction and determines the amount of remittance by state
  - CSP- Acts as an agent for the seller, performing all sales and use tax functions

**Comment [ITD2]:** In the agreement, Food includes water which is currently taxable. Also, candy

**Comment [ITD3]:** Candy is an issue for many states. Kit Kat example (is it candy or a cookie) The Governing Board decided that candy does not include flour. So Kit Kats would not be taxable. Though many other candy's do contain flour, such as licorice. Would be very difficult for manual cash machine operators and loss for Maryland

**Comment [ITD4]:** Currently 46% of transactions are increased by a penny under bracket method. Assuming random prices and five million purchasers making 2 purchases per day,  $(.01 * 365 * 10,000,000 * .46)$  would be a \$16,790,000 loss for MD

**Comment [ITD5]:** This is bigger issue for states where counties have varying rates and sales tax collections are significant source of revenue



Source: Streamlined Sales Tax Governing Board, Inc.