

Sales and use tax bulletin 99-1

1999 Changes in the Sales & Use Tax Law

The 1999 Maryland General Assembly enacted the following changes in the sales and use tax law which are effective July 1, 1999, unless otherwise stated below.

Wholesome foods: An exemption has been created for milk, fresh fruit, fresh vegetables or yogurt sold through a vending machine.

Utility Tax Reform: The General Assembly enacted legislation altering the taxation of gas and electric utilities. As part of that reform, the legislation clarified that a transportation service for transmission, distribution, or delivery of electricity or natural gas is a taxable service if the sale or use of the electricity or natural gas is subject to the sales and use tax. It also clarified that the sales and use tax does not apply to the sale of electricity, steam, or artificial or natural gas that is delivered under a residential or domestic rate schedule on file with the Public Service Commission.

The utility reform legislation also created a special use tax on electricity, effective January 1, 2000. The tax is imposed on the use, in the state, of electricity that is not delivered by a public service company. The only exemptions to this special use tax are for the use of:

1. electricity that is used for residential purposes or used exclusively for emergency back-up generation, or
2. on-site generated electricity.

The rate of the special use tax on electricity is .062 cents for each kilowatt hour of electricity that is subject to the tax. Vendors who make sales subject to the special use tax are required to file periodic returns. The comptroller will be adopting regulations regarding the imposition of this special use tax.

Prepaid telephone calling arrangements: Effective January 1, 2000, the definition of taxable service subject to the sales and use tax has been expanded to include a prepaid telephone calling arrangement. That term has been defined to mean the right to use telecommunications services, paid for in advance, that enables the origination of calls using an access number or authorization code.

The sale or recharge of a prepaid telephone calling arrangement is taxable in Maryland if:

3. the sale or recharge takes place at the vendor's place of business in Maryland,

4. the buyer's shipping address is in Maryland, or
5. if there is no item shipped, the buyer's billing address or the location associated with the buyer's mobile telephone number is in Maryland.

Production Exemption

During the 1997 Session, the General Assembly broadened the definition of property used in a manufacturing process, providing for a credit against the sales and use tax due on certain purchases of property made on or after July 1, 1998. The new credit was phased in over two years. The second year of the phase-in will begin July 1, 1999, and any property purchased on or after that date but before July 1, 2000, will be entitled to a credit of two-thirds of the taxes paid. Beginning July 1, 2000, purchases of machinery and equipment covered by the legislation become exempt from the sales and use tax and businesses will no longer need to claim the credit or file for a refund.

The chart on the back of this bulletin shows comparisons for the categories of equipment subject to the credit. The Comptroller's Office has also published Business tax tip #9, Sales and use tax exemptions for production activities, that explains what property is entitled to the credit and how manufacturers can claim the credits.

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