



07-02

**IMPORTANT NOTICE TO ALL TAXPAYERS
REGARDING CHANGES IN THE SALES AND USE TAX**

The 2007 Special Session of the Maryland General Assembly made important changes in the sales and use tax statute. *Effective January 3, 2008*, the sales and use tax rate will increase to 6% from 5%, as follows:

The tax is 1 cent on each sale where the taxable price is 20 cents; 2 cents if the taxable price is at least 21 cents but less than 34 cents; 3 cents if the taxable price is at least 34 cents but less than 51 cents; 4 cents if the taxable price is at least 51 cents but less than 67 cents; 5 cents if the taxable price is at least 67 cents but less than 84 cents; and 6 cents if the taxable price is at least 84 cents.

On each sale where the taxable price exceeds \$1.00, 6 cents on each exact dollar, plus 1 cent if the excess over an exact dollar is at least 1 cent but less than 17 cents; 2 cents if the excess over an exact dollar is at least 17 cents but less than 34 cents; 3 cents if the excess over an exact dollar is at least 34 cents but less than 51 cents; 4 cents if the excess over an exact dollar is at least 51 cents but less than 67 cents; 5 cents if the excess over an exact dollar is at least 67 cents but less than 84 cents; and 6 cents if the excess over an exact dollar is at least 84 cents.

Sales Made Through Vending Machines

If retail sales of tangible personal property or taxable services are made through vending machines or other self-service machines, the sales and use tax rate is 6% applied to 94.5% of the gross receipts from the vending machine sales.

Sales Made Prior to Rate Change for Delivery After January 2, 2008

Sales contracts entered into prior to January 3, 2008 are taxable at the 5% rate. The sales tax applies and must be collected and remitted at the time a sale is made, regardless of the time of payment of the price or time of delivery. If the sale is made by a vendor located outside of the State of Maryland who is not required to collect the Maryland tax, the use tax is due at the 6% rate when possession is taken in Maryland after January 2, 2008. Proper records must be maintained regarding the date and terms of a sale in order to justify collecting at the 5% rate where delivery or payment is made after January 2, 2008.

The tax rate due on applicable lease payments for tangible personal property is based on the lease payment period, regardless of the length of the lease or the date that the lease agreement was signed. Each lease payment period is considered to be a separate lease for sales and use tax purposes. Payments for lease periods due after January 3, 2008 will be subject to tax at the 6% rate.

Allowance to Vendors For Collection and Timely Remittance of Tax

The discount allowed vendors for timely filing and payment of sales and use taxes has been changed for the period January 3, 2008 through June 30, 2011. The discount should be computed at 1.2% of the first \$6,000 of tax due and .9% of taxes in excess of \$6,000. Effective January 3, 2008, however, the credit allowed under this computation is capped at \$500 for each return. If a vendor files or is eligible to file a consolidated return, the total maximum discount allowed for all returns for any one period is \$500. The change is effective for a timely filed return with a due date of January 3, 2008 or later.

Absorption of the Sales Tax

Effective January 3, 2008, a vendor may assume and absorb all or any part of the sales and use tax on a retail sale and pay that tax on behalf of the buyer. The vendor must, however, continue to separately state the tax from the sales price at the time of sale to the purchaser. If the vendor absorbs all or any part of the tax on the sale, the vendor shall pay the tax with the return that covers the period in which the vendor makes the sale.

Real Property Contractors and Subcontractors

Purchases by contractors and subcontractors of materials to be incorporated into and made a part of real property pursuant to a contract for the construction, repair or alteration of real property, when the contract is entered into pursuant to the obligation of a formal written bid which cannot be altered or withdrawn, and the contract was entered into prior to January 3, 2008, shall be exempt from the additional 1% tax.

Purchasers may claim the exemption directly from the Comptroller's Office on Form COT/ST 205, or as a credit on line 9 of a sales and use tax return. The credit allowed on the return cannot exceed the lesser of \$1,000 or the total amount of tax due and payable on the return. A contractor who files sales and use tax returns and purchases eligible materials upon which no tax has been charged, should include only the 5% tax on qualified purchases on line 7 of the return.

The General Assembly has also provided that the exemption may, to the extent practicable, be claimed from sellers at the point of sale. The Comptroller's Office has created Form COT/CD 132 which may be used for this purpose. A sample copy of this form is included in this bulletin. If accepted, it should be retained with the records of the sale. Sellers, if they choose to do so, may allow the 1% exemption for the convenience of their customers, if provided with a completed Form COT/CD 132. Sellers who do recognize the exemption should simply not include the amount of the exemptions allowed in the amount of tax collected on line 2 of their next sales and use tax return. Sellers need to report the combined 6% and 5% tax collected on line 2 of the sales and use tax return.

The exemption is limited to purchases of materials which will be physically incorporated into real property. It does not extend to materials which will retain their status as tangible personal property, nor does it extend to purchases, including rentals, of consumables, supplies, tools, equipment, or taxable services, however essential they may be to the completion of a contract entered into prior to January 3, 2008.

Real Property Contractor 1% Sales and Use Tax Exemption Certificate

This is to certify that all tangible personal property purchased from _____

_____ will be incorporated into the real property of:

Name of Job: _____

Contract Number: _____

Date Contract Signed: _____

Expected Job Completion Date: _____

Tax may be charged at the rate of 5% if the seller chooses to recognize this certificate. I understand that the seller may choose not to accept this certificate and charge the 6% tax, in which case I can obtain a 1% refund from the Comptroller. I also understand that this certificate does not apply to tools, equipment or any other tangible personal property that is not physically incorporated into the real property of the above listed job.

Buyer's Name

Buyer's Address and Telephone Number

Signature

Buyer's MD Sales and Use Tax Registration No.
(If applicable)

Date