

Department of Legislative Services  
 Maryland General Assembly  
 2007 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 451

(Delegate Bronrott, *et al.*)

Ways and Means

Budget and Taxation

Sales and Use Tax - Tax-Free Period for the Purchase of Energy Efficient  
 Products

This bill exempts from the State sales and use tax the purchase of specified Energy Star products or solar water heaters made on October 5 and 6, 2007.

The bill takes effect July 1, 2007.

Fiscal Summary

**State Effect:** General fund revenues could decrease by \$369,800 in FY 2008. General fund expenditures could increase by \$30,500 in FY 2008 for the Comptroller’s Office to administer the program and by \$30,000 for the Maryland Energy Administration (MEA) to develop a public awareness program.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$369,800)	\$0	\$0	\$0	\$0
GF Expenditure	60,500	0	0	0	0
Net Effect	(\$430,300)	\$0	\$0	\$0	\$0

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

**Local Effect:** None.

**Small Business Effect:** Meaningful.

## Analysis

**Bill Summary:** Energy Star products qualifying for a sales tax exemption include air conditioners, clothes washers, furnaces, heat pumps, standard size refrigerators, compact fluorescent light bulbs, dehumidifiers, or programmable thermostats that have been designated as meeting or exceeding the applicable Energy Star efficiency requirements developed by the U.S. Environmental Protection Agency and the U.S. Department of Energy.

**Current Law:** Energy Star products are not currently exempt from the State sales and use tax.

**Background:** The U.S. Environmental Protection Agency and the U.S. Department of Energy have developed the “Energy Star” labeling program to help consumers identify the most energy-efficient products available on the market.

Among its many provisions, Chapter 296 of 2000, the Maryland Clean Energy Incentive Act, provided a sales tax exemption for the following products that met or exceeded Energy Star efficiency requirements: (1) clothes washers purchased on or after July 1, 2000, but before July 1, 2003; (2) room air conditioners purchased on or after January 1, 2001, but before July 1, 2004; and (3) refrigerators (standard size) purchased on or after July 1, 2001, but before July 1, 2004.

The federal Energy Policy Act of 2005 includes tax credits for consumers for implementing specified home improvements including adding insulation, replacement windows, and certain high efficiency heating and cooling equipment. The maximum amount of the tax credit for all improvements is \$500 during the two-year period of the tax credit. This tax credit applies to improvements made from January 1, 2006 through December 31, 2007.

The Act also provides tax credits to purchasers of hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles. The tax credit amount is based on a specified formula determined by vehicle weight, technology, and fuel economy compared to base year models. The credits are available for vehicles placed in service starting January 1, 2006.

Tax credits are also available for qualified solar water heating and photovoltaic systems. The credits are available for systems placed in service in 2006 and 2007 and are for 30% of the cost of the system, up to \$2,000. This credit is not included in the \$500 home improvement tax credit cap.

Consumers are also eligible for a tax credit of up to 30% of the cost (up to \$500 per 0.5 kW of capacity maximum) for the installation of a qualified fuel cell and microturbine system placed in service in 2006 and 2007; it is also not subject to the \$500 home improvement cap.

**State Revenues:** The bill exempts purchases of eligible Energy Star air conditioners, clothes washers, furnaces, heat pumps, standard size refrigerators, compact fluorescent light bulbs, dehumidifiers, or programmable thermostats, and solar water heaters from the State sales and use tax for tax-free period in October 2007. It is estimated that sales tax revenues would decrease by approximately \$369,800 in fiscal 2008, as shown in **Appendix 1** due to the tax-free period. MEA provided sales of the specified products during a typical two-day period in Maryland.

The estimate assumes that, during the sales tax-free period, 14 days of sales will occur for Energy Star clothes washers, refrigerators, room air conditioners and fluorescent light bulbs; and 6 days of sales for dehumidifiers, central AC units, air source heat pumps, ground source heat pumps, furnaces, solar water heaters, and thermostats.

To the extent actual prices and number of products purchased differ from those used in the estimate, the associated revenue decrease would vary accordingly.

To the extent that the bill generates or contributes to sales of other products that might not normally have occurred, the sales tax decrease attributable to the bill could be mitigated.

A recent proposal in New York State would have provided a sales tax exemption for specified Energy Star products for two one-week periods. The fiscal estimate for the proposal assumed 20 days of sales both before and after each 7-day tax-free period would occur during the tax-free period for a total of 47 days worth of sales occurring during each period.

**State Expenditures:** The Comptroller's Office would incur approximately \$30,500 in administrative expenses to implement the tax-free period in fiscal 2008. This estimate is based on the expenditures incurred implementing a sales tax-free week in 2001. In addition, MEA indicates that the prior sales tax exemptions for Energy Star products were not widely known by the public. In order to promote the sales tax-free periods and the benefits of Energy Star products, MEA could incur expenditures of approximately \$30,000 to institute a public awareness advertising campaign. A summary of general fund expenditures is shown in **Exhibit 1**.

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**Exhibit 1**  
**Summary of General Fund Expenditures Associated with Implementing**  
**Sales Tax-free Period**  
**October 5 and 6, 2007**

	<u><b>FY 2008</b></u>
Printing – bulletins, rack cards, posters	\$9,000
Postage	20,000
Overtime for Staffing Call Centers	1,500
Advertising (MEA)	<u>30,000</u>
<b>Total GF Expenditures</b>	<b>\$60,500</b>

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**Small Business Effect:** Small businesses that sell Energy Star appliances could realize increased sales during the tax-free period; however, this increase could also realize a corresponding decrease in the weeks surrounding the tax-free period. In addition, home contractors and builders could benefit significantly. It is assumed that a large percentage of home heating and cooling systems are purchased by contractors and builders, who then pass the cost on to the consumer. Contractors and builders could realize significant savings on these purchases during the tax-free period.

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**Additional Information**

**Prior Introductions:** Similar bills, which provided for two sales tax-free months for energy efficient products, were introduced as SB 265 and HB 1004 in the 2006 session. SB 265 received an unfavorable report from the Senate Budget and Taxation Committee. The House Ways and Means Committee took no action on HB 1004.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Energy Administration, Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

**Appendix 1**  
**Estimated Effect of Exempting Energy Efficient Products**  
**Sales Tax-free Period – October 5 and 6, 2007**

	<u>FY 2008</u>		<u>FY 2008</u>
<b><u>Energy Star Clothes Washer</u></b>		<b><u>Energy Star – Central Air Conditioners (continued)</u></b>	
Number Purchased	1,223	Number Purchased – split system	66
Average Cost	\$951	Average Cost	\$1,782
Total Sales	\$1,162,756	Total Sales	\$117,612
Sales Tax	(\$58,138)	Sales Tax	(\$5,881)
<b><u>Energy Star Refrigerators</u></b>		<b><u>Energy Star Air Source Heat Pump</u></b>	
Number Purchased	3,332	Number Purchased – single package	6
Average Cost	\$1,469	Average Cost	\$3,634
Total Sales	\$4,894,708	Total Sales	\$21,804
Sales Tax	(\$244,735)	Sales Tax	(\$1,090)
<b><u>Energy Star Room Air Conditioners</u></b>		Number Purchased – split system	
Number Purchased	23	Average Cost	40
Average Cost	\$364	Total Sales	\$2,331
Total Sales	\$8,493	Sales Tax	\$93,240
Sales Tax	(\$425)		(\$4,662)
<b><u>Energy Star Compact Fluorescent Light Bulbs</u></b>		<b><u>Energy Star Ground Source Heat Pump</u></b>	
Number Purchased	83,286	Number Purchased	16
Average Cost	\$5	Average Cost	\$10,000
Total Sales	\$416,430	Total Sales	\$160,000
Sales Tax	(\$20,822)	Sales Tax	(\$8,000)
<b><u>Energy Star Dehumidifiers</u></b>		<b><u>Energy Star Furnaces</u></b>	
Number Purchased	372	Number Purchased	152
Average Cost	\$200	Average Cost	\$1,204
Total Sales	\$74,400	Total Sales	\$183,008
Sales Tax	(\$3,720)	Sales Tax	(\$9,150)
<b><u>Energy Star Programmable Thermostats</u></b>		<b><u>Energy Star Solar Water Heaters</u></b>	
Number Purchased	801	Number Purchased	30
Average Cost	\$100	Average Cost	\$5,500
Total Sales	\$80,100	Total Sales	\$165,000
Sales Tax	(\$4,005)	Sales Tax	(\$8,250)
<b><u>Energy Star – Central Air Conditioners</u></b>		<b>Total GF Revenue Decrease</b>	
Number Purchased – single package	6		<b>(\$369,764)</b>
Average Cost	\$2,954		
Total Sales	\$17,726		
Sales Tax	(\$886)		

Source: Comptroller's Office, Maryland Energy Administration, Department of Legislative Services