

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 345 (Delegate Shewell, *et al.*)
 Ways and Means

Sales and Use Tax - Tax-Free Period for Back-to-School Shopping

This bill provides that beginning in August 2008, the purchase of any item of clothing or footwear, excluding accessories, is exempt from the State sales and use tax if the taxable price of the item of clothing or footwear is \$100 or less during the seven-day period beginning the second Sunday in August through the following Saturday. Under current law this exemption begins in August 2010.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund revenues could decrease by \$8.0 million in FY 2009 and by \$8.2 million in FY 2010, while Transportation Trust Fund revenues would decrease by \$0.6 million in FY 2009 and FY 2010. Expenditures would not be affected

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$8.0)	(\$8.2)	\$0	\$0	\$0
SF Revenue	(.6)	(.6)	0	0	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$8.6)	(\$8.8)	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: Potential meaningful impact from increased sales (offset by administrative costs) for small businesses selling clothing and footwear.

Analysis

Current Law: Chapter 6 of the 2007 special session created two sales tax-free periods. beginning in fiscal 2011. Beginning February 2011, Chapter 6 exempts from the State sales and use tax the purchase of specified Energy Star products or solar hot water heaters made on the Saturday immediately preceding the third Monday in February through the third Monday in February. In addition, beginning August 2010, Chapter 6 exempts from the State sales and use tax the purchase of any item of clothing or footwear, excluding accessories, if the taxable price of the item of clothing or footwear is \$100 or less during the seven-day period beginning the second Sunday in August through the following Saturday.

Background: Chapter 576 of 2000 exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the week of August 10 through August 16, 2001, if the taxable price of the item of clothing or footwear was less than \$100. Chapter 191 of 2005 exempted from the State sales and use tax the sale of clothing or footwear (except accessories) for the period of August 23 through August 27, 2006, if the taxable price of the item of clothing or footwear was \$100 or less.

State Fiscal Effect: The Comptroller's Office estimates that the 2001 tax-free week resulted in lost sales tax revenue of \$5.1 million, with another \$5.5 million in lost revenue from the 2006 tax-free period. This estimate is based on a regression analysis of historical sales tax collection trends in the categories of vendors (apparel stores, department stores, etc.) that sell a large share of the exempted clothing and footwear.

Sales tax revenues could decrease by approximately \$8.6 million in fiscal 2009 and \$8.8 million in fiscal 2010 due to the seven-day tax-free period. In addition to establishing a sales tax-free period for clothing and footwear beginning in 2010, Chapter 6 of the 2007 special session also altered the distribution of sales and use tax revenues by requiring that 6.5% of revenues, after specified distributions, be diverted to the TTF beginning July 1, 2008. As a result, the tax-free period exemption proposed by the bill would reduce general fund revenues by \$8.0 million in fiscal 2009 and \$8.2 million in fiscal 2010 while reducing TTF revenues by \$0.6 million in both fiscal 2009 and 2010.

This estimate is based on the impacts from previous tax-free shopping periods and an assumed 5% annual increase in taxable clothing sales from fiscal 2008 to 2009 and a 3% increase from fiscal 2009 to 2010. The Fiscal and Policy Note for Chapter 6 estimated that sales tax revenues could decrease by approximately \$9.1 million in fiscal 2011 and \$9.5 million in fiscal 2012 due to the seven-day tax-free period.

Small Business Effect: According to the 2005 *Survey of U.S. Business* by the U.S. Census Bureau, 94.3% of the retail firms in Maryland had less than 100 employees. This bill could cause a net increase in sales for small businesses, to the extent that sales would be made in Maryland during the period that would otherwise have been made out-of-state, through the Internet, or by mail order. Small businesses located in shopping malls or other areas with a number of stores in close proximity may experience increased sales for nonapparel items because of increased foot traffic due to the tax-free week. On the other hand, compliance costs for small businesses could increase if changes to cash register programming and accounting systems are required. The net effect would vary from business to business, but it is likely to be positive.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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