

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE

House Bill 56 (Delegate Vitale)  
 Ways and Means

Sales and Use Tax - Tax-Free Periods - School Supplies and Textbooks

This bill includes any school supply or textbook costing \$500 or less with the items (clothing and footwear) that are currently exempt during the annual State sales tax-free period which runs from the second Sunday in August through the following Saturday.

A “school supply” is defined as any item purchased for use in the classroom, for school work completed in school, or for any school activity. A “textbook” is defined as a book written, designed, and produced for educational, instructional, or pedagogical purposes.

The bill takes effect July 1, 2014.

Fiscal Summary

**State Effect:** General fund revenues decrease by approximately \$26.1 million in FY 2015. Future year revenues reflect estimated annual spending increases. Expenditures are not affected.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$26.1)	(\$26.9)	(\$27.7)	(\$28.6)	(\$29.5)
Expenditure	0	0	0	0	0
Net Effect	(\$26.1)	(\$26.9)	(\$27.7)	(\$28.6)	(\$29.5)

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

## Analysis

**Current Law:** There are two sales tax-free periods each year in Maryland. 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 is exempt from the State sales tax during the seven-day period beginning the second Sunday in August through the following Saturday. 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 is also exempt from the State sales tax.

The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. Chapter 348 of 2005 created a textbook consortium in the University System of Maryland (USM) to allow USM institutions to receive volume discounts on the purchase of textbooks by students.

**Background:** The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.2 billion in fiscal 2014 and \$4.4 billion in fiscal 2015, according to the December 2013 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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### Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

\*An additional State tax of 0.7% is imposed on sales in localities in Northern Virginia and the Hampton Roads region.

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Pennsylvania and Virginia currently exempt textbook sales from their respective state sales taxes. New Jersey and West Virginia exempt required texts from their state sales taxes.

The following is a brief history of tax-free holidays in Maryland:

- 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 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.
- Chapter 6 of the 2007 special session created two annual sales tax-free periods – one in February for the purchase of specified Energy Star products or solar hot water heaters; and one in August for 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.

The two current sales tax-free periods are estimated to reduce general fund revenues by a total of \$6.7 million in fiscal 2014 and by \$6.9 million in fiscal 2015.

**State Fiscal Effect:** General fund sales tax revenues decrease by approximately \$26.1 million in fiscal 2015 and by \$29.5 million in fiscal 2019 due to the expansion of the sales tax holiday for back to school shopping. The estimate is based on the following set of facts and assumptions:

- a survey by the National Retail Federation indicates that families spent approximately \$94 per student on school supplies (includes notebooks, pencils, pens, and backpacks) for K-12 students, and approximately \$77 per student for college students in 2013;
- the same survey by the National Retail Federation indicates that families spent approximately \$357 per student on other school supplies, including computers, equipment, and other electronics, for K-12 students, and approximately \$392 per student for college students in 2013;
- the National Retail Federation survey also reports that teenagers and preteens spent approximately \$80 and \$70, respectively, of their own money for various back to school supplies;
- there are 830,521 students enrolled in Maryland public schools for the 2013-2014 school year, and an additional 136,558 students enrolled in nonpublic schools in the State;
- there are 258,189 full-time equivalent students enrolled in Maryland colleges and universities for the 2014-2015 school year;

- Maryland college students will spend, on average, \$720 on textbooks during the 2014-2015 academic year;
- college students will purchase one semester of tax-free textbooks each year due to the sales tax-free period occurring in August of each year; and
- school supplies and textbooks will be purchased by and for 65% of Maryland students during the tax-free period.

**Exhibit 2** shows the effect on general fund revenues of the bill for fiscal 2015 through 2019.

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**Exhibit 2**  
**Revenue Effect of Expanding the Tax-free Period for Back to School Shopping**  
**Fiscal 2015-2019**

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Back to School Supplies	(\$23.6)	(\$24.3)	(\$25.1)	(\$25.8)	(\$26.6)
Textbooks	(\$2.4)	(\$2.6)	(\$2.7)	(\$2.8)	(\$2.9)
<b>Total Revenue Decrease (\$ in millions)</b>	<b>(\$26.1)</b>	<b>(\$26.9)</b>	<b>(\$27.7)</b>	<b>(\$28.6)</b>	<b>(\$29.5)</b>

Source: Maryland Higher Education Commission, Comptroller of Maryland, Maryland State Department of Education, National Retail Federation, Department of Legislative Services

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**Small Business Effect:** According to the 2011 Statistics of U.S. Businesses by the U.S. Census Bureau, there are 101,248 retail firms in Maryland with less than 99 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 not have otherwise been made or that would have been made out of State, online, 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 items because of increased foot traffic due to the tax-free period. 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.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland State Department of Education, Maryland Higher Education Commission, Comptroller's Office, Morgan State University, University System of Maryland, National Retail Federation, Department of Legislative Services

**Fiscal Note History:** First Reader - January 24, 2014  
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Analysis by: Michael Sanelli

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