

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 728 (Delegate Arentz, *et al.*)
 Ways and Means

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

This bill extends by two days the annual seven-day sales tax-free period for back-to-school shopping. The bill adds the second Saturday and third Sunday in August to the current period, which occurs from the second Sunday in August through the following Saturday in August.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$1.8 million in FY 2018 and by \$2.1 million in FY 2022. General fund expenditures for administrative costs in the Comptroller’s Office increase by \$81,300 in FY 2018.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$1.8)	(\$1.9)	(\$1.9)	(\$2.0)	(\$2.1)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$1.9)	(\$1.9)	(\$1.9)	(\$2.0)	(\$2.1)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: 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.

Background: The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2017 and \$4.7 billion in fiscal 2018, according to the December 2016 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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

Delaware	0.0%
District of Columbia	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6.0%; 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 27 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

The two current sales tax-free periods are estimated to reduce general fund revenues by a total of \$7.1 million in fiscal 2017 and by \$7.4 million in fiscal 2018.

State Fiscal Effect: General fund revenues decrease by approximately \$1.8 million in fiscal 2018 and by \$2.1 million in fiscal 2022 based on the following:

- the current sales tax-free period for back-to-school shopping is estimated to reduce general fund revenues by approximately \$6.4 million in fiscal 2018;
- general fund revenues decrease by approximately \$914,300 each day during the tax-free period; and
- general fund revenues decrease by approximately 3.2% annually beginning in fiscal 2019.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2018 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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