

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 80 (Senator Benson)
Budget and Taxation

Sales and Use Tax - Tax-Free Weekends - Emergency Preparedness Equipment

This bill establishes two three-day sales tax-free weekends for the purchase of emergency preparedness equipment costing \$60 or less. The Comptroller must, by October 1, 2019, publish a list of emergency preparedness equipment that is exempt during the tax-free weekends on the Comptroller's website. The Comptroller is authorized to amend the list of exempt items for each subsequent tax-free weekend after the completion of the 2019 tax-free weekend. Emergency preparedness equipment includes emergency preparedness items determined by the Comptroller. **The bill takes effect July 1, 2019, and terminates June 30, 2024.**

Fiscal Summary

State Effect: Significant general fund revenue decrease in FY 2020 through 2024. The amount of the decrease depends on the types of equipment identified by the Comptroller as qualifying for the exemption, the amount of emergency preparedness equipment purchased, and the cost of each exempt item. Under one set of assumptions, general fund revenues may decrease by approximately \$3.3 million annually in FY 2020 through 2024. General fund expenditures increase by \$81,300 in FY 2020 for computer programming changes.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The two tax-free weekends specified by the bill are:

- beginning in calendar year 2019, the weekend that consists of the first Friday in November through the following Sunday; and
- beginning in calendar year 2020, the weekend that consists of the first Friday through the following Sunday immediately preceding the official start of the Atlantic hurricane season as determined by the National Oceanic and Atmospheric Administration.

Current Law/Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.9 billion in fiscal 2019 and \$5.0 billion in fiscal 2020, according to the December 2018 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	6.0%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, tickets to specified sporting events, 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 eligible food items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in two municipalities) or 1.0% (in 41 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region and an additional 1.7% is imposed in localities in the Historic Triangle.

Task Force to Study Tax Benefits for Emergency Preparedness Equipment

Chapter 481 of 2013 established the Task Force to Study Tax Benefits for Emergency Preparedness Equipment to study and make recommendations regarding an income tax credit for purchasing electric generators and a sales tax-free period for emergency preparedness equipment. The task force met during the 2013 interim and recommended that the General Assembly consider enacting a sales tax holiday for emergency preparedness products and supplies with a selling price of \$60 or less for a period of one week prior to the official start of hurricane season (June 1). The task force also recommended that the tax holiday should expire five years from the passage of the legislation.

Other States

The Federation of Tax Administrators indicates that the following states have some form of tax holiday for emergency/hurricane preparedness equipment and/or generators in 2019: Alabama, Texas, and Virginia. In addition to these states, Florida and Louisiana also had tax holidays for these items in 2018.

State Fiscal Effect: General fund revenues will decrease by a significant amount in fiscal 2020 through 2024 as a result of the annual sales tax-free weekends. The amount of the decrease depends on the types of emergency preparedness equipment identified by the Comptroller as qualifying for the exemption, the amount of emergency preparedness equipment purchased, and the cost of each exempt item. The list of exempt items is not required to be defined until October 1, 2019. Depending on the types of exempt equipment and the cost of this equipment, the effect on general fund revenues from the sales tax-free weekends specified by the bill may be significant.

As a point of reference, and *for illustrative purposes only*, general fund revenues may decrease by approximately \$3.3 million annually in fiscal 2020 through 2024, based on the following facts and assumptions:

- the American Community Survey reports that there are 2,181,093 households in Maryland;
- 25% of Maryland households purchase taxable items during the sales tax-free period;
- the average household purchases \$100 worth of emergency preparedness items during the tax-free period; and
- the sales tax exemption terminates on June 30, 2024.

The above example does not include any purchases that may be made by businesses. The estimate will vary depending on the actual cost of purchases made during the tax-free period.

The Comptroller's Office indicates that it will incur one-time computer programming costs of \$81,300 in fiscal 2020 to notify the approximately 130,000 active sales and use tax account holders of the sales tax-free period.

Additional Information

Prior Introductions: Similar bills were introduced in 2013, 2014, and 2016. SB 62 of 2016 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 694 of 2016 was withdrawn. SB 732 of 2014 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 784 of 2014 was amended by the House Ways and Means Committee to remove the sales tax-free period from the bill and was passed by the House. The bill received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 481 and HB 151 of 2013 were each amended to create the Task Force on the Implementation of Tax Benefits for Emergency Preparedness Equipment. SB 481 was passed and became Chapter 481. HB 151 was vetoed by the Governor as duplicative.

Cross File: None.

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

Fiscal Note History: First Reader - January 15, 2019
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