

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 811
Ways and Means

(Delegate Malone, *et al.*)

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

This bill exempts from the State sales and use tax the sale of school supplies (costing \$100 or less) and textbooks (costing \$350 or less) purchased during the annual sales and use tax-free period for back-to-school shopping. School supplies are defined as pens, pencils, erasers, crayons, markers, notebooks, binders, folders, loose-leaf paper, scissors, glue, rulers, protractors, or compasses. Textbook is defined as a book written, designed, and produced for educational, instructional, or pedagogical purposes. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund revenues decrease by a significant amount beginning in FY 2021, depending upon the amount and cost of school supplies and textbooks purchased during the tax-free period. Under one set of assumptions, general fund revenues decrease by approximately \$7.3 million in FY 2021 and by \$8.5 million in FY 2025. General fund expenditures increase by \$81,300 in FY 2021.

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.

Chapters 236 and 237 of 2017 exempt from the State sales and use tax the first \$40 of the taxable price of any backpack or bookbag purchased during the annual sales and use tax-free period for back-to-school shopping.

The tax-free back-to-school shopping period extends from the second Sunday in August through the following Saturday.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.0 billion in fiscal 2020 and 2021, according to the December 2019 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 on-the-premises consumption and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles; and 8.0% for specified soft drinks
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; 2.5% for specified essential personal hygiene items; and both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 45 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.

State Revenues: General fund revenues decrease by a significant amount beginning in fiscal 2021. The amount of the revenue decrease depends on the amount and cost of school supplies and textbooks that are purchased during the tax-free period. Based on the number

of students in Maryland and average purchases of school supplies and textbooks, general fund revenues could decrease by approximately \$7.3 million in fiscal 2021 and by \$8.5 million in fiscal 2025. This estimate is based on the following:

- the average family will spend \$117 on school supplies in elementary, middle, or high school (National Retail Federation, 2019 survey);
- the average family will spend \$72 on school supplies for college students (National Retail Federation, 2019 survey);
- 874,268 full-time equivalent students enrolled in Maryland public schools (2019-2020 school year);
- 101,930 students enrolled in Maryland nonpublic schools (2018-2019 school year);
- 364,329 full- and part-time students enrolled in Maryland colleges and universities (2019-2020 school year); and
- 75% of school supplies will be purchased during the sales tax-free period.

State Expenditures: The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2021 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; U.S. Census Bureau; National Retail Federation; Department of Legislative Services

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rh/hlb

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