

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 176 (Senator Brooks)
 Budget and Taxation

Sales and Use Tax - Tax-Free Day - Veterans' Day

This bill establishes Veteran’s Day (November 11), beginning in 2024, as a sales tax-free day for the sale of items to a specified veteran. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$46,000 in FY 2025 and Blueprint for Maryland’s Future Fund (BMFF) revenues decrease by approximately \$5,900 in FY 2025. Future year decreases reflect forecasted sales and use tax growth rates. Expenditures are not affected.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	(\$46,000)	(\$46,100)	(\$46,200)	(\$46,800)	(\$47,300)
SF Revenue	(\$5,900)	(\$6,100)	(\$6,400)	(\$6,400)	(\$6,500)
Expenditure	0	0	0	0	0
Net Effect	(\$51,900)	(\$52,200)	(\$52,600)	(\$53,300)	(\$53,800)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: A veteran is defined as an individual who has (1) served on active duty in the Armed Forces of the United States; a reserve component of the Armed Forces of the United States; or the National Guard of any state; (2) served in a capacity other than for training; and (3) was discharged or released under conditions other than dishonorable.

In order to qualify for the exemption, an individual (1) must provide to the vendor evidence of eligibility for the exemption and (2) may establish that the individual is a veteran by producing a valid driver's license or government-issued identification card that includes a notation indicating that the individual is a veteran.

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.

State Sales and Use Tax

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.9 billion in fiscal 2024 and \$6.1 billion in fiscal 2025, according to the December 2023 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; 8.0% for specified soft drinks; 14.95% for transient accommodations; 18% for motor vehicle parking in commercial lots
Maryland	6.0% 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 1.0% for eligible food items; 1.0% for specified essential personal hygiene items
West Virginia	6.0% plus 1.0% in specified municipalities

* An additional state tax of (1) 0.7% is imposed in localities in Central Virginia, Northern Virginia, and the Hampton Roads region; (2) 1.0% in Charlotte, Gloucester, Halifax, Henry, Northampton, Patrick, and Pittsylvania counties, and the City of Danville; and (3) 1.7% is imposed in James City County, York County, and Williamsburg (Historic Triangle). The sales and use tax rate for food and personal hygiene products decreased to 1.0% as of January 1, 2023.

Blueprint for Maryland's Future Fund

Chapter 33 of 2022 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Chapter 33 requires the Comptroller, after making certain other distributions, to pay to BMFF the following percentage of the remaining sales and use tax revenues:

- 9.2% for fiscal 2023;
- 11.0% for fiscal 2024;
- 11.3% for fiscal 2025;
- 11.7% for fiscal 2026; and
- 12.1% for fiscal 2027 and each subsequent fiscal year.

Chapter 33 also repealed the distribution of sales and use tax revenues to the BMFF from marketplace facilitators, certain out-of-state vendors, and specified digital products or digital codes.

State Revenues: Total sales and use tax revenues decrease by approximately \$52,000 annually beginning in fiscal 2025. The estimate is based on the following:

- the Comptroller’s Office estimates that each current sales tax-free day reduces total sales and use tax revenues by approximately \$929,500; and,
- veterans comprise 5.6% of the State population according to U.S. Census Bureau data.

As noted, any decrease in sales and use tax revenues will also reduce BMFF revenues. Based on the estimate above, general fund revenues decrease by approximately \$46,000, and BMFF revenues decrease by approximately \$5,900 in fiscal 2025.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Comptroller’s Office; Maryland Department of Transportation; Department of Veterans Affairs; Department of Legislative Services

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