

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 608 (Delegate Dembrow. *et al.*)

Ways and Means

Sales and Use Tax - "Tax-Free" Weeks

This bill exempts from the sales and use tax the sale of clothing (except footwear and accessories) for the week of August 7 through August 13, 1998, if the taxable price of the item of clothing is \$100 or less. It also exempts from the sales tax the sale of transient lodging for the week of January 23 through January 29, 1999, if the taxable price of the room is less than \$100 per day.

This bill is effective July 1, 1998.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated \$4.5 million in FY 1999. General fund expenditures could increase by \$10,000.

Local Effect: None.

Small Business Effect: Potential minimal impact.

Fiscal Analysis

State Revenues: General fund revenues could decline by an estimated \$4.5 million in fiscal 1999 based on the following facts and assumptions:

- about \$3.4 billion of clothing will be sold in Maryland in fiscal 1999;
- approximately 75% of total sales are items with a taxable price under \$100;
- about half of sales from the weeks before and after the tax-free week would be transferred to the tax-free week;
- about 7.6% of clothing sales occur in August;

- about \$707.5 million of lodging will be sold in fiscal 1999;
- approximately 85% of total sales of lodging has a taxable price under \$100;
- no sales of lodging will be transferred to the tax-free week; and
- about 4.9% of lodging sales occur in January.

Sales of clothing eligible for the exemption during the August tax-free week would total an estimated \$84 million, resulting in a revenue loss of \$4.2 million. Sales of lodging during the December tax-free week would total an estimated \$6.7 million, resulting in a revenue loss of \$335,000.

State Expenditures: The Office of the Comptroller advises that expenditures would increase by \$1,500 for postage to notify the approximately 25,000 entities collecting the sales tax of this change, and by \$8,500 for printing the mailings and for informational material to inform taxpayers about the tax-free week.

Small Business Effect: This bill could cause a net increase in sales, especially if non-residents come to Maryland to purchase taxable goods during the tax-free week. Compliance costs for small businesses could increase, however, if changes to cash register programming and accounting systems are required. The net effect would vary from business to business, and could be positive or negative.

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates), Department of Legislative Services

Fiscal Note History: First Reader - February 18, 1998
 Inc Revised - House Third Reader - March 26, 1998

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