

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 221 (Senator Harris. *et al.*)

Budget and Taxation

Family Clothing Tax Relief Act of 2000

This bill exempts from the sales and use tax any item of clothing or footwear, excluding “accessory items,” if the taxable price of the clothing or footwear is less than \$75.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated \$139.2 million in FY 2001. Future revenue losses are based on projected sales tax revenue growth.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$139.2)	(\$147.1)	(\$154.5)	(\$162.2)	(\$170.3)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(\$139.2)	(\$147.1)	(\$154.5)	(\$162.2)	(\$170.3)

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

Local Effect: None.

Small Business Effect: Potential meaningful impact from increased sales for small businesses selling apparel.

Analysis

Current Law: Clothing and footwear are taxable, at the rate of 5%.

Background: Of the 50 states and the District of Columbia, 39 tax clothing and footwear.

Three exempt clothing under a fixed dollar amount (ranging between \$50 and \$175), while another four exempt clothing altogether, and five have no sales tax at all. States nearby to Maryland treat clothing as follows:

Delaware	No sales tax (but gross receipts tax on retailers)
District of Columbia	Taxable at 5.75%
New Jersey	Clothing and footwear generally exempt
Pennsylvania	Clothing and footwear generally exempt
Virginia	Taxable at 3.5%
West Virginia	Taxable at 6%

State Revenues: Sales of clothing and footwear eligible for the exemption during fiscal 2001 will total approximately \$2.8 billion, resulting in a sales tax revenue loss of \$139.2 million in fiscal 2001 based on the following facts and assumptions:

- total sales tax collected for the Comptroller's Office's statistical apparel category (including footwear) were \$113.6 million in fiscal 1999;
- approximately 90% are non-accessory sales;
- the Comptroller's apparel category of retailers represents 50% of total apparel and footwear sales (with the other 50% of apparel and footwear sales attributable to department stores, discount stores, general merchandisers, and sporting goods and toy stores);
- approximately 60% of total sales are items with a taxable price under \$75; and
- projected growth of consumer spending between fiscal 1999 and fiscal 2001.

The Comptroller's Office estimates a revenue loss of \$92.8 million for fiscal 2001 based on similar assumptions as above, except that the Comptroller estimates that the apparel category of retailers accounts for 75% of all apparel and footwear sales. Because the Comptroller's statistics for the other categories of retailers (department stores, discount stores, general merchandisers, and sporting goods and toy stores) do not specify the portion of sales

attributable to apparel and footwear, it is necessary to make assumptions. Legislative Services assumes that two-thirds of department store sales are apparel or footwear, while 15% of the sales of the other retailers are apparel or footwear.

To the extent that taxable sales, as part of the same transaction as the tax-free sales, would be made in Maryland that would otherwise have been made out-of-state, through the Internet, or by mail order, total sales tax revenue would increase, mitigating the revenue loss described above. Also, businesses would become more profitable and income tax revenues could increase. The amount of either such increase cannot be reliably estimated at this time.

Small Business Effect: This bill could cause a net increase in sales for small businesses, to the extent that sales would be made in Maryland that would otherwise have been made out-of-state, through the Internet, or by mail order. Small businesses located near Delaware and Pennsylvania (which do not tax clothing and footwear) may experience increased sales that are currently displaced to those states.

Additional Information

Prior Introductions: None.

Cross File: HB 378 (Delegate Ports, *et al.*) - Ways and Means.

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

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