

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 103 (Senator Kasemever. *et al.*)

Budget and Taxation

Sales and Use Tax - Tax-Free Week

This bill exempts from the sales and use tax the sale of clothing or footwear (except accessories) for the week of August 10 through August 16, 2001, if the taxable price of the item of clothing or footwear is less than \$100.

The bill is effective July 1, 2000.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated \$6.7 million in FY 2002 only. General fund expenditures could increase by \$32,300 for administrative expenses in FY 2002.

Local Effect: None.

Small Business Effect: Potential meaningful impact from increased sales (offset by administrative costs) for small businesses selling apparel.

Analysis

Current Law: Current law does not provide for any sales tax holiday or tax-free week.

Background: Several states have experimented recently with sales tax holidays. New York, Florida, and Texas implemented different versions of sales tax holidays in 1999.

New York enacted legislation exempting purchases of clothing and shoes up to \$500 from the state's 4% sales tax during one-week periods in September 1999 and January 2000, after

having enacted a \$100 exemption in 1997. The estimated fiscal impact from the tax holidays is \$50 million. The state will permanently exempt its sales tax on clothing and footwear purchases under \$110 as a result.

Texas enacted an annual sales tax holiday on clothing and footwear purchases under \$100. The three-day exemption, which will fall on the first weekend of August each year, is designed to provide a tax break for back-to-school shoppers. The tax holiday exempts both the state sales tax of 6.25% and any local sales taxes. The revenue losses are estimated at \$10.5 million annually.

Florida has twice rescinded its sales tax (6%) during the first week of August on back-to-school merchandise costing under \$100. The revenue loss for the most recent tax holiday was approximately \$30 million.

West Virginia considered, but did not adopt, a similar sales tax holiday during its 1999 session.

State Revenues: Sales of clothing and footwear eligible for the exemption during the August tax-free week will total an estimated \$134 million, resulting in a general fund revenue loss of \$6.7 million in fiscal 2002 based on the following facts and assumptions:

- total sales tax collected for the apparel category (including footwear) in August averaged \$8.9 million for the years 1998 and 1999;
- approximately 90% are non-accessory sales;
- the 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 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 will be transferred to the tax-free week; and
- projected growth of consumer spending between fiscal 1999 and fiscal 2002.

The Comptroller's Office estimates a revenue loss of \$4.5 million 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 sales would be made in Maryland during the period 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.

State Expenditures: The Office of the Comptroller advises that expenditures would increase by \$24,300 for postage to notify the approximately 100,000 entities collecting the sales tax of this change, and by \$8,000 for printing the mailings and for informational material to inform taxpayers about the tax-free week, for a total cost of \$32,300.

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 during the period that would otherwise have been made out-of-State, through the Internet, or by mail order. Small businesses located in shopping malls or other areas with a number of stores in close proximity may experience increased sales for nonapparel items because of increased foot traffic due to the tax-free week.

On the other hand, compliance costs for small businesses could increase, if changes to cash register programming and accounting systems are required. The net effect would vary from business to business, but it is likely to be positive.

Additional Information

Prior Introductions: HB 298 of 1999, a substantially similar bill that included a specified exemption from the hotel tax, was approved by the House of Delegates but was not acted on by the Senate Budget and Taxation Committee. HB 608 of 1998 was identical to HB 298 of 1999 and was also approved by the House of Delegates but was not acted on by the Senate Budget and Taxation Committee.

Cross File: HB 170 (Delegate Cryor, *et al.*) - Ways and Means.

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

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