

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 615 (Delegate Cryor)
Ways and Means

Sales and Use Tax - Tax-Free Week for Personal Computers

This bill exempts from the sales and use tax the sale of “personal computers” for the week of February 1, 2002 through February 7, 2002.

Fiscal Summary

State Effect: General fund revenues could decline by approximately \$4.9 million in FY 2002 due to a reduction in sales tax collections on eligible computers. General fund expenditures would increase by \$20,000 in FY 2002 only for administrative costs.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$4.9)	\$0	\$0	\$0	\$0
GF Expenditure	0	0	0	0	0
Net Effect	(\$4.9)	\$0	\$0	\$0	\$0

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 (offset by administrative costs) for small businesses selling personal computers.

Analysis

Bill Summary: Only sales of a personal computer to an individual for nonbusiness use would receive the exemption. A personal computer is defined to mean a laptop, desktop, or tower computer system that contains at a minimum a central processing unit, random access memory, a storage drive, a display monitor, and a keyboard, and includes all computer hardware and software sold together with a computer system in the same retail

sale. Certain types of other computers and devices are specifically excluded from the exemption. The exemption does not apply to the leasing or rental of a personal computer. To be eligible for the exemption, a buyer must: (1) pay the purchase price and take delivery of the personal computer during the specified week; or (2) place an order and pay the purchase price for the personal computer during the specified week, even if delivery takes place after that week.

Current Law: None applicable.

Background: Chapter 576 of 2000 created an exemption from the sales tax for the sale of certain clothing and footwear 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. That week-long exemption is estimated to reduce general fund revenues by \$6.7 million in fiscal 2002.

At least two other states -- Pennsylvania and South Carolina -- have recently enacted laws that exempt the sale of certain personal computers from the sales and use tax for a week or other fixed period of time. At the time of their enactment, South Carolina had estimated a revenue loss of \$4.6 million from two tax-free weeks (which also included other goods), while Pennsylvania estimated an \$8.3 million loss from two tax-free weeks on computers. Neither state was able to provide an estimate of actual losses from the legislation; however, South Carolina noted that tax revenues actually increased during the month that included the tax-free week (apparently due to increased purchases of nonexempt goods).

State Revenues: It is estimated that general fund revenues would decline by approximately \$4.9 million in fiscal 2002 based on the following assumptions.

- Over the past three years, sales tax collections in the month of February for retailers in the category of “computer hardware and software” has averaged \$6.5 million.
- It is estimated that 80% (or \$5.2 million) of this category comes from sales to individuals, with the remaining 20% sales to businesses, which are not covered under the bill.
- In addition, approximately \$3.5 million of sales tax collections from other categories of retailer (such as department stores, appliance stores, and office supply stores) are assumed to be eligible computer sales.
- In total, approximately \$8.8 million of eligible computer sales tax collections are assumed to take place in February, or approximately \$2.2 million per week.

- Assuming that half of the sales from the week prior and after would be deferred to the tax-free week, and factoring in estimated category growth from fiscal 2000 to fiscal 2002, the total lost sales tax revenues would be approximately \$4.9 million.

It should be noted that computers are one of the major items purchased via the Internet and that many such online computer sellers have no physical presence in Maryland and hence cannot be required to collect State sales tax. Thus, it is possible for Maryland residents to purchase computers without paying sales tax at this time. As a result, there may be less of an incentive for consumers to defer or accelerate purchases to the tax-free week than is forecasted above. In that case, the actual revenue loss would be proportionally smaller.

State Expenditures: The Comptroller's Office would experience an increase in administrative expenses of approximately \$20,000 (for printing, postage, and communications) to implement the bill.

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. 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: None.

Cross File: None.

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

Fiscal Note History: First Reader – February 25, 2001
cm/jr

Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510