

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 769 (Delegate Baldwin, *et al.*)
Ways and Means

Sales and Use Tax - Tax-Free Week for Advanced Technology Educational Products

This bill exempts from the sales and use tax the sale of “advanced technology educational products” for the week of August 3, 2001 through August 9, 2001.

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: General fund revenues could decline by approximately \$2.3 million in FY 2002 due to a reduction in sales tax collections on eligible advanced technology educational products. General fund expenditure increase of \$20,000 in FY 2002 only for administrative costs.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$2.3)	\$0	\$0	\$0	\$0
GF Expenditure	0	0	0	0	0
Net Effect	(\$2.3)	\$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 eligible technology products.

Analysis

Bill Summary: An advanced technology educational product is defined as a computer or computer accessory, computer software, a calculator, or any other technologically advanced educational product for use by a student in connection with course work at an institution of higher education. During the specified week, the sales and use tax does not apply to the sale of an advanced technology educational product to a student at an institution of higher education for use in connection with the student's course work at the institution of higher education. To obtain the exemption, a student must present to the vendor a letter from the instructor of a course at an institution of higher education stating that: (1) the student is enrolled in a course taught by the instructor at the institution of higher education; and (2) the advanced technology education product for which the student is seeking the exemption is required or recommended for the course. The vendor must attach each letter received to the vendor's sales and use tax return for the period in which the vendor makes a sale subject to the exemption.

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: The Comptroller's Office advises that the amount of lost sales tax revenues cannot be reliably estimated at this time. Legislative Services provides the following estimate based on assumptions similar to those used for other legislation providing tax-free weeks of certain goods. It is estimated that general fund revenues would decline by approximately \$2.3 million in fiscal 2002 based on the following assumptions.

- Over the past three years, sales tax collections in August for retailers in the category of “computer hardware and software” has averaged approximately \$7.7 million.
- It is estimated that 80% (or \$6.2 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, another \$6.2 million of sales tax collections are assumed for sales of computers by other categories of retailer (such as department stores, appliance stores, and office supply stores) as well as sales by all retailers of other items specifically covered under the bill such as calculators and items that could be covered under the bill such as personal digital assistants (PDAs), education-related compact discs (CDs) and digital video discs (DVDs) and players, and other “advanced technology educational products.”
- In total, approximately \$12.3 million of eligible sales tax collections are assumed to take place in August, or approximately \$3.1 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 sales tax revenues from eligible products would be approximately \$6.9 million.
- Assuming that one-third of the sales of eligible products during this period would be to students who obtain the necessary certificate, sales tax revenues could decline by \$2.3 million. (While higher education students equal approximately 5% of the State’s population, it is assumed that they constitute a much higher share of purchasers of technology equipment, particularly in August prior to the start of the school year.)

This estimate is equivalent to 23,000 students (or approximately 9% of the 260,000 higher education students) utilizing the exemption for \$2,000 of purchases each.

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, Maryland Higher Education Commission, Department of Legislative Services

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