

**Department of Legislative Services**  
 Maryland General Assembly  
 2002 Session

**FISCAL NOTE**

House Bill 20 (Delegate Cryor)  
 Ways and Means

**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, 2002, if the taxable price of the item of clothing or footwear is less than \$100.

The bill takes effect July 1, 2002.

**Fiscal Summary**

**State Effect:** State sales tax revenues (general funds) could decline by \$5.2 million in FY 2003. General fund expenditures by the Comptroller's Office to administer the program would increase by approximately \$88,500 in FY 2003.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	(\$5,200,000)	\$0	\$0	\$0	\$0
GF Expenditure	88,500	0	0	0	0
Net Effect	(\$5,288,500)	\$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 apparel.

## Analysis

**Current Law:** Current law does not provide for any sales tax holiday or tax-free week. Chapter 576 of 2000, which created a similar tax-free week for clothing and footwear in August 2001, applied only to a specified week in 2001.

**Background:** Chapter 576 of 2000 exempted 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 was less than \$100. The Comptroller's Office estimates that the tax-free week resulted in lost sales tax revenue of \$5.1 million. This estimate is based on regression analysis of historical sales tax collection trends in the categories of vendors (apparel stores, department stores, etc.) that sell a large share of the exempted clothing and footwear. The Comptroller's Office cannot provide a more precise estimate because the agency does not collect sales tax data by the type of good sold, nor does it collect the total value of taxable transactions for those vendors who file returns electronically.

In its "Assessment of Maryland's Tax-free Week," the Comptroller's Office reports that sales tax collections from the categories of vendors most likely to sell exempted items declined by 5.2% for the month including the tax-free week, versus the same month in 2000. The agency estimates that the majority of this decline is associated with the exemption, rather than nationwide or other economic factors. The agency estimates that total apparel sales likely increased by an additional 2.6% during the period. The agency estimates that most of any increase in sales of taxable goods would have occurred in any event, and hence that fiscal impact is minimal. The agency reports that any impact on income tax revenues is difficult to estimate but expected to be minimal.

Several other states have recently initiated one-time or ongoing sales tax holidays.

<u>State</u>	<u>Days</u>	<u>Items Included</u>	<u>Maximum Cost</u>
New York (1)	See (1)	clothing	\$500 / \$110
Florida	9	clothing/accessories	\$100
Texas	3	clothing/footwear	\$100
Connecticut	7	clothing/footwear	\$300
South Carolina	3	clothing, computers, supplies	N/A
Pennsylvania	14	computers	N/A
Iowa	2	clothing/footwear	\$100

- (1) New York had two sales tax holidays; one was for clothing only, while the other was for both clothing and footwear. New York's holiday has since become a permanent exemption for items priced under \$110.

**State Revenues:** It is estimated that sales tax revenues would decline by approximately \$5.2 million due to the tax-free week. This estimate is based on the \$5.1 million estimate of sales tax losses from the prior tax-free week, adjusted for 2.6% growth in the consumer portion of sales tax projections.

**State Expenditures:** The Comptroller's Office would incur approximately \$88,500 in administrative expenses to implement the tax-free week. This estimate is based on the approximately \$100,000 that the agency incurred implementing the prior tax-free week, less certain computer programming that can be reused from the prior initiative. In addition, the agency advises that the substantial amount of work involved in the first tax-free week diverted some staff from audit activities. For this bill the agency advises that staff diversion may result in up to \$100,000 in lost tax revenues from the loss of one-half of an auditor's time.

**Small Business Effect:** According to the 1998 Survey of U.S. Business by the U.S. Census Bureau, 91.7% of the retail firms in Maryland had less than 50 employees. 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.

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### **Additional Information**

**Prior Introductions:** None, however, Chapter 576 of 2000 created a similar program (see discussion above).

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 14, 2002  
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