HB 103

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 103 (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, 2003 through February 7, 2003.

Fiscal Summary

State Effect: Sales tax revenues (general funds) could decline by $5.0 million in FY 2003, and general fund expenditures by the Comptroller's Office to administer the program would increase by approximately $88,500.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	($5,000,000)	$0	$0	$0	$0
GF Expenditure	88,500	0	0	0	0
Net Effect	($5,088,500)	$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 personal computers.

Analysis

Bill Summary: Only sales of a personal computer to an individual for nonbusiness use may 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: The applicable sales and use tax rate is 5%. Current law does not provide for any sales tax holiday or tax-free week. Chapter 576 of 2000, which created a tax-free week for clothing and footwear, 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 2.6% during the period. The agency estimates that most of any increase in sales of non-exempted goods would have occurred in any event, and hence that fiscal impact is minimal. Finally, any impact on income tax revenues from the tax-free week is difficult to estimate but expected to be minimal.

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

State	Days	Items Included	Maximum Cost
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
District of Columbia	10	clothing/footwear, school supplies	$101

(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 general fund revenues would decline by $5.0 million in fiscal 2003, based on historical sales tax collections during that period and the assumption that sales during the tax-free week will be about double what they would ordinarily be during that week. This estimate also roughly corresponds with the estimated $10.7 million revenue loss in Pennsylvania during its tax-free weeks for computers, after adjusting for population and other demographic factors.

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. (Compliance with the use tax, to which these purchases are subject, is low.) 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 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. On the other hand, compliance costs for small businesses could increase, if changes to cash register programming, inventory, 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: House Bill 615 of 2001 received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

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

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