

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 37 (Delegate Cryor)
 Ways and Means

Sales and Use Tax - Tax-Free Period for Back-to-School Shopping

This bill exempts from the sales and use tax the sale of clothing or footwear (except accessories) for the period of August 22 through August 25, 2003, if the taxable price of the item of clothing or footwear is less than \$100.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State sales tax revenues (general funds) could decline by \$3.8 million in FY 2004. General fund expenditures by the Comptroller’s Office to administer the program would increase by approximately \$92,800 in FY 2004.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	(\$3,800,000)	\$0	\$0	\$0	\$0
GF Expenditure	92,800	0	0	0	0
Net Effect	(\$3,892,800)	\$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 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 believes 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 and that most of the increase would have occurred in any event, and hence any offsetting revenue increase was minimal. The agency reports that any impact on income tax revenues is difficult to estimate but expected to be minimal.

State Revenues: It is estimated that sales tax revenues would decline by approximately \$3.8 million due to the tax-free period, based on the following estimates and assumptions:

- the \$5.1 million estimated impact from the 2001 tax-free week;
- an assumption that the four-day tax-free period would prompt 70% of the tax avoidance by consumers as would a full tax-free week; and
- projected growth in the consumer portion of sales tax revenue of 3.3% for fiscal 2003 and 4.0% for fiscal 2004, as estimated by the Bureau of Revenue Estimates.

State Expenditures: The Comptroller's Office would incur approximately \$92,800 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.

Additional Information

Prior Introductions: HB 20 of 2002, a similar bill, was not reported on by the House Ways and Means Committee. Several other sales tax holiday bills were introduced during the 2002 session; none passed.

Cross File: None.

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

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ncs/jr

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