

Department of Legislative Services
 Maryland General Assembly
 2007 Special Session

FISCAL AND POLICY NOTE

House Bill 40 (Delegate Smigiel)
 Ways and Means

Sales and Use Tax - Exemption - Clothing

This bill exempts the sale of any item of clothing from the sales and use tax.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: General fund revenues could decrease by \$24.7 million in FY 2008, which reflects the bill’s June 1, 2008 effective date, and \$311.5 million in FY 2009. Future year revenue losses are based on projected sales tax revenue growth.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$24.7)	(\$311.5)	(\$327.1)	(\$343.4)	(\$360.6)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$24.7)	(\$311.5)	(\$327.1)	(\$343.4)	(\$360.6)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Clothing and footwear are taxable at the rate of 5%.

Background: The sales and use tax is the State’s second largest source of general fund revenue accounting for \$3.5 billion in fiscal 2008 and \$3.7 billion in fiscal 2009.

Exhibit 1 shows the sales and use tax rates in surrounding states. As noted in the exhibit, Delaware and Pennsylvania do not impose a sales tax on clothing.

Exhibit 1
Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%
Maryland	5%
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%, includes 1% for local jurisdictions
West Virginia	6%

State Revenues: General fund revenues would decrease by \$24.7 million in fiscal 2008 accounting for the bill's June 1, 2008 effective date, and by \$311.5 million in fiscal 2009. The estimate is based on the following facts and assumptions:

- \$168.2 million in sales tax collections in fiscal 2007 were classified as apparel by the Comptroller's Office; it is estimated that 85% of this amount would qualify for the exemption.
- \$613.3 million in sales tax collections in fiscal 2007 were classified as general merchandise by the Comptroller's Office; it is estimated that 23% of this amount would qualify for the exemption.
- Sales tax revenues are projected to increase by 5% annually.

To the extent that taxable sales, as part of the same transaction as tax-free sales, would be made in Maryland that would otherwise have been made out-of-state, through the Internet, or by mail order, total sales tax revenues would increase, mitigating the revenue loss described above. Also, businesses would become more profitable and income tax revenues could increase. The amount of either such increase cannot be reliably estimated at this time.

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 that would otherwise have been made out-of-state, through the Internet, or by mail order. Small businesses located near

Delaware and Pennsylvania (which do not tax clothing and footwear) may experience increased sales that are currently displaced to those states.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - November 2, 2007
mcp/hlb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510