

Department of Legislative Services  
Maryland General Assembly  
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 17

(Senator Ramirez)

Budget and Taxation

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**Sales and Use Tax - Tax-Free Week - School Supplies and Personal Computers**

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This bill includes personal computers costing \$600 or less and any school supply costing \$100 or less to the items (clothing and footwear) that are currently exempt during the annual State sales tax-free period which runs from the second Sunday in August through the following Saturday.

A “personal computer” is defined as a laptop, desktop, or tower computer system purchased for nonbusiness use 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. A “school supply” is defined as any item, including electronic devices, purchased for use in the classroom, for school work completed in school, or for any school activity.

The bill takes effect July 1, 2012.

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**Fiscal Summary**

**State Effect:** General fund revenues decrease by a significant amount beginning in FY 2013. Under one set of assumptions, general fund revenues decrease by approximately \$7.4 million beginning in FY 2013. Expenditures are not affected.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law:** There are two sales tax-free periods each year in Maryland. The purchase of any item of clothing or footwear, excluding accessories, if the taxable price of the item of clothing or footwear is \$100 or less is exempt from the State sales tax during the seven-day period beginning the second Sunday in August through the following Saturday. The purchase of specified Energy Star products or solar hot water heaters made on the Saturday immediately preceding the third Monday in February through the third Monday in February is also exempt from the State sales tax.

**Background:** The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.0 billion in both fiscal 2012 and 2013, according to the December 2011 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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

Delaware	0%
District of Columbia	6%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 2% for food

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The following is a brief history of tax-free holidays in Maryland:

- 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.
- Chapter 191 of 2005 exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the period of August 23 through August 27, 2006, if the taxable price of the item of clothing or footwear was \$100 or less.

- Chapter 6 of the 2007 special session created two annual sales tax-free periods – one in February for the purchase of specified Energy Star products or solar hot water heaters; and one in August for the purchase of any item of clothing or footwear, excluding accessories, if the taxable price of the item of clothing or footwear is \$100 or less.

The two current sales tax-free periods are estimated to reduce general fund revenues by a total of \$5.1 million in fiscal 2012 and by \$5.2 million in fiscal 2013.

**State Fiscal Effect:** Sales tax revenues will decrease by a significant amount beginning in fiscal 2013 as a result of expanding the August sales tax-free period to include certain personal computers and school supplies. However, the amount of the decrease depends on several factors, including the number of personal computers sold in Maryland and the cost of those computers, and the number of individuals that will purchase computers and other school supplies during the tax-free period.

*For illustrative purposes only*, under the following set of facts and assumptions, general fund revenues could decrease by approximately \$7.4 million annually beginning in fiscal 2013:

- sales tax collection data provided by the Comptroller (category: *computers, software/hardware, sales, repairs*) for the month of August for the years 2009 through 2011 averaged \$8.6 million;
- 20% of sales are either nontaxable sales or noncomputer sales;
- two weeks worth of personal computer sales will take place during the tax-free week;
- a 2011 survey by the National Retail Federation indicates that families spent \$89 per student on school supplies for 2011;
- there are 825,841 students enrolled in Maryland public schools for the 2011-2012 school year; and an additional 141,786 students enrolled in nonpublic schools in the State;
- there are 261,503 full-time equivalent students enrolled in Maryland colleges and universities for the 2011-2012 school year; and
- school supplies will be purchased for 65% of Maryland students during the tax-free period.

The estimate does not include computer sales that may be made at retailers that are not included in the Comptroller's computer sales category, which may be a significant number. The lack of specific data, particularly with regards to computer sales, makes a more reliable estimate difficult; therefore, to the extent that sales of computers or school supplies vary from the amounts used in the estimate, the effect on general fund revenues will vary accordingly.

**Small Business Effect:** According to the 2008 Statistics of U.S. Businesses by the U.S. Census Bureau, there are 11,564 retail firms in Maryland with less than 99 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 not have otherwise been made or that would 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 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.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, U.S. Census Bureau, Department of Legislative Services

**Fiscal Note History:** First Reader - January 30, 2012  
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