

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 666
 Ways and Means

(Delegate Hogan, *et al.*)

Sales and Use Tax - Tax-Free Week - School Supplies

This bill includes any school supply item costing \$100 or less with 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 “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, 2013.

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$4.4 million beginning in FY 2014. Future year revenue estimates reflect estimated annual spending increases. Expenditures are not affected.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(\$4.4)	(\$4.5)	(\$4.6)	(\$4.8)	(\$4.9)
Expenditure	0	0	0	0	0
Net Effect	(\$4.4)	(\$4.5)	(\$4.6)	(\$4.8)	(\$4.9)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

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

- Chapter 576 of 2000 (HB 170) 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 (HB 37) 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 (HB 5) 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 \$5.2 million in fiscal 2013 and by \$5.4 million in fiscal 2014.

State Fiscal Effect: General fund sales tax revenues decrease by approximately \$4.4 million in fiscal 2014 and by \$4.9 million in fiscal 2018, based on the following set of facts and assumptions:

- a 2012 survey by the National Retail Federation indicates that families spent approximately \$95 per student on school supplies (includes notebooks, pencils, pens, and backpacks) for K-12 students, and approximately \$76 per student for college students in 2012;

- there are 830,521 students enrolled in Maryland public schools for the 2012-2013 school year, and an additional 136,558 students enrolled in nonpublic schools in the State;
- there are 256,580 full-time equivalent students enrolled in Maryland colleges and universities for the 2012-2013 school year; and
- school supplies will be purchased for 65% of Maryland students during the tax-free period.

The estimate does not include electronic devices authorized by the bill, and also does not include purchases of school supplies made by or for nonstudents. As a result, to the extent that sales of 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 2010 Statistics of U.S. Businesses by the U.S. Census Bureau, there are 10,953 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, online, 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 period. 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: SB 17 of 2012, a similar bill, received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - March 8, 2013
ncs/jrb

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