

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1618 (Delegates Flanagan and P. Young)
Rules and Executive Nominations

**Sales and Use Tax - Tax-Free Weekend - Ellicott City and Ellicott's Mills
Historic Districts**

This bill establishes a three-day sales tax-free period, from July 28, 2017, through July 30, 2017, when the State sales and use tax does not apply to the purchase of any item costing \$100 or less if the purchase is made in either the Ellicott City Historic District or the Ellicott's Mills Historic District. The exemption does not apply to the sale of an alcoholic beverage.

The bill takes effect June 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease in FY 2018. The amount of the decrease depends on the amount of sales occurring in the designated areas during the sales tax-free period. Under one set of assumptions, general fund revenues decrease by approximately \$100,000. General fund expenditures for administrative costs in the Comptroller's Office increase by \$1,000 in FY 2018.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: 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.

Background: The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2017 and \$4.7 billion in fiscal 2018, according to the December 2016 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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

Delaware	0.0%
District of Columbia	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6.0%; 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 27 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

The two current sales tax-free periods are estimated to reduce general fund revenues by a total of \$7.1 million in fiscal 2017 and by \$7.4 million in fiscal 2018.

On July 30, 2016, heavy rains caused massive flooding in Ellicott City and a state of emergency was declared. Numerous buildings and homes in downtown Ellicott City were destroyed or severely damaged by the flooding.

State Fiscal Effect: General fund revenues decrease in fiscal 2018 as a result of the three-day sales tax-free period in the Ellicott City Historic District and the Ellicott’s Mills Historic District. The amount of the decrease depends on the amount of sales occurring in the designated areas during the tax-free period. As a point of reference, *and for illustrative purposes only*, the amount of the decrease may be approximately \$100,000 based on the following facts and assumptions:

- the current sales tax-free period for back-to-school shopping is estimated to reduce general fund revenues by approximately \$6.4 million in fiscal 2018;
- on a per capita basis, the cost of the current sales tax-free period for back-to-school shopping is \$1.08;
- sales tax collections from Howard County totaled approximately \$189.1 million in fiscal 2016;
- Howard County's population is 5.2% of the State's population; and
- sales taxes collected by businesses in the Ellicott City Historic District and the Ellicott's Mills Historic District represent approximately 25% of sales taxes in Howard County during the tax-free period.

The Comptroller's Office will incur a one-time expenditure increase of approximately \$1,000 in fiscal 2018 to notify the approximately 1,600 sales and use tax account holders in the Ellicott City Historic District and the Ellicott's Mills Historic District of the sales tax change.

Additional Information

Prior Introductions: None.

Cross File: SB 1143 (Senators Bates and Nathan-Pulliam) - Budget and Taxation.

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

Fiscal Note History: First Reader - March 13, 2017
md/jrb

Analysis by: Michael Sanelli

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