

Department of Legislative Services  
 Maryland General Assembly  
 2022 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

Senate Bill 240

(Senator Simonaire)

Budget and Taxation

Rules and Executive Nominations

Sales and Use Tax - Tax-Free Periods - Back-to-School Shopping and Energy Star Products

This bill exempts from the State sales and use tax the sale of sewing items (costing \$100 or less) purchased during the annual sales and use tax-free period for back-to-school shopping. Sewing item is defined as any material used to make clothing and includes fabric, thread, zippers, bias tape, and elastic. A sewing item does not include sewing machines or sewing tools, such as pins, cushions, scissors, and needles. The bill also alters the type of light bulb that is eligible for a tax exemption under the sales and use tax-free period for Energy Star products. Under the bill, a light-emitting diode (LED) light bulb will become eligible for a tax exemption while a compact florescent light bulb will no longer be tax exempt. **The bill takes effect July 1, 2022.**

Fiscal Summary

**State Effect:** General fund revenues decrease by approximately \$99,500 in FY 2023 and by \$124,300 in FY 2027. General fund expenditures increase by \$81,300 in FY 2023.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$99,500)	(\$105,100)	(\$111,000)	(\$117,400)	(\$124,300)
GF Expenditure	\$81,300	\$0	\$0	\$0	\$0
Net Effect	(\$180,800)	(\$105,100)	(\$111,000)	(\$117,400)	(\$124,300)

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

**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.

Chapters 236 and 237 of 2017 exempt from the State sales and use tax the first \$40 of the taxable price of any backpack or bookbag purchased during the annual sales and use tax-free period for back-to-school shopping.

The tax-free back-to-school shopping period extends for seven days from the second Sunday in August through the following Saturday.

The tax-free Energy Star shopping period extends for 3 days from the Saturday preceding the third Monday in February through the third Monday in February.

*State Sales and Use Tax*

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.5 billion in fiscal 2022 and \$5.7 billion in fiscal 2023, according to the December 2021 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	0.0%
District of Columbia	6.0%; 10.0% for liquor sold for on-the-premises consumption and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles; 8.0% for specified soft drinks
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 eligible food items; 2.5% for specified essential personal hygiene items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 1.0% in 70 municipalities

\*An additional state tax of (1) 0.7% is imposed in localities in Central Virginia, Northern Virginia, and the Hampton Roads region; (2) 1.0% in Charlotte, Gloucester, Halifax, Henry, Northampton, and Patrick counties; and (3) 1.7% is imposed in localities in the Historic Triangle.

**State Revenues:** General fund revenues decrease beginning in fiscal 2023. Under the following sets of assumptions, general fund revenues decrease by approximately \$99,500 in fiscal 2023 and by \$124,300 in fiscal 2027. However, the amount of the revenue decrease depends on the quantity and cost of sewing items and LED light bulbs that are purchased during the sales and use tax holiday each year, neither of which can be reliably estimated.

#### *Sales and Use Tax Exemption for Sewing Items*

The bill exempts from the State sales and use tax the sale of sewing items (costing \$100 or less) purchased during the annual sales and use tax-free period for back-to-school shopping. As a result, general fund revenues decrease by approximately \$45,300 in fiscal 2023 and by \$49,000 in fiscal 2027. The estimate is based on the following:

- IBISWorld, a global market research company, reports that in 2020 fabric, craft, and sewing supply stores in the United States had approximately \$3.6 billion in revenue. A portion of the revenues include the sale of sewing machines and other sewing supplies that are not eligible for the exemption under the bill.
- Three national retailers account for approximately 52% of industry revenues.
- Sales of sewing supplies in Maryland represent 1.8% of the national total.
- 30% of sales are eligible for the exemption during the annual one-week sales and use tax holiday.
- Two weeks of sewing supply sales will occur during the seven-day tax-free holiday.

#### *Sales and Use Tax Exemption for LED Light Bulbs*

The bill alters the type of light bulb that is eligible for a tax exemption under the sales and use tax-free period for Energy Star products by replacing compact fluorescent light bulbs with LED light bulbs. As a result, general fund revenues decrease by approximately \$54,200 in fiscal 2023 and by \$75,300 in fiscal 2027. The estimate is based on the following:

- There were approximately 750 million LED light bulbs sold in the United States in 2020, as reported by the Energy Star website.
- The average cost of a light bulb is \$5.

- Maryland represents approximately 1.8% of the U.S market.
- Four days of LED light bulb sales will occur during the three-day tax-free holiday.
- Revenues decrease by an additional 8.5% annually.

**State Expenditures:** The Comptroller’s Office will incur a one-time expenditure increase of \$81,300 in fiscal 2023 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

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### **Additional Information**

**Prior Introductions:** SB 510 of 2021 received a favorable report from the Senate Budget and Taxation Committee and passed the Senate. The bill received a hearing in the House Ways and Means Committee, but no further action was taken.

**Designated Cross File:** HB 502 (Delegate D. Jones, *et al.*) - Ways and Means.

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

**Fiscal Note History:** First Reader - January 23, 2022  
fnu2/hlb Third Reader - April 1, 2022  
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