

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 41
Ways and Means

(Delegate Amprey)

Sales and Use Tax - Tax-Free Period - Winter Weather Shopping for Students

This bill establishes a 14-day sales tax-free period, beginning in 2022, for the sale of specified winter weather clothing for students costing \$100 or less. The sales tax-free period runs from the first Sunday after Thanksgiving through the second following Saturday. Tax-free winter weather clothing includes winter coats or winter footwear purchased for the use of students. Accessory items, which includes hats, scarves, and gloves, are not eligible for the sales tax exemption. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: General fund revenues decrease by a potentially significant amount beginning in FY 2023. Under one set of assumptions, general fund revenues decrease by at least \$10 million annually. General fund expenditures increase by \$81,300 in FY 2023.

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 from the second Sunday in August through the following Saturday.

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.

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 Fiscal Effect: General fund revenues decrease by a potentially significant amount beginning in fiscal 2023. The amount of the decrease depends on the quantity and cost of

winter clothing items that are purchased by or for students during the sales and use tax holiday each year, neither of which can be reliably estimated.

As a point of reference, general fund revenues could decrease by at least \$10 million annually, based on the following facts and assumptions:

- The Consumer Expenditure Survey indicates that U.S. households spent approximately \$50 billion on jackets, coats, and footwear in 2020.
- Maryland is approximately 1.8% of the U.S. population, which equates to sales of approximately \$907 million for these items.
- 50% of sales are for winter weather items.
- 70% of winter weather sales occur in November and December.
- 50% of November and December sales will occur during the sales tax-free period.
- 28.4% of Maryland's population (1.7 million) is made up of individuals between the ages of 3 and 25, who may be considered students.

The Comptroller's Office estimates that the exemption could reduce general fund revenues by as much as \$20 million annually.

In addition, 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.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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fnu2/hlb

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