

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 445
Ways and Means

(Delegate Amprey)

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

This bill establishes a seven-day sales tax-free period, beginning in 2024, for the sale of specified winter weather clothing for students costing \$100 or less. The sales tax-free period runs from the first Sunday in January through the following Saturday. Tax-free winter weather clothing includes winter coats, winter footwear, and winter weather accessory items purchased for the use of students. Accessory items include hats, scarves, and gloves. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: General fund and special fund revenues decrease by a significant amount beginning in FY 2024. Under one set of assumptions, total sales and use tax revenues decrease by approximately \$3.0 million annually. General fund expenditures increase by \$81,300 in FY 2024.

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 \$6.2 billion in fiscal 2023 and 2024, according to the December 2022 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%; 1.0% for eligible food items; 1.0% for specified essential personal hygiene items
West Virginia	6.0% plus 1.0% in specified 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. The sales and use tax rate for food and personal hygiene products decreased to 1.0% as of January 1, 2023.

Blueprint for Maryland's Future Fund

Chapter 33 of 2022 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Chapter 33 requires the Comptroller, after making certain other distributions,

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to pay to Blueprint for Maryland's Future Fund (BMFF) the following percentage of the remaining sales and use tax revenues:

- 9.2% for fiscal 2023;
- 11.0% for fiscal 2024;
- 11.3% for fiscal 2025;
- 11.7% for fiscal 2026; and
- 12.1% for fiscal 2027 and each subsequent fiscal year.

Chapter 33 also repealed the distribution of sales and use tax revenues to the BMFF from marketplace facilitators, certain out-of-state vendors, and specified digital products or digital codes.

State Revenues: Total sales and use tax revenues decrease by a significant amount beginning in fiscal 2024. 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, sales and use tax revenues could decrease by approximately \$3.0 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 1.85% of the U.S. population, which equates to sales of approximately \$932.4 million for these items.
- 50% of sales are for winter weather items.
- 20% of winter weather sales occur in January.
- 50% of January 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.

As noted, Chapter 33 altered the distribution of sales and use tax revenues beginning in fiscal 2024. Therefore, any decrease in sales and use tax revenues will also reduce BMFF revenues. Based on the estimate above, general fund revenues decrease by approximately \$2.7 million, and BMFF revenues decrease by approximately \$0.3 million in fiscal 2024.

The Comptroller's Office estimates that the sales tax exemption could reduce State revenues by approximately \$6 million annually, based on the current sales tax-free period for back to school shopping.

State Expenditures: The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2024 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See HB 41 of 2022.

Designated Cross File: None.

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

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km/hlb

Analysis by: Michael Sanelli

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