

Department of Legislative Services  
Maryland General Assembly  
2017 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 530 (Delegate M. Washington)  
Ways and Means

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Sales and Use Tax - Tax-Free Period for Back-to-School Shopping - Sale of  
Backpacks and Bookbags

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This bill adds backpacks and bookbags costing \$100 or less to the list of items eligible for the annual sales and use tax-free period for back-to-school shopping.

The bill takes effect July 1, 2017.

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Fiscal Summary

**State Effect:** General fund revenues decrease by a potentially significant amount beginning in FY 2018 depending upon the number and cost of eligible backpacks and bookbags purchased during the tax-free period. Under one set of assumptions, general fund revenues decrease by approximately \$1.3 million annually. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2018.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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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.

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**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.

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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.

**State Fiscal Effect:** General fund revenues decrease by a potentially significant amount beginning in fiscal 2018. The amount of the revenue decrease depends on the number and cost of eligible backpacks and bookbags that are purchased during the tax-free period, neither of which can be reliably estimated.

The Maryland State Department of Education’s *2014-2015 The Fact Book* indicates that there were approximately 1 million students enrolled in kindergarten through grade 12 in all public and nonpublic schools in 2014. In addition, the Maryland Higher Education Commission’s *2016 Data Book* indicates that there were approximately 360,000 undergraduate and graduate students enrolled in the State’s various community colleges and four-year institutions. Finally, the U.S. Census Bureau estimates Maryland’s population at 6 million as of July 1, 2015.

As a point of reference, if it is assumed that the average price of a backpack or bookbag is \$35, and 10% of all students and 10% of the nonstudent population buy an eligible backpack or bookbag during the tax-free period, general fund revenues decrease by approximately \$1.3 million annually beginning in fiscal 2018. If 25% of students and the nonstudent population purchase an eligible backpack or bookbag, general fund revenues decrease by approximately \$3.2 million annually.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2018 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:** None.

**Cross File:** SB 622 (Senator Eckardt, *et al.*) – Budget and Taxation

**Information Source(s):** Comptroller's Office; Maryland Higher Education Commission; Maryland State Department of Education; Department of Legislative Services

**Fiscal Note History:** First Reader - February 10, 2017  
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