

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 417

(Senator DeGrange)

Budget and Taxation

Ways and Means

Sales and Use Tax - Tax-Free Weekend - Exemption for Light-Emitting Diode
(LED) Lights

This bill adds light-emitting diode (LED) light bulbs to the items (specified Energy Star products and solar water heaters) that are currently exempt during the annual State sales tax-free period which runs from the Saturday immediately preceding the third Monday in February through the third Monday in February.

The bill takes effect July 1, 2014, and terminates June 30, 2017.

Fiscal Summary

State Effect: General fund revenues decrease in FY 2015 through 2017. The amount of the decrease depends on the amount of LED light bulbs purchased during the tax-free weekend and the cost of LED light bulbs. Expenditures are not affected.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: There are two sales tax-free periods each year in Maryland. 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 is exempt from the State sales tax during the seven-day period beginning the second Sunday in August through the following Saturday. The purchase of specified Energy Star products or solar water

heaters made on the Saturday immediately preceding the third Monday in February through the third Monday in February is also exempt from the State sales tax.

The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.2 billion in fiscal 2014 and \$4.4 billion in fiscal 2015, according to the December 2013 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%
District of Columbia	5.75%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia *	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

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

The following is a brief history of tax-free holidays in Maryland:

- Chapter 576 of 2000 exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the week of August 10 through August 16, 2001, if the taxable price of the item of clothing or footwear was less than \$100.
- Chapter 191 of 2005 exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the period of August 23 through August 27, 2006, if the taxable price of the item of clothing or footwear was \$100 or less.
- 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 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.

The current sales tax-free period for Energy Star products is estimated to reduce general fund revenues by a total of \$740,000 in fiscal 2014 and by \$760,000 in fiscal 2015. The sales tax-free period for back-to-school clothing and footwear is estimated to reduce general fund revenues by a total of \$5.9 million in fiscal 2014 and by \$6.1 million in fiscal 2015.

State Fiscal Effect: General fund revenues will decrease in fiscal 2015 through 2017. The amount of the decrease depends on the cost of LED light bulbs that are purchased and the amount of LED light bulbs purchased during the tax-free weekend, which cannot be reliably estimated at this time.

As a point of reference, the U.S. Department of Energy forecasts the average cost of a residential LED light bulb to be \$11.30 in 2015 and \$8.50 in 2017. The agency estimates the average cost of commercial LED light bulbs to be \$16.90 in 2015 and \$13.40 in 2017.

For illustrative purposes only, if during the 2015 tax-free weekend for Energy Star appliances, there are 60,000 residential LED light bulbs and 40,000 commercial light bulbs purchased, general fund revenues will decrease by \$81,240. LED light bulbs are still priced considerably higher than standard light bulbs. However, LED light bulbs result in significant energy savings over the course of their lifetimes. Increased consumer demand, should it happen, may result in lower prices for LED light bulbs, which in turn will affect general fund revenues.

Additional Information

Prior Introductions: None.

Cross File: HB 786 (Delegate A. Miller) – Ways and Means.

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

Fiscal Note History: First Reader - February 3, 2014
mm/jrb

Analysis by: Michael Sanelli

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