

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 510

(Senator Simonaire)

Budget and Taxation

Ways and Means

Sales and Use Tax - Tax-Free Period for Back-to-School Shopping - Sale of Sewing Items

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 takes effect July 1, 2021.**

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2022. Under one set of assumptions, general fund revenues decrease by approximately \$45,000 annually beginning in FY 2022. General fund expenditures increase by \$81,300 in FY 2022.

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 \$4.7 billion in fiscal 2021 and \$4.9 billion in fiscal 2022, according to the December 2020 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, soft drinks 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; and 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 all municipalities

*An additional state tax of 0.7% is imposed in localities in Central Virginia, Northern Virginia, and the Hampton Roads region, 1.0% is imposed in Halifax County, and an additional 1.7% is imposed in localities in the Historic Triangle.

State Fiscal Effect: General fund revenues decrease beginning in fiscal 2022. The amount of the revenue decrease depends on the quantity and cost of sewing items that are purchased during the sales and use tax holiday each year, neither of which can be reliably estimated.

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. Three national retailers account for approximately 52% of industry revenues. Revenues include the sale of sewing machines and other sewing supplies that are not eligible for the exemption under the bill. If, *for illustrative purposes only*, (1) sales of sewing supplies in Maryland represent 1.8% of the national total; (2) 30% of sales are eligible for the exemption during the annual one week sales and use tax holiday; and (3) two weeks of sewing supply sales occur during the sales and use tax holiday, general fund revenues decrease by approximately \$45,000 annually beginning in fiscal 2022.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2022 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; IBISWorld; Department of Legislative Services

Fiscal Note History: First Reader - January 31, 2021
rh/hlb Third Reader - February 18, 2021

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