

**Department of Legislative Services**  
 Maryland General Assembly  
 2023 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 219 (Senator Jackson)  
 Budget and Taxation

**Sales and Use Tax – Secondhand Apparel – Exemption**

This bill exempts the sale of secondhand apparel costing \$20 or less from the State sales and use tax. Secondhand apparel is defined as clothing or footwear that has been previously sold to a customer and is offered for resale. **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 \$31.7 million in FY 2024 and by \$46.6 million in FY 2028. General fund expenditures increase by \$81,300 in FY 2024.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$28.3)	(\$32.9)	(\$35.4)	(\$38.0)	(\$41.0)
SF Revenue	(\$3.5)	(\$4.2)	(\$4.7)	(\$5.2)	(\$5.6)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$31.8)	(\$37.1)	(\$40.0)	(\$43.2)	(\$46.6)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** None.

**Small Business Effect:** None.

**Analysis**

**Current Law:** No similar State tax credit exists.

## *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.

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### **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.

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## *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, 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 approximately \$31.7 million in fiscal 2024 and by \$46.6 million in fiscal 2028. The estimate is based on the following:

- secondhand clothing sales account for approximately \$35 billion in revenue in 2021, increasing to \$82 billion in 2026, according to a study published by thredUP, an online consignment and thrift shop retailer;
- Maryland is 1.85% of the United States population; and
- 44% of secondhand clothing purchases are for \$20 or less.

Future year revenue decreases are based on estimated secondhand clothing sales. The actual amount of the decrease depends on sales of secondhand clothing items each year.

As noted, Chapter 33 altered the distribution of sales and use tax revenues beginning in fiscal 2023. 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 \$28.3 million, and BMFF revenues decrease by approximately \$3.5 million in fiscal 2024 as shown in **Exhibit 2**.

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**Exhibit 2**  
**State Revenue Decrease from Sales Tax Exemption**  
**(\$ in Millions)**

	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>	<b><u>FY 2028</u></b>
GF	(\$28.3)	(\$32.9)	(\$35.4)	(\$38.0)	(\$41.0)
BMFF	(3.5)	(4.2)	(4.7)	(5.2)	(5.6)
<b>Total</b>	<b>(\$31.7)</b>	<b>(\$37.1)</b>	<b>(\$40.0)</b>	<b>(\$43.2)</b>	<b>(\$46.6)</b>

BMFF: Blueprint for Maryland’s Future Fund  
 GF: general fund

Source: Department of Legislative Services

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**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.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 187 (Delegate Ivey) - Ways and Means.

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

**Fiscal Note History:** First Reader - January 31, 2023  
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