

**Department of Legislative Services**  
Maryland General Assembly  
2012 Session

**FISCAL AND POLICY NOTE**

Senate Bill 809

(Senator Madaleno, *et al.*)

Budget and Taxation

**Sales and Use Tax - Tax-Free Periods - University and College Textbooks**

This bill establishes two annual 14-day sales tax-free periods – one in August/September and one in January – in which the sale of specified textbooks bought by a full- or part-time student enrolled at a public institution of higher education is exempt from the State sales and use tax. Full- or part-time students may produce a valid student identification card at the time of purchase. A textbook is defined as a book written, designed, and produced for educational, instructional, or pedagogical purposes, and required for a course at a specified public senior higher education institution or regional higher education center.

The bill takes effect July 1, 2012.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$3.2 million in FY 2013. Future year revenue decreases reflect projected enrollment and 3% increases in textbook costs. Expenditures are not affected.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	(\$3.2)	(\$3.4)	(\$3.5)	(\$3.7)	(\$3.9)
Expenditure	0	0	0	0	0
Net Effect	(\$3.2)	(\$3.4)	(\$3.5)	(\$3.7)	(\$3.9)

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

## Analysis

**Bill Summary:** The two annual tax-free periods for the purchase of textbooks designated by the bill are the last seven days in August through the first seven days of September, beginning in 2012, and the last 14 days of January, beginning in 2013.

**Current Law:** The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. Chapter 348 of 2005 created a textbook consortium in the University System of Maryland (USM) to allow USM institutions to receive volume discounts on the purchase of textbooks by students.

**Background:** The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.0 billion in both fiscal 2012 and 2013, according to the December 2011 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%
District of Columbia	6%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%

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Pennsylvania and Virginia currently exempt textbook sales from their respective state sales taxes. New Jersey and West Virginia exempt required texts from their state sales taxes.

**State Fiscal Effect:** Based on a Maryland Higher Education Commission (MHEC) student survey (Cost of Attendance Survey, 2011-2012), college students in Maryland will spend an average of \$1,278 on textbooks and supplies in the 2011-2012 school year. **Exhibit 2** shows the estimated average annual textbook and supply costs per student at

institutions of higher education, per the MHEC study. Data from the National Association of College Stores (NACS) indicates that approximately 57% of these costs are for textbooks and the remaining 43% are spent on supplies, which includes basic school supplies, equipment, and other course fees.

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**Exhibit 2**  
**Average Textbook and Supply Costs in 2011-2012 Academic Year**

Community Colleges	\$1,300
Four-year Public Institutions	\$1,314
Independent Colleges	\$1,219
<b>Average</b>	<b>\$1,278</b>

Source: Maryland Higher Education Commission; Department of Legislative Services

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MHEC projects that there will be 166,619 students (full- and part-time) enrolled at four-year public institutions of higher education in the 2012-2013 academic year (fiscal 2013), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 124,960 full-time equivalent (FTE) students enrolled in these institutions in fiscal 2013.

Additional data from NACS suggests that between 25% and 40% of textbook expenditures are made via the Internet or other sources where the sales tax is not collected. For purposes of this fiscal note, it is assumed that 32.5% of textbook purchases by Maryland students are made in this manner.

Based on these assumptions and data, exempting student textbooks from the State sales and use tax during the two sales tax-free periods is projected to reduce sales tax revenues by \$3.2 million in fiscal 2013. Due to the extended nature of each sales tax-free period and the timing at the beginning of each semester, the estimate assumes that 85% of students will be able to purchase textbooks during the tax-free periods. **Exhibit 4** shows FTE enrollment projections for fiscal 2013 through 2017 and the estimated decrease in general fund revenues. To the extent that purchasing behavior by Maryland students and the percentage of textbook and supply costs vary from those used in the estimate, the effect on general fund revenues will vary accordingly.

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**Exhibit 3**  
**Projected Enrollment at Maryland Institutions of Higher Education**  
**Academic Year 2012-2013**

	<b>Undergraduate</b>		<b>Graduate/Professional</b>	
	<b><u>Full-time</u></b>	<b><u>Part-time</u></b>	<b><u>Full-time</u></b>	<b><u>Part-time</u></b>
Community Colleges	57,572	95,924	-	-
Four-year Public Institutions	86,291	33,863	17,839	28,626
Independent Colleges	30,369	3,902	9,983	16,032
<b>Total</b>	<b>174,232</b>	<b>133,689</b>	<b>27,822</b>	<b>44,658</b>

Source: Maryland Higher Education Commission

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**Exhibit 4**  
**Revenue Effect of Exempting Textbooks from the Sales and Use Tax**  
**Fiscal 2013-2017**

	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>
FTE Enrollment (Full- & Part-time)	124,960	126,360	128,584	131,027	133,456
Average Textbook Expenditures	\$749	\$771	\$795	\$818	\$843
Tax On Textbooks per Student	45	46	48	49	51
<b>Revenue Decrease (\$ in Millions)</b>	<b>(\$3.2)</b>	<b>(\$3.4)</b>	<b>(\$3.5)</b>	<b>(\$3.7)</b>	<b>(\$3.9)</b>

Source: Maryland Higher Education Commission; Department of Legislative Services

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**Additional Information**

**Prior Introductions:** Similar bills that would have exempted the purchase of college textbooks from the State sales tax have been introduced during the past several legislative sessions. HB 16 of 2010 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 1358 of 2009 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 871 of 2008 received a hearing in the House Ways and Means Committee and was subsequently withdrawn. HB 25 of 2006 received an unfavorable report from the House Ways and Means Committee. HB 70 of 2005 was amended by the House Ways and Means Committee to create a textbook consortium in USM to allow USM institutions to receive volume

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discounts on the purchase of textbooks by students. As amended, the bill became Chapter 348 of 2005.

**Cross File:** HB 933 (Delegate Hixson, *et al.*) - Ways and Means.

**Information Source(s):** Baltimore City Community College, Morgan State University, Maryland Higher Education Commission, University System of Maryland, Department of Legislative Services

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