

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 704

(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 specified community college, nonprofit institution of higher education, public senior higher education institution, or regional higher education center is exempt from the State sales and use tax. A full- or part-time student 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 specified community colleges, nonprofit institutions of higher learning, public senior higher education institutions, or regional higher education centers.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund revenues decrease by \$6.3 million in FY 2014. Future year revenue decreases reflect projected enrollment and 3% increases in textbook costs. Expenditures are not affected.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(\$6.3)	(\$6.6)	(\$6.9)	(\$7.3)	(\$7.6)
Expenditure	0	0	0	0	0
Net Effect	(\$6.3)	(\$6.6)	(\$6.9)	(\$7.3)	(\$7.6)

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 2013, and the last 14 days of January, beginning in 2014.

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 (HB 70) 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 \$4.1 billion in fiscal 2013 and \$4.3 billion in fiscal 2014, according to the December 2012 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	6%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

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, 2012-2013), college students in Maryland will spend an average of \$1,300 on textbooks and supplies in the 2012-2013 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.

Exhibit 2
Average Textbook and Supply Costs in 2012-2013 Academic Year

Community Colleges	\$1,477
Four-year Public Institutions	1,269
Independent Colleges	1,159
Average	\$1,300

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC projects that there will be 382,647 students (full- and part-time) enrolled at Maryland institutions of higher education in the 2013-2014 academic year (fiscal 2014), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 261,033 full-time equivalent (FTE) students enrolled in Maryland institutions of higher education in fiscal 2014.

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 and policy 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 State revenues by \$6.3 million in fiscal 2014. Due to the extended nature of each sales tax-free period and the timing at the beginning of each semester, the estimate assumes that 80% of eligible students will purchase textbooks during the tax-free periods. **Exhibit 4** shows FTE enrollment projections for fiscal 2014 through 2018 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.

Exhibit 3
Projected Enrollment at Maryland Institutions of Higher Education
Academic Year 2013-2014

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	55,429	97,884	-	-
Four-year Public Institutions	87,995	36,167	18,540	29,231
Independent Colleges	27,940	3,858	10,322	15,281
Total	171,364	137,909	28,862	44,512

Source: Maryland Higher Education Commission

Exhibit 4
Revenue Effect of Exempting Textbooks from the Sales and Use Tax
During Tax-free Periods
Fiscal 2014-2018

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
FTE Enrollment (Full and Part-time)	261,033	265,292	271,375	276,964	281,761
Estimated Average Textbook Costs	\$741	\$763	\$786	\$810	\$834
Tax On Textbooks	\$44	\$46	\$47	\$49	\$50
Revenue Decrease* (\$ in Millions)	(\$6.3)	(\$6.6)	(\$6.9)	(\$7.3)	(\$7.6)

*Assumes 80% of eligible students purchase textbooks during the tax-free periods.

Source: Maryland Higher Education Commission; Department of Legislative Services

Additional Information

Prior Introductions: Similar bills were introduced as SB 809 and HB 933 in 2012. The Senate Budget and Taxation Committee and the House Ways and Means Committee did not act on either bill.

Cross File: HB 52 (Delegate Hixson) - Ways and Means.

Information Source(s): Baltimore City Community College, Maryland Higher Education Commission, Maryland Independent College and University Association, Comptroller's Office, Morgan State University, St. Mary's College, University System of Maryland, Department of Legislative Services

Fiscal Note History: First Reader - February 7, 2013
ncs/jrb

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