

Department of Legislative Services
2013 Session

FISCAL AND POLICY NOTE

House Bill 58 (Delegate Smigiel)
Ways and Means

Sales and Use Tax - Exemption - University and College Textbooks

This bill exempts from the State sales and use tax the sale of specified textbooks bought by a full- or part-time student enrolled at an institution of higher education. A student must 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 an institution of higher education.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund revenues decrease by \$7.8 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	(\$7.8)	(\$8.2)	(\$8.6)	(\$9.1)	(\$9.5)
Expenditure	0	0	0	0	0
Net Effect	(\$7.8)	(\$8.2)	(\$8.6)	(\$9.1)	(\$9.5)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

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 is projected to reduce State revenues by \$7.8 million in fiscal 2014. **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
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)	(\$7.8)	(\$8.2)	(\$8.6)	(\$9.1)	(\$9.5)

Source: Maryland Higher Education Commission; Department of Legislative Services

Additional Information

Prior Introductions: HB 38 of 2012 received a hearing in the House Ways and Means Committee, but no further action was taken. 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 discounts on the purchase of textbooks by students. As amended, the bill became Chapter 348 of 2005.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Maryland Independent College and University Association, Comptroller's Office, University System of Maryland, National Association of College Stores, Department of Legislative Services

Fiscal Note History: First Reader - January 31, 2013
mc/jrb

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