

Department of Legislative Services
2014 Session

FISCAL AND POLICY NOTE

House Bill 63 (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 may establish full- or part-time student status by producing 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, 2014.

Fiscal Summary

State Effect: General fund revenues decrease by \$7.5 million in FY 2015. Future year revenue decreases reflect projected enrollment and 3% increases in textbook costs. Expenditures are not affected.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$7.5)	(\$7.9)	(\$8.3)	(\$8.6)	(\$9.0)
Expenditure	0	0	0	0	0
Net Effect	(\$7.5)	(\$7.9)	(\$8.3)	(\$8.6)	(\$9.0)

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 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 \$4.2 billion in fiscal 2014 and \$4.4 billion in fiscal 2015, according to the December 2013 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	5.75%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

*An additional State tax of 0.7% is imposed on sales in localities in Northern Virginia and the Hampton Roads region.

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, 2013-2014), college students in Maryland will spend an average of \$1,265 on textbooks and supplies in the 2013-2014 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 2013-2014 Academic Year

Community Colleges	\$1,400
Four-year Public Institutions	1,447
Independent Colleges	1,111
Average	\$1,265

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC projects that there will be 377,563 students (full- and part-time) enrolled at Maryland institutions of higher education in the 2014-2015 academic year (fiscal 2015), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 258,189 full-time equivalent (FTE) students enrolled in Maryland institutions of higher education in fiscal 2015.

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 \$7.5 million in fiscal 2015. **Exhibit 4** shows FTE enrollment projections for fiscal 2015 through 2019 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 2014-2015

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	52,682	98,903	-	-
Four-year Public Institutions	88,690	34,083	18,771	27,524
Independent Colleges	27,770	3,738	10,590	14,812
Total	169,142	136,724	29,361	42,336

Source: Maryland Higher Education Commission

Exhibit 4
Revenue Effect of Exempting Textbooks from the Sales and Use Tax
Fiscal 2015-2019

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
FTE Enrollment (Full and Part-time)	258,189	262,312	267,267	271,037	275,261
Estimated Average Textbook Costs	\$485.9	\$500.5	\$515.5	\$531.0	\$546.9
Tax On Textbooks	\$29.16	\$30.03	\$30.93	\$31.86	\$32.82
Revenue Decrease (\$ in millions)	(\$7.5)	(\$7.9)	(\$8.3)	(\$8.6)	(\$9.0)

Source: Maryland Higher Education Commission; Department of Legislative Services

Additional Information

Prior Introductions: HB 58 of 2013 received a hearing in the House Ways and Means Committee, but no further action was taken. 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.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Comptroller's Office,
University System of Maryland, Department of Legislative Services

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ncs/jrb

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