

Department of Legislative Services
 Maryland General Assembly
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FISCAL AND POLICY NOTE
 First Reader

House Bill 1337 (Delegate Long, *et al.*)
 Ways and Means

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, private 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 student may produce a valid student identification card at the time of purchase to establish full-time or part-time student status.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease by \$7.7 million in FY 2018. Future year revenue decreases reflect projected enrollment and 3% increases in textbook costs. General fund expenditures for administrative costs in the Comptroller’s Office increase by \$81,300 in FY 2018.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$7.7)	(\$8.1)	(\$8.5)	(\$8.9)	(\$9.2)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$7.8)	(\$8.1)	(\$8.5)	(\$8.9)	(\$9.2)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The two annual sales tax-free periods for the purchase of textbooks designated by the bill are the last 7 days in August through the first 7 days of September, beginning in 2017, and the last 14 days of January, beginning in 2018.

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, private nonprofit institutions of higher education, public senior higher education institutions, or regional higher education centers.

Current Law/Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2017 and \$4.7 billion in fiscal 2018, according to the December 2016 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	0.0%
District of Columbia	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6.0%; 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 27 municipalities)

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

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.

New Jersey, Pennsylvania, Virginia, and West Virginia generally exempt textbook sales from their respective state sales taxes under certain conditions. These conditions include

requirements that the textbooks are for a required course or curriculum and that the textbooks are sold by the school or designated agent of the school.

State Fiscal Effect: Based on a Maryland Higher Education Commission (MHEC) student survey, college students in Maryland will spend an average of \$1,325 on textbooks and supplies in the 2016-2017 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 2016-2017 Academic Year

Community Colleges	\$1,407
Four-year Public Institutions	1,495
Private Four-year Institutions	1,074
Average	\$1,325

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC projects that there will be 378,792 full- and part-time students enrolled at Maryland institutions of higher education in the 2017-2018 academic year (fiscal 2018), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 258,020 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2018.

Exhibit 3
Projected Enrollment at Maryland Institutions of Higher Education
Academic Year 2017-2018

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	49,321	93,678	-	-
Four-year Public Institutions	92,197	41,799	18,927	25,933
Independent Colleges	25,657	2,311	11,531	17,438
Total	167,175	137,788	30,458	43,371

Source: Maryland Higher Education Commission

Additional data from NACS suggests that between 25% and 40% of textbook expenditures are made online or from other sources where the sales tax is not collected. However, for purposes of this fiscal and policy note, it is assumed that 20% of textbook purchases by Maryland students are made in this manner, as a large number of online retailers, including Amazon.com, have nexus in Maryland and are collecting sales taxes on sales to Maryland residents.

Based on these assumptions and data, exempting student textbook sales from the State sales and use tax during the two sales tax-free periods is projected to reduce State revenues by approximately \$7.7 million in fiscal 2018 and by approximately \$9.2 million in fiscal 2022. Due to the extended nature and timing of each sales tax-free period, the estimate assumes that 80% of eligible students will purchase textbooks during the tax-free periods. To the extent that purchasing behavior by 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.

The Comptroller's Office would incur a one-time expenditure increase of \$81,300 in fiscal 2018 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: HB 544 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken. An identical bill, SB 1103, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 875 of 2015 received an unfavorable report from the House Ways and Means Committee. Its cross file, SB 665, received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

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

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