

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 25 (Delegate Conroy)
 Ways and Means

Sales and Use Tax - Exemption - University and College Textbooks

This bill exempts the sale of specified textbooks bought by a full- or part-time student enrolled at an institution of higher education from the sales and use tax. Full- or part-time students 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, 2006.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$11.4 million beginning in FY 2007. Future year revenues reflect increased enrollment and 6% increases in textbook costs. Expenditures would not be affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$11.4)	(\$12.4)	(\$13.4)	(\$14.5)	(\$15.6)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$11.4)	(\$12.4)	(\$13.4)	(\$14.5)	(\$15.6)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: The sale of textbooks is not exempt from the State sales and use tax. 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 revenues accounting for approximately \$3.5 billion in fiscal 2007. The Maryland sales and use tax rate is currently set at 5.0%.

State Fiscal Effect: Based on a Maryland Higher Education Commission (MHEC) student survey (Cost of Attendance Survey, 2005), college students in Maryland will spend an average of \$905 on textbooks in the current school year. Assuming an annual growth rate of 6.0% (National Association of College Stores and the General Account Office), students will spend approximately \$960 on textbooks in fiscal 2007. **Exhibit 1** shows the average annual textbook cost per student at institutions of higher education.

Exhibit 1 Average Textbook Cost in 2005 - 2006

Community Colleges	\$955
Four-year Public Institutions	\$903
Independent Colleges	\$859
Average	\$905

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC projects that there will be approximately 323,300 students (full- and part-time) enrolled at Maryland institutions of higher education in the 2006-2007 academic year, as shown in **Exhibit 2**. After making adjustments for total course hours, it is estimated that there will be 238,036 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2007. Based on these factors, exempting student textbooks from the State sales and use tax is projected to reduce State general fund revenues by \$11.4 million in fiscal 2007 and \$15.6 million in fiscal 2011. **Exhibit 3** shows enrollment projections for fiscal 2007 through 2011 and the estimated decrease in general fund revenues.

Exhibit 2
Projected Enrollment at Maryland Institutions of Higher Education
Academic Year 2006 - 2007

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	44,687	78,727	-	-
Four-year Public Institutions	76,347	30,182	15,356	23,077
Independent Colleges	25,873	5,504	7,481	16,055
Total	146,907	114,413	22,837	39,132

Source: Maryland Higher Education Commission

Exhibit 3
Effect of Exempting Textbooks from the Sales and Use Tax
Fiscal 2007 - 2011

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Estimated Enrollment (Full- and Part-time)	238,036	242,843	248,360	253,051	257,846
Estimate Average Textbook Expenditures	\$960	\$1,017	\$1,078	\$1,143	\$1,212
Tax on Textbooks	\$47.98	\$50.86	\$53.92	\$57.15	\$60.58
General Fund Revenue Decrease	(\$11,422,003)	(\$12,351,823)	(\$13,390,383)	(\$14,461,897)	(\$15,620,088)

Source: Maryland Higher Education Commission; Department of Legislative Services

Additional Information

Prior Introductions: This bill was originally introduced as HB 70 in the 2005 session. The bill 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): Comptroller's Office, University System of Maryland,
Maryland Higher Education Commission, Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2006
mam/hlb

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