

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 871 (Delegate Stifler, *et al.*)
 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 State 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, 2008.

Fiscal Summary

State Effect: General fund revenues could decrease by \$14.8 million and Transportation Trust Fund revenues could decrease by \$1.0 million in FY 2009. Future year revenues reflect increased enrollment and 6% increases in textbook costs. Expenditures would not be affected.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$14.8)	(\$16.0)	(\$17.2)	(\$18.6)	(\$20.1)
SF Revenue	(1.0)	(1.1)	(1.2)	(1.3)	(1.4)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$15.8)	(\$17.1)	(\$18.4)	(\$19.9)	(\$21.5)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: With enactment of Chapter 6 of the 2007 special session, the sale of college textbooks is taxable at the rate of 6% (effective January 3, 2008). Chapter 348 of 2005 created a textbook consortium in the University System of Maryland 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 \$3.7 billion in fiscal 2008 and \$4.2 billion in fiscal 2009, according to the March 2008 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states

Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%
Maryland	6%
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%; 2.5% for food; both rates include 1% for local jurisdictions
West Virginia	6%

State Fiscal Effect: Based on a Maryland Higher Education Commission student survey (Cost of Attendance Survey, 2005), college students in Maryland spent an average of \$905 on textbooks in the 2005-2006 school year. Assuming an annual growth rate of 6.0% (National Association of College Stores and the General Account Office), students will spend approximately \$1,078 on textbooks in fiscal 2009. **Exhibit 2** shows the estimated average annual textbook cost per student at institutions of higher education.

Exhibit 2
Estimated Average Textbook Cost in 2008-2009 Academic Year

Community Colleges	\$1,137
Four-year Public Institutions	\$1,075
Independent Colleges	\$1,023
Average	\$1,078

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC projects that there will be approximately 330,300 students (full- and part-time) enrolled at Maryland institutions of higher education in the 2008-2009 academic year, as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that that there will be 244,778 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2009.

Based on these factors, exempting student textbooks from the State sales and use tax is projected to reduce State sales tax revenues by \$15.8 million in fiscal 2009. In addition to increasing the sales and use tax rate from 5% to 6%, Chapter 6 of the 2007 special session also altered the distribution of sales and use tax revenues by requiring that 6.5% of revenues, after specified distributions, be diverted to the TTF beginning July 1, 2008. As a result, the text book exemption proposed by the bill would reduce general fund revenues by \$14.8 million in fiscal 2009 while reducing TTF revenues by \$1.0 million. **Exhibit 4** shows enrollment projections for fiscal 2009 through 2013 and the estimated decrease in general fund and TTF revenues.

Exhibit 3
Projected Enrollment at Maryland Institutions of Higher Education
Academic Year 2008-2009

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	46,108	76,527	-	-
Four-year Public Institutions	79,255	31,104	15,754	24,413
Independent Colleges	27,112	4,297	9,243	16,440
Total	152,475	111,928	24,997	40,853

Source: Maryland Higher Education Commission

Exhibit 4
Effect of Exempting Textbooks from the Sales and Use Tax
Fiscal 2009-2013

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Projected Enrollment (full- and part-time)	244,778	249,207	253,486	257,891	263,056
Estimated Average Textbook Cost	\$1,078	\$1,143	\$1,212	\$1,284	\$1,361
Sales Tax on Textbooks	\$64.70	\$68.58	\$72.69	\$77.06	\$81.68
Effect on Revenues (\$ in Millions)					
Total Sales Tax Revenue Decrease	(\$15.8)	(\$17.1)	(\$18.4)	(\$19.9)	(\$21.5)
General Fund Decrease	(\$14.8)	(\$16.0)	(\$17.2)	(\$18.6)	(\$20.1)
TTF Decrease	(\$1.0)	(\$1.1)	(\$1.2)	(\$1.3)	(\$1.4)

Source: Maryland Higher Education Commission; Department of Legislative Services

Additional Information

Prior Introductions: HB 25 of 2006, an identical bill, received an unfavorable report from the House Ways and Means Committee. HB 70 of 2005 was amended by Ways and Means 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): Independent College and University Association, Comptroller's Office, Maryland State Department of Education, Morgan State University, University System of Maryland, Maryland Higher Education Commission, Department of Legislative Services

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