

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 1358 (Delegate Smigiel)
 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, 2009.

Fiscal Summary

State Effect: General fund revenues decrease by \$16.0 million in FY 2010 and Transportation Trust Fund (TTF) revenues decrease by \$0.9 million. Future year revenues reflect projected enrollment and 6% increases in textbook costs. Expenditures are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$16.0)	(\$17.2)	(\$18.6)	(\$20.1)	(\$21.3)
SF Revenue	(\$.9)	(\$1.0)	(\$1.0)	(\$1.1)	(\$1.5)
Expenditure	0	0	0	0	0
Net Effect	(\$16.9)	(\$18.2)	(\$19.7)	(\$21.2)	(\$22.8)

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%. 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 \$3.6 billion in both fiscal 2009 and 2010, according to the March 2009 revenue forecast. In addition, the TTF is projected to receive \$0.2 billion in sales and use tax revenues in both fiscal 2009 and 2010. **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%
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%

A new textbook policy for students at State universities was recently adopted by the board of regents that may result in textbook costs being reduced by 20% to 30%. Under the plan, which begins in the fall 2009 semester, professors are required to make available to students information on books before classes start so as to allow students the opportunity to search for competitive prices. In addition, professors will be encouraged to use the same textbooks for multiple semesters. Finally, bookstores will have to carry unbundled versions of course materials so students will be able to purchase only what they need.

State Fiscal Effect: Based on a Maryland Higher Education Commission (MHEC) student survey (Cost of Attendance Survey, 2005-2006), 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 \$1,143 on textbooks in fiscal 2010. **Exhibit 2** shows the estimated average annual textbook cost per student at institutions of higher education.

Exhibit 2
Estimated Average Textbook Cost in 2009-2010 Academic Year

Community Colleges	\$1,205
Four-year Public Institutions	\$1,140
Independent Colleges	\$1,084
Average	\$1,143

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC projects that there will be 331,242 students (full- and part-time) enrolled at Maryland institutions of higher education in the 2009-2010 academic year, as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 245,794 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2010.

Based on these factors, exempting student textbooks from the State sales and use tax is projected to reduce State sales tax revenues by \$16.9 million in fiscal 2010. Chapter 10 of 2008 altered the distribution of sales and use tax revenues by requiring that, for fiscal 2009 through 2013, 5.3% of revenues be distributed to the TTF. Beginning in fiscal 2014, the amount distributed to the TTF increases to 6.5%.

As a result, the text book exemption proposed by the bill reduces general fund revenues by \$16.0 million in fiscal 2010 while reducing TTF revenues by \$0.9 million. **Exhibit 4** shows enrollment projections for fiscal 2010 through 2014 and the estimated decrease in general fund and TTF revenues.

Additional Information

Prior Introductions: HB 871 of 2008 had 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): Baltimore City Community College, Maryland Higher Education Commission, Independent College and University Association, , Morgan State University, University System of Maryland, Department of Legislative Services

Fiscal Note History: First Reader - March 24, 2009
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Exhibit 3
Projected Enrollment at Maryland Institutions of Higher Education
Academic Year 2009-2010

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	47,260	79,078	-	-
Four-year Public Institutions	81,348	30,157	16,719	24,205
Independent Colleges	24,377	2,973	8,995	16,130
Total	152,985	112,208	25,714	40,335

Source: Maryland Higher Education Commission

Exhibit 4
Effect of Exempting Textbooks from the Sales and Use Tax
Fiscal 2010-2014

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Projected Enrollment (full- and part-time)	245,794	250,495	255,040	259,545	263,596
Estimated Average Textbook Cost	\$1,143	\$1,212	\$1,284	\$1,361	\$1,443
Sales Tax on Textbooks	\$68.58	\$72.69	\$77.06	\$81.68	\$86.58
Effect on Revenues (\$ in Millions)					
Total Sales Tax Revenue Decrease	(\$16.9)	(\$18.2)	(\$19.7)	(\$21.2)	(\$22.8)
General Fund Decrease	(\$16.0)	(\$17.2)	(\$18.6)	(\$20.1)	(\$21.3)
TTF Decrease	(\$0.9)	(\$1.0)	(\$1.0)	(\$1.1)	(\$1.5)

Source: Maryland Higher Education Commission; Department of Legislative Services
