

**Department of Legislative Services**  
 Maryland General Assembly  
 2014 Session

**FISCAL AND POLICY NOTE**

House Bill 862  
 Ways and Means

(Delegate F. Turner, *et al.*)

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

The bill takes effect July 1, 2014.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$6.0 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	(\$6.0)	(\$6.3)	(\$6.6)	(\$6.9)	(\$7.2)
Expenditure	0	0	0	0	0
Net Effect	(\$6.0)	(\$6.3)	(\$6.6)	(\$6.9)	(\$7.2)

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** The two annual sales tax-free periods for the purchase of textbooks designated by the bill are the last seven days in August through the first seven days of September, beginning in 2014, and the last 14 days of January, beginning in 2015.

**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.

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### 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.

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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.

The following is a brief history of tax-free holidays in Maryland:

- Chapter 576 of 2000 exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the week of August 10 through August 16, 2001, if the taxable price of the item of clothing or footwear was less than \$100.
- Chapter 191 of 2005 exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the period of August 23 through August 27, 2006, if the taxable price of the item of clothing or footwear was \$100 or less.
- Chapter 6 of the 2007 special session created two annual sales tax-free periods – one in February for the purchase of specified Energy Star products or solar hot water heaters; and one in August for the purchase of any item of clothing or footwear, excluding accessories, if the taxable price of the item of clothing or footwear is \$100 or less.

The two current sales tax-free periods are estimated to reduce general fund revenues by a total of \$6.7 million in fiscal 2014 and by \$6.9 million in fiscal 2015.

**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.

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**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
<b>Average</b>	<b>\$1,265</b>

Source: Maryland Higher Education Commission; Department of Legislative Services

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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 students enrolled in Maryland institutions of higher education in fiscal 2015.

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**Exhibit 3**  
**Projected Enrollment at Maryland Institutions of Higher Education**  
**Academic Year 2014-2015**

	<b>Undergraduate</b>		<b>Graduate/Professional</b>	
	<b><u>Full-time</u></b>	<b><u>Part-time</u></b>	<b><u>Full-time</u></b>	<b><u>Part-time</u></b>
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
<b>Total</b>	<b>169,142</b>	<b>136,724</b>	<b>29,361</b>	<b>42,336</b>

Source: Maryland Higher Education Commission

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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 during the two sales tax-free periods is projected to reduce State revenues by approximately \$6.0 million in fiscal 2015 and by approximately \$7.2 million in fiscal 2019. Due to the extended nature of each sales tax-free period and the timing at the beginning of each semester, the estimate assumes that 80% of eligible students will purchase textbooks during the tax-free periods. 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.

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**Additional Information**

**Prior Introductions:** HB 52 of 2013 received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, SB 704, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Similar

bills were introduced as SB 809 and HB 933 in 2012. The Senate Budget and Taxation Committee and the House Ways and Means Committee did not act on either bill.

**Cross File:** None.

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

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ncs/jrb

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