

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 792
(Delegate Anderton)
Ways and Means

Sales and Use Tax - Tax-Free Periods - University and College Textbooks

This bill establishes two annual seven-day sales tax-free periods – one in August and one in February – 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, 2021.**

Fiscal Summary

State Effect: General fund revenues decrease by \$7.3 million in FY 2022. Future year revenue decreases reflect projected enrollment and 3% annual increases in textbook costs. General fund expenditures increase by \$81,300 in FY 2022.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$7.3)	(\$7.7)	(\$8.0)	(\$8.3)	(\$8.7)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$7.4)	(\$7.7)	(\$8.0)	(\$8.3)	(\$8.7)

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 seven days of August, beginning in 2021, and the first seven days of February, beginning in 2022.

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. Textbook includes a book that is read using a computer, tablet, or any other electronic device.

Current Law: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.7 billion in fiscal 2021 and \$4.9 billion in fiscal 2022, according to the December 2020 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	6.0%; 10.0% for liquor sold for on-the-premises consumption, soft drinks sold for on-the-premises consumption, and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles; and 8.0% for specified soft drinks
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 eligible food items; 2.5% for specified essential personal hygiene items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 1.0% in all municipalities

*An additional state tax of 0.7% is imposed in localities in Central Virginia, Northern Virginia and the Hampton Roads region, 1.0% is imposed in Halifax County, and an additional 1.7% is imposed in localities in the Historic Triangle.

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.

State Fiscal Effect: Based on a Maryland Higher Education Commission (MHEC) student survey, college students in Maryland will spend an average of \$1,156 on textbooks and supplies in the 2019-2020 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), as well as a recent report by the College Board indicates that students spend over \$400 an academic year on textbooks. It is important to note that this data is based on national averages as reported in student surveys to the NACS, as well as cost of attendance budgets reported to the College Board by colleges and universities across the country.

Exhibit 2
Average Textbook and Supply Costs in 2019-2020 Academic Year

Community Colleges	\$1,393
Four-year Public Institutions	1,156
Private Four-year Institutions	920
Average	\$1,156

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC estimates that there were 375,140 full- and part-time students enrolled at Maryland institutions of higher education at the beginning of the 2020-2021 academic year (fiscal 2021), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 258,100 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2022.

In light of the recent U.S. Supreme Court decision (*South Dakota v. Wayfair, Inc.*), this fiscal and policy note assumes that all textbook purchases by Maryland students are taxable as online retailers are required to collect and remit the Maryland sales and use tax. Effective October 1, 2018, regulations promulgated by the Comptroller's Office require an out-of-state vendor who sells tangible personal property or taxable services for delivery in the State to collect and remit the sales and use tax on all taxable sales for use in the State if, during the previous calendar year or the current calendar year, the vendor (1) has gross revenue from the sale of tangible personal property or taxable services delivered in the State that exceeds \$100,000 or (2) sold tangible personal property or taxable services for delivery into the State in 200 or more separate transactions.

Exhibit 3
Enrollment at Maryland Institutions of Higher Education
Academic Year 2020-2021

	Undergraduate		Graduate/Professional	
	Full-time	Part-time	Full-time	Part-time
Community Colleges	44,085	87,288	-	-
Four-year Public Institutions	92,518	48,641	18,563	23,475
Independent Colleges	25,693	2,352	13,460	19,065
Total	162,296	138,281	32,023	42,540

Source: Maryland Higher Education Commission

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 \$7.3 million in fiscal 2022 and by approximately \$8.7 million in fiscal 2026. The estimate assumes that 75% of eligible students will purchase textbooks during the tax-free periods. Based on this estimate, the average college student attending a college or university in the State will save approximately \$40 in sales taxes in fiscal 2022. 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 will incur a one-time expenditure increase of \$81,300 in fiscal 2022 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: Similar bills were introduced in the 2015, 2016, 2017, 2018, 2019, and 2020 sessions. HB 92 of 2020 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 890 of 2019 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 1318 of 2018 received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, SB 663 of 2018, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 1337 of 2017 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 544 of 2016 received a hearing in the House Ways and Means Committee, but no further action was

taken. SB 1103 of 2016 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 of 2015, received an unfavorable report from the Senate Budget and Taxation Committee.

Designated Cross File: SB 904 (Senator Salling) - Budget and Taxation.

Information Source(s): Maryland Higher Education Commission; Comptroller's Office; University System of Maryland; Morgan State University; Department of Legislative Services

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