

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 663

(Senator Bates)

Budget and Taxation

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

This bill establishes two annual 7-day sales tax-free periods – one in August 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 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, 2018.**

Fiscal Summary

State Effect: General fund revenues decrease by \$6.9 million in FY 2019. Future year revenue decreases reflect projected enrollment and 3% annual increases in textbook costs. General fund expenditures increase by \$81,300 in FY 2019.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$6.9)	(\$7.2)	(\$7.5)	(\$7.9)	(\$8.3)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$6.9)	(\$7.2)	(\$7.5)	(\$7.9)	(\$8.3)

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 2018, and the last seven days of January, beginning in 2019.

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.

Current Law/Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2018 and \$4.7 billion in fiscal 2019, according to the December 2017 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	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on-the-premises, and rental vehicles
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; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in two municipalities) or 1.0% (in 37 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

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.

New Jersey, Pennsylvania, Virginia, and West Virginia exempt textbook sales from their respective state sales taxes under certain conditions. These conditions include requirements that the textbooks are for a required course or curriculum and that the textbooks are sold by the school or designated agent of the school.

State Fiscal Effect: Based on a Maryland Higher Education Commission (MHEC) student survey, college students in Maryland will spend an average of \$1,325 on textbooks and supplies in the 2016-2017 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.

Exhibit 2
Average Textbook and Supply Costs in 2016-2017 Academic Year

Community Colleges	\$1,407
Four-year Public Institutions	1,495
Private Four-year Institutions	1,074
Average	\$1,325

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC estimates that there were 357,352 full- and part-time students enrolled at Maryland institutions of higher education at the beginning of the 2017-2018 academic year (fiscal 2018), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 255,453 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2019.

Exhibit 3
Enrollment at Maryland Institutions of Higher Education
Academic Year 2017-2018

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	38,135	80,987	-	-
Four-year Public Institutions	92,470	46,024	18,657	24,603
Independent Colleges	24,719	2,299	12,083	17,375
Total	155,324	129,310	30,740	41,978

Source: Maryland Higher Education Commission

Additional data from NACS suggests that between 25% and 40% of textbook expenditures are made online or from other sources where the sales tax is not collected. However, for purposes of this fiscal and policy note, it is assumed that 20% of textbook purchases by Maryland students are made in this manner, as a large number of online retailers, including Amazon.com, have nexus in Maryland and are collecting sales taxes on sales to Maryland residents.

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 \$6.9 million in fiscal 2019 and by approximately \$8.3 million in fiscal 2023. The estimate assumes that 70% of eligible students will purchase textbooks during the tax-free periods. 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 2019 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, and 2017 sessions. 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

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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.

Cross File: HB 1318 (Delegate Long, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office; Baltimore City Community College; St. Mary's College of Maryland; Maryland Higher Education Commission; Maryland Independent Colleges and Universities Association; Department of Legislative Services

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