

**Department of Legislative Services**  
Maryland General Assembly  
2015 Session

**FISCAL AND POLICY NOTE**

Senate Bill 665 (Senator Bates, *et al.*)  
Budget and Taxation

**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, 2015.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$7.5 million in FY 2016. Future year revenue decreases reflect projected enrollment and 3% increases in textbook costs. Expenditures are not affected.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	(\$7.5)	(\$7.9)	(\$8.3)	(\$8.6)	(\$9.1)
Expenditure	0	0	0	0	0
Net Effect	(\$7.5)	(\$7.9)	(\$8.3)	(\$8.6)	(\$9.1)

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

**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 7 days in August through the first 7 days of September, beginning in 2015, and the last 14 days of January, beginning in 2016.

**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 \$4.3 billion in fiscal 2015 and \$4.5 billion in fiscal 2016, according to the December 2014 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%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
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%; plus 0.5% or 1% in certain municipalities

\*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, New Jersey, Virginia and West Virginia generally 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.

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 \$6.9 million in fiscal 2015 and by \$7.1 million in fiscal 2016.

**State Fiscal Effect:** Based on a Maryland Higher Education Commission (MHEC) student survey (Cost of Attendance Survey, 2014-2015), college students in Maryland will spend an average of \$1,324 on textbooks and supplies in the 2014-2015 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.

MHEC projects that there will be 363,776 students (full- and part-time) enrolled at Maryland institutions of higher education in the 2015-2016 academic year (fiscal 2016), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 252,313 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2016.

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**Exhibit 2**  
**Average Textbook and Supply Costs in 2014-2015 Academic Year**

Community Colleges	\$1,544
Four-year Public Institutions	1,433
Independent Colleges	1,140
TESST College of Technology	1,080
<b>Average</b>	<b>\$1,324</b>

Source: Maryland Higher Education Commission; Department of Legislative Services

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**Exhibit 3**  
**Projected Enrollment at Maryland Institutions of Higher Education**  
**Academic Year 2015-2016**

	<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	51,369	92,618	-	-
Four-year Public Institutions	88,899	31,424	18,305	25,214
Independent Colleges	27,486	2,943	10,523	14,995
<b>Total</b>	<b>167,754</b>	<b>126,985</b>	<b>28,828</b>	<b>40,209</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. 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 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 \$7.5 million in fiscal 2016 and by approximately \$9.1 million in fiscal 2020. 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 862 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken. 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:** HB 875 (Delegate Long, *et al.*) - Ways and Means.

**Information Source(s):** Maryland Higher Education Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - March 2, 2015  
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