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FISCAL AND POLICY NOTE
First Reader

Senate Bill 1103

(Senator Manno, *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 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, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by \$8.0 million in FY 2017. Future year revenue decreases reflect projected enrollment and 3% increases in textbook costs. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2017.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$8.0)	(\$8.4)	(\$9.0)	(\$9.3)	(\$9.7)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$8.1)	(\$8.4)	(\$9.0)	(\$9.3)	(\$9.7)

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 2016, and the last 14 days of January, beginning in 2017.

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 \$4.5 billion in fiscal 2016 and \$4.7 billion in fiscal 2017, according to the December 2015 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%
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 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.

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.

State Fiscal Effect: Based on a Maryland Higher Education Commission (MHEC) student survey, college students in Maryland will spend an average of \$1,399 on textbooks and supplies in the 2015-2016 school year. **Exhibit 2** shows the estimated average annual textbook and supply costs per student at institutions of higher education, per the MHEC study. Recent 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 2015-2016 Academic Year

Community Colleges	\$1,604
Four-year Public Institutions	1,420
Private Four-year Institutions	1,173
Average	\$1,399

Source: Maryland Higher Education Commission; Department of Legislative Services

MHEC projects that there will be 372,754 full- and part-time students enrolled at Maryland institutions of higher education in the 2016-2017 academic year (fiscal 2017), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 255,306 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2017.

Exhibit 3
Projected Enrollment at Maryland Institutions of Higher Education
Academic Year 2016-2017

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	47,758	91,696	-	-
Four-year Public Institutions	91,540	40,222	18,651	25,842
Independent Colleges	27,956	3,000	10,676	15,413
Total	167,254	134,918	29,327	41,255

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 \$8.0 million in fiscal 2017 and by approximately \$9.7 million in fiscal 2021. Due to the extended nature and timing of each sales tax-free period, the estimate assumes that 80% 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 would incur a one-time expenditure increase of \$81,300 in fiscal 2017 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: HB 875 of 2015 received an unfavorable report from the House Ways and Means Committee. Its cross file, SB 665, received an unfavorable report from the Senate Budget and Taxation Committee. HB 862 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None listed, although HB 544 is an identical bill.

Information Source(s): Comptroller's Office, Maryland Higher Education Commission, Maryland Independent College and University Association, Baltimore City Community College, Morgan State University, University System of Maryland, St. Mary's College of Maryland, Department of Legislative Services

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