

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 92 (Delegate Long)
 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 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, 2020.**

Fiscal Summary

State Effect: General fund revenues decrease by \$7.5 million in FY 2021. Future year revenue decreases reflect projected enrollment and 3% annual increases in textbook costs. General fund expenditures increase by \$81,300 in FY 2021.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$7.5)	(\$7.8)	(\$8.2)	(\$8.6)	(\$9.0)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$7.5)	(\$7.8)	(\$8.2)	(\$8.6)	(\$9.0)

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 2020, and the last seven days of January, beginning in 2021.

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 \$5.0 billion in fiscal 2020 and 2021, according to the December 2019 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 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; and both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 45 municipalities)

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

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 \$1,156 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) 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 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 364,329 full- and part-time students enrolled at Maryland institutions of higher education at the beginning of the 2019-2020 academic year (fiscal 2020), as shown in **Exhibit 3**. After making adjustments for total course hours, it is estimated that there will be 254,500 full-time equivalent students enrolled in Maryland institutions of higher education in fiscal 2021.

Additional data from NACS suggests that between 25% and 40% of textbook expenditures have been made online or from other sources where the sales tax is not collected. However, 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 2019-2020

	Undergraduate		Graduate/Professional	
	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>
Community Colleges	36,902	78,373	-	-
Four-year Public Institutions	95,054	50,142	18,907	25,859
Independent Colleges	25,263	2,312	13,043	18,474
Total	157,219	130,827	31,950	44,333

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 \$7.5 million in fiscal 2021 and by approximately \$9.0 million in fiscal 2025. 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 2021 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, and 2019 sessions. 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: None.

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

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mm/hlb

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