OHIO LEGISLATIVE SERVICE COMMISSION

Jean J. Botomogno

Fiscal Note & Local Impact Statement

Bill: H.B. 337 of the 132nd G.A.

Status: As Reported by House Ways and Means

Sponsor: Rep. Duffey

Local Impact Statement Procedure Required: Yes

Subject: Sales tax exemption for college textbooks

State & Local Fiscal Highlights

STATE FUND	FY 2018	FY 2019	FUTURE YEARS
General Revenue Fund			
Revenues	Potential loss	Loss of $21.2 million	Loss of $21.2 million annually
Local Government and Public Library Funds (counties, municipalities, townships, and public libraries)			
Revenues	Potential loss	Loss of $0.8 million	Loss of $0.8 million annually
Counties and transit authorities			
Revenues	Potential loss	Loss of $5.4 million	Loss of $5.4 million annually

Note: The state fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018.

- The bill exempts from the sales tax sales of college textbooks required or recommended for enrollment.
- The bill reduces the sales and use tax base, and thus decreases state sales tax revenue and revenue from local permissive county and transit authority sales taxes.
- Under permanent law, the revenue loss would be shared by the GRF (96.68%), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.66%). However, in the current biennium as prescribed by H.B. 49 (the main operating budget act), the GRF would retain 96.66% of state sales and use tax revenue, and distributions to the LGF and PLF would be 1.66% and 1.68%, respectively. Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

Detailed Fiscal Analysis

The bill exempts from sales and use tax textbooks purchased by post-secondary students. The bill is estimated to reduce state revenues from the sales and use tax by $22.0 million in FY 2019. Receipts from the state sales and use tax are deposited into the GRF. Under permanent law, the revenue loss would be shared by the GRF (96.68%), the LGF (1.66%), and the PLF (1.66%). However, in the current biennium as prescribed by H.B. 49 (the main operating budget act), the GRF would retain 96.66% of state sales and use tax revenue, and distributions to the LGF and PLF would be 1.66% and 1.68%, respectively.

Thus, the potential revenue loss to the GRF would be about $21.2 million in FY 2019 and reduced distributions would be about $0.4 million each to the LGF and the PLF. The sales tax exemption will also decrease revenues from county permissive and transit authority sales and use taxes. Those taxes share the state sales tax base. At about 24.5% of state sales tax revenue, the potential annual revenue loss for local governments would be approximately $5.4 million. Including reduced distributions from the LGF and the PLF, the total revenue loss to all political subdivisions, including transit authorities, is likely about $6.1 million per year.

The estimate is primarily based on data from the National Association of College Stores (NACS) which provides various data from college bookstores. For the 2016-2017 academic year, the NACS reported average annual spending on "required course materials" at $579, down from $602 in the previous academic year. This figure is based on survey data on actual student spending, which may reflect decisions by some students to forego purchasing books, share books, rent books, or engage in other cost savings strategies. Student enrollment has varied at Ohio's institutions of higher education. The latest number available from the Department of Higher Education for total enrollment was 658,925 in 2015. (Private enrollment in 2016 was not available at the time this Fiscal Note was written.)

Using the NACS estimate and enrollment data, Ohio student spending on "required textbooks" for enrollment may have been about $382 million last year, corresponding to state sales and use tax revenue of about $22 million at the state's 5.75% sales tax rate. The tax exemption in the bill would apply to a college textbook defined as a "new or used book or workbook that is required or recommended by an institution of higher education for a course offered by the institution, including a digital copy thereof." Currently, students may purchase instructional materials other than required textbooks for a particular course they may be enrolled in or taking. Data from NACS does not include spending on textbooks that are only recommended, not required, and the potential revenue loss from recommended textbooks is not included in the estimate above. Because spending on recommended textbooks is included in the proposed sales tax exemption, the potential revenue loss from the bill may be higher than estimated. Also, student enrollment fluctuates with the business cycle, increasing immediately after an economic recession, and gradually decreasing several years later. For this reason too, the annual revenue loss from the bill could be higher than estimated in certain years.

Future revenue losses from the bill may be limited if spending on textbooks declines as the college textbook market changes. Though average spending on college textbooks historically increased each year, in recent years it appears to be flat or falling, as a larger number of students are purchasing books from sources other than college stores, from Internet sites, renting the books, or not purchasing textbooks at all. In addition, the number of units purchased appears to be flat or declining, students increasingly purchase from less expensive channels (including other students), and the use of book rentals, e-books, and free course materials is expanding. How those nationwide trends apply to the Ohio college textbook market is unknown, though it may be similar. Finally, bookstores have both storefronts and web-based sales in Ohio. Those bookstores will generally collect Ohio sales and use tax from buyers, regardless of the sales channel. However, an increasing number of books are purchased through web-only bookstores and book exchange sites. Information on sales through those channels is lacking. Sales and use taxes may or may not be collected on those sales. For sales that currently escape the sales and use tax, the proposed exemption in the bill does not create a revenue loss.

HB0337HR.docx/lb