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EXEMPT COLLEGE TEXTBOOKS FROM SALES TAX

House Bill 4414 as passed by the House Third Analysis (8-12-98)

Sponsor: Rep. Vera Rison
First Committee: Tax Policy
Second Committee: Colleges and

Universities

THE APPARENT PROBLEM:

A task force created by the Associated Students of Michigan State University to research and evaluate the problem of the rising costs of post-secondary education has proposed a sales tax exemption for college textbooks. The report points out the concern students and their families have about paying for tuition, fees, books, rent, food, and miscellaneous costs. A summary of the ASMSU task force's report says: "The average undergraduate tuition rose from \$2,275 in 1976 to \$8,286 in 1994. During this seventeen-year period, tuition increased at a rate much higher than that of inflation. Similar to tuition, the price of textbooks has risen significantly. From 1983 to 1993, the average price of a college textbook increased by 91.5 percent." Student representatives say books now cost about \$500 per year on average. Some students reportedly have difficulty affording all of their required books for courses. In public four-year colleges and universities in the state, more than \$115 million is spent on textbooks, according to ASMSU. It has been estimated that the savings from a sales tax exemption for all students statewide would exceed \$10 million. In addition, some advocate a similar exemption for computers and software to be used by students.

THE CONTENT OF THE BILL:

The bill would amend the General Sales Tax Act to provide an exemption for the sale of a textbook to a student enrolled in a course at an accredited institution of post-secondary education located in the state if it is a required textbook for that course. The term "required textbook" would refer to a textbook for which a written book order had been received by the bookseller with the course instructor's or the department chairperson's signature on it requiring the bookseller to have the textbook available for sale at the beginning of the term or semester.

In addition, the bill would provide an exemption for the purchase of computer hardware or educational

software intended to be used by a student enrolled at an accredited institution of post-secondary education located in the state.

MCL 205.54p

BACKGROUND INFORMATION:

This bill was reported from the House Tax Policy committee on 4-16-97, and was re-referred to the House Committee on Colleges and Universities on 9-23-97. In the spring of 1998, the Committee on Colleges and Universities held a series of hearings at several colleges and universities on the subject of textbook pricing.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would result in a yearly revenue loss of approximately \$16 million, of which about 73 percent would be from the school aid fund, about 24 percent would be from local government revenue sharing, and the remainder would be from the general fund. (8-12-98)

ARGUMENTS:

For:

This bill's aim is to help students and families struggling to meet the ever-increasing costs of higher education by granting a sales tax break to students buying required textbooks. Such legislation would show support for hard-pressed students seeking an education. The average annual saving per student is not dramatic -- about \$30 on textbooks -- but students say any amount would help, particularly for the most

financially strapped of students. It is enough to allow a student to purchase an additional textbook he or she might otherwise not be able to afford, to purchase

required supplies, several Sunday night meals (which are not provided at all institutions), or other necessities. The exemption is tailored so as to provide an exemption only for required textbooks and only for students enrolled in the courses in which the textbooks are required. Across the state, the bill will save students over \$10 million, say supporters. Several other states, including Arizona, New Jersey, and Pennsylvania, exempt college textbooks from the sales tax.

For:

As amended on the House floor, the sales tax exemption would also be extended for the purchase of computer hardware and educational software for use by college students. This would greatly benefit the many students who are hard-pressed to afford the cost of a computer, which has become a necessity for students.

Against:

There are many who are concerned with the continued erosion of the tax base by means of a steady stream of proposals to grant tax cuts, credits, and exemptions for various purposes. While this bill involves relatively small amounts of money, it proposes to take money away from the school aid fund -- from the public elementary and secondary schools -- and, to a lesser extent, from the general fund -- which supports higher education budgets -- and put it into the pockets of students who have the privilege of attending colleges and universities in the state, no matter what their financial means. It should be noted that the bill applies to students in graduate schools and professional schools, as well as undergraduates. If the aim is to assist financially needy students, why not increase state support for financial aid for those students? Alternatively, why not just increase state aid to universities so that they can lower tuition?

Further, implementing this bill would likely prove to be complicated. Would college bookstores be required to check each purchaser's class schedule in order to determine which books were taxable and which were not? Even more difficult, how would computer retailers verify whether purchases were for bona fide college student use?

POSITIONS:

A representative from Associated Students of Michigan State University (ASMSU) testified in support of the bill. (4-9-97 and 4-29-98)

The Department of Treasury is opposed to the bill. (8-12-98)

Analyst: C. Couch/D. Martens

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.