

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

Senate Bill 302 (Senators McFadden and Hollinger)

Budget and Taxation

Sales and Use Tax - Bulk Vending Machines

This bill exempts merchandise sold through a “bulk vending machine” from the sales and use tax if the merchandise costs 25 cents or less. A bulk vending machine is a vending machine that: (1) contains unsorted merchandise; and (2) dispenses the merchandise in approximately equal amounts at random without selection by the customer.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund revenues are estimated to decrease by \$200,225 in FY 2001. Future year revenue losses increase by 5% annually. No effect on expenditures.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$200,225)	(\$210,237)	(\$220,748)	(\$231,786)	(\$243,375)
GF Expenditures	0	0	0	0	0
Net Effect	(\$200,225)	(\$210,237)	(\$220,748)	(\$231,786)	(\$243,375)

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

Local Effect: None.

Small Business Effect: Potential meaningful in limited circumstances.

Analysis

Current Law: The sales tax of 5% is currently applied to 95.25% of the value of vending sales. Unlike sales of other goods and taxable services whereby the sales tax is added to the sales price, the sales price of products from vending machines *includes* the sales tax for ease of use by the customer. When the Comptroller calculates tax liabilities for vending machine firms, the agency therefore applies the 95.25% factor to reflect that the firm's gross sales includes sales tax collections.

Background: A summary review by the Department of Legislative Services indicated that at least eight states partially or completely exempt vending machine sales from their sales tax, with the exemption cutoff for the transaction amount ranging from one cent to no dollar cutoff. Of nearby states, Delaware does not charge a sales tax (but does impose a gross receipts tax on retailers). New York and New Jersey exempt vending machine sales of less than ten cents.

State Revenues: According to the *Vending Times*, national sales through bulk vending machines are estimated to reach \$388.2 million in fiscal 2001. Of this amount, approximately 57% of total sales are attributable to the sale of merchandise costing 25 cents. Assuming that Maryland's share of total national sales is 1.9%, the revenue loss from the sales tax exemption is estimated to be \$200,225 in fiscal 2000. Out-year estimates assume a 5% growth in bulk vending sales.

Small Business Effect: For small businesses providing bulk vending machine services only, there may be reduced administrative costs from not having to remit sales taxes and an increase in revenues if the gross price of the product is not changed.

Additional Information

Prior Introductions: SB 204 of 1999 was not reported from the Senate Budget and Taxation Committee. HB 133 of 1999 was approved by the House of Delegates but was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Comptroller's Office, National Automatic Merchandising Association, Department of Legislative Services

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nncsjr

Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510