

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

House Bill 328 (Delegates Healev and Clagett)

Ways and Means

Sales and Use Tax - Exemption for Bottled Water

This bill exempts bottled water, except flavored or sparkling water, from the sales and use tax.

This bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund revenues could decrease by \$5.5 million in FY 2001. Future year revenue losses account for growth in prices and sales. No effect on expenditures.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$5.5)	(\$6.2)	(\$6.9)	(\$7.7)	(\$8.7)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(\$5.5)	(\$6.2)	(\$6.9)	(\$7.7)	(\$8.7)

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

Local Effect: None.

Small Business Effect: Potential meaningful for small business water bottlers.

Analysis

Current Law: Bottled water is currently subject to the State's 5% sales and use tax.

Background: According to the 1999 publication of Beverage Marketing Corporation, *Bottled Water in the U.S.*, nationwide sales of bottled water totaled 3.6 billion gallons in 1998. Sales have grown 11.4% per year over the past 20 years and 8.6% per year over the past ten years. In Maryland and the District of Columbia, 1998 sales were 98.9 million gallons, with a similar growth rate over the past ten years.

Of the 3.6 billion gallons nationwide, 3.3 billion gallons are domestic flat (or “nonsparkling”) water. Another 161 million gallons are imported water, of which half is assumed to be flat and half to be sparkling. The remaining 146 million gallons are domestic sparkling water. In total, 3.4 billion gallons of the total (or 94%) are assumed to be of the type exempted from the sales tax under the bill. The industry advises that all flavored waters are sparkling waters, both of which are excepted from the exemption.

State Revenues: The price of a gallon of water varies depending on whether it is sold in a small or large container, but on average is assumed to be around \$1.00 per gallon. Based on the above information, it is estimated that the reduction in sales tax revenue as a result of exempting bottled water from the sales tax is about \$5.5 million in fiscal 2001. The estimate allocates the sale of bottled water between Maryland and the District of Columbia on the basis of population (Maryland thus accounts for 91% of the sales) and assumes annual growth in sales of 8.5%, which is the average growth rate for the period 1988-1998. Out-year estimates assume 3% growth in the price of bottled water.

Small Business Effect: Small businesses that bottle and sell water directly to consumers, could experience reduced administrative expenses associated with collecting the tax (assuming they sold no other taxable products). Revenues could increase if the elimination of the tax results in increased sales volume.

Additional Information

Prior Introductions: HB 1142 of 1999, a substantially similar bill, was withdrawn.

Cross File: SB 408 (Senator Lawlah, *et al.*) - Budget and Taxation.

Information Source(s): Beverage Marketing Corporation, *Bottled Water in the U.S.*; Comptroller’s Office; Department of Legislative Services

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