

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

Senate Bill 365 (Senator Lawlah, *et al.*)
 Budget and Taxation

Sales and Use Tax - Exemption for Bottled Water

This bill exempts from the sales and use tax the sale of water for human consumption sold in bottles of one gallon or more.

This bill takes effect July 1, 2001.

Fiscal Summary

State Effect: General fund revenues could decrease by \$2.3 million in FY 2002. Future year revenue losses account for growth in prices and sales. Expenditures would not be affected.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$2.3)	(\$2.3)	(\$2.4)	(\$2.5)	(\$2.6)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$2.3)	(\$2.3)	(\$2.4)	(\$2.5)	(\$2.6)

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. In Maryland, Virginia, and the District of Columbia, 1998 sales were 98.9 million gallons.

State Revenues: Of the 126 million gallons estimated to be sold in the metropolitan area in 2001, approximately 55%, or 70 million gallons, are assumed to be sold in Maryland. Of this amount, approximately 70% by volume, or 50 million gallons, is assumed to be sold in containers of one gallon or more. The price for water in these containers is estimated to range from 75 cents to \$1, resulting in an estimated revenue loss of \$2.3 million in fiscal 2002. Future year losses reflect 3% sales growth in the category of water, which is growing considerably slower than water sold in smaller containers.

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Prior Introductions: HB1142 of 1999, a substantially similar bill, was withdrawn. HB 328 of 2000, an identical bill as amended, was approved by the House of Delegates but was not reported from the Senate Rules Committee. SB 408 of 2000, an identical bill as amended, was passed by the General Assembly but vetoed by the Governor.

Cross File: HB 241 (Delegate Clagett, *et al.*) - Ways and Means.

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

Fiscal Note History: First Reader – February 20, 2001
ef/jr

Analysis by: Matthew D. Riven

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