

**Department of Legislative Services**  
Maryland General Assembly  
2003 Session

**FISCAL AND POLICY NOTE**

Senate Bill 296 (Senator McFadden)  
Budget and Taxation

**Sales and Use Tax - Bulk Vending Machines**

This bill increases the maximum taxable price of tangible personal property sold through a bulk vending machine that is exempt from the sales and use tax from 25 cents to 50 cents.

The bill takes effect July 1, 2003.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease by \$117,000 in FY 2004. Future year revenue losses increase by 3.6% annually. No effect on expenditures.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	(\$117,000)	(\$122,000)	(\$126,000)	(\$131,000)	(\$135,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$117,000)	(\$122,000)	(\$126,000)	(\$131,000)	(\$135,000)

*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 and use tax does not apply to a sale of tangible personal property through a bulk vending machine for a taxable price of 25 cents or less. A “bulk vending machine” is defined as a vending machine that: (1) contains unsorted merchandise; and (2) on insertion of a coin, dispenses the unsorted merchandise in approximately equal portions at random and without selection by the customer.

**Background:** 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 include sales tax collections. The current exemption for bulk vending machines was created by Chapter 595 of 2000.

**State Revenues:** State tax revenues are estimated to decline by \$117,000 in fiscal 2004, increasing 3.6% per year thereafter based on the following information and assumptions:

- according to the 2002 *Vending Times*, national sales through bulk vending machines totaled \$370.5 million in fiscal 2001, growing by 3.6% annually;
- an assumption that national sales are distributed roughly according to population so that Maryland's share of total national sales is 1.9%, or \$7 million;
- according to the publication, approximately 32% of total sales are attributable to the sale of merchandise costing 50 cents; and
- at 50 cents, the underlying taxable price is 47.6 cents and (foregone) sales tax is 2.4 cents per transaction.

**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.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 769 (Delegate Patterson) – Ways and Means.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 13, 2003  
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