

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 836 (Delegate V. Clagett, *et al.*)
 Ways and Means

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.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$3.0 million in FY 2007. Future year revenue losses account for growth in prices and sales. Expenditures would not be affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$3.0)	(\$3.1)	(\$3.1)	(\$3.2)	(\$3.3)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$3.0)	(\$3.1)	(\$3.1)	(\$3.2)	(\$3.3)

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 information from the Beverage Marketing Corporation, consumption of bottled water in the United States totaled approximately 7.4 billion gallons in 2005, of which 6.9 billion gallons were of nonsparkling water.

State Revenues: General fund revenues could decrease by approximately \$3.0 million annually, beginning in fiscal 2007, based on the following facts and assumptions:

- there were 6.9 billion gallons of bottled water (non-sparkling) consumed in the United States in 2005;
- 35% of sales are assumed to be in containers of at least 1 gallon;
- Maryland's population represents 1.9% of U.S. population, based on 2000 Census data;
- the average cost of a gallon of water, in all sizes, was \$1.25 in 2004; and
- the State sales and use tax rate is \$0.05.

Future year losses reflect 3% sales growth in the category of water, which is growing 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: This bill was introduced as SB 365/HB 241 in the 2001 session. No action was taken by the Senate Budget and Taxation Committee or the House Ways and Means Committee. HB 1142 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: None.

Information Source(s): Comptroller's Office, Beverage Marketing Corporation, International Bottled Water Association, Department of Legislative Services

Fiscal Note History: First Reader - February 27, 2006
nas/hlb

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