

Department of Legislative Services
 Maryland General Assembly
 2007 Special Session

FISCAL AND POLICY NOTE

House Bill 39 (Delegate Pendergrass)
 Ways and Means

Sales and Use Tax - Snack Tax

This bill imposes the sales and use tax on snack food by repealing the current exemption. Snack food includes potato chips and sticks, corn chips, including tortilla chips, pretzels, cheese puffs and curls, pork rinds, extruded pretzels and chips, popped popcorn; nuts and edible seeds; and specified snack mixtures.

The bill takes effect January 1, 2008.

Fiscal Summary

State Effect: General fund revenues could increase by \$5.1 million in FY 2008 and \$10.4 million beginning in FY 2009. Future year revenues represent tax collections on an annualized basis and a 3% projected annual growth rate.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	\$5.1	\$10.4	\$10.7	\$11.0	\$11.3
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$5.1	\$10.4	\$10.7	\$11.0	\$11.3

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The State sales and use tax is not imposed on the sale of food by retail stores, including snack foods.

Background: The General Assembly approved a tax on the retail sale of snack food at the first special session of 1991. The “snack tax” was repealed at the 1996 session with a delayed effective date of July 1, 1997. At the 2004 session, the Senate approved a provision in the Budget Reconciliation and Financing Act that would have imposed a 5% sales and use tax on snack food; however, this provision was not included in the enacted legislation.

State Revenues: General fund revenues could increase by approximately \$5.1 million in fiscal 2008, which reflects the bill’s January 1, 2008 effective date and by \$10.4 million in fiscal 2009, as shown in **Exhibit 1**. The estimate is based on available data as contained in several industry trade publications, including *PL Buyer, Snack Food & Wholesale Bakery*, as well as the Snack Food Association, and may not include all of the items listed in the bill, and the following facts and assumptions:

- specified snack food sales totaled approximately \$8.2 billion for the 52-week period ending May 21, 2006;
- sales of snack food in Maryland are proportionate to its share of the U.S. population (1.88%); and
- revenues will increase by about 3% annually, which is the industry average (where data is comparable) from 2006 to 2007.

Exhibit 1 shows the potential revenues by repealing the snack food sales tax exemption.

Exhibit 1 Estimated Revenues from Taxing Specified Snack Foods

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
GF Revenues	\$5.1	\$10.4	\$10.7	\$11.0	\$11.3

Small Business Effect: Small businesses, like convenience stores, that sell snack foods could be negatively impacted if consumers alter their purchasing behavior due to the imposition of the tax.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): *PL Buyer*, August 2006; *Snack Food & Wholesale Bakery*, June 2007, Department of Legislative Services

Fiscal Note History: First Reader - November 2, 2007
ncs/hlb

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