

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

House Bill 964 (Delegate Walker)
 Ways and Means

Sales and Use Tax - Snack Food - Application

This bill imposes the State sales and use tax on snack food by repealing the current exemption. “Snack food” is defined as potato chips and sticks, corn chips, pretzels, cheese puffs and curls, pork rinds, extruded pretzels and chips, popped popcorn, and specified snack mixtures.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: General fund revenues increase by approximately \$19.5 million in FY 2016. Future year revenue estimates reflect annual sales growth. Expenditures are not affected.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$19.5	\$19.9	\$20.3	\$20.7	\$21.1
Expenditure	0	0	0	0	0
Net Effect	\$19.5	\$19.9	\$20.3	\$20.7	\$21.1

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 rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. The State sales and use tax is not generally imposed on the sale of food (including snack food) by retail stores.

Background: The General Assembly approved a tax on the retail sale of snack food at the 1991 first special session. The “snack tax” was repealed at the 1996 session with an effective date of July 1, 1997.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 the sales and use tax on snack food; however, this provision was not included in the enacted legislation.

The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$4.3 billion in fiscal 2015 and \$4.5 billion in fiscal 2016, according to the December 2014 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; plus 0.5% or 1% in certain municipalities

*An additional State tax of 0.7% is imposed on sales in localities in Northern Virginia and the Hampton Roads region.

State Fiscal Effect: General fund revenues increase by approximately \$19.5 million in fiscal 2016 from imposing the State’s 6% sales and use tax on specified snack foods. The estimate is based on available data provided by IRI, a Chicago-based market research firm, and the following facts and assumptions:

- sales data for certain salted snack foods totaled approximately \$21.0 billion for the 52-week period ending January 25, 2015; the data includes snack food sales made in supermarkets, drugstores, mass-market retailers, gas stations, convenience stores, military commissaries, and select club and dollar retail chain stores;
- snack food sales in Maryland are proportionate to its share of the U.S. population (1.88%); and
- total snack food sales in Maryland will decline 6% in the first year as a result of the imposition of the tax.

Future year estimates reflect annual sales growth for selected snack food sales and do not account for any potential changes in consumption beyond fiscal 2016. It should be noted that snack food sales data is not available for all categories of snacks included in the bill, so the actual amount of revenues generated could be higher or lower than estimated.

Small Business Effect: Revenues for small businesses (such as convenience stores) that sell snack foods could decrease if consumers alter their purchasing behavior due to the imposition of the tax. Expenditures may increase for small businesses that must modify their current systems to account for the collection of the sales and use tax on specific products that are considered snack foods.

Additional Information

Prior Introductions: HB 1214 of 2013 and HB 455 of 2012 received hearings in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - February 27, 2015
md/jrb

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