Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1469 (Delegates Shetty and Pena-Melnyk)
Ways and Means and Economic Matters

Taxes - Sugary Beverage Distributor Tax (For Our Kids Act)

This bill imposes a sugary beverage distributor tax on each distributor of specified sugary beverages, powders, and syrups beginning in fiscal 2027. The tax rate is set at $0.02 per ounce of sugary beverages sold or produced. The Comptroller must establish a sugary beverage distributor registry. Revenues from the new tax are distributed to two special funds and the general fund (after deductions for administrative costs). The bill also establishes the Healthy School Meals for All Fund, to be administered by the Maryland State Department of Education (MSDE). **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: General fund and special fund revenues increase by a significant amount beginning in FY 2027. Under one set of assumptions, State revenues increase by approximately $500 million annually beginning in FY 2027. State expenditures at the Comptroller's Office increase by $1.5 million in FY 2026 for computer programming modifications; administrative costs increase by $477,100 in FY 2027 and by $470,100 in FY 2030.

Local Effect: None.

Small Business Effect: Potential meaningful. Beverage distributors in Maryland may experience a decline in sales due to the imposition of the new tax.

Analysis

Bill Summary: Beginning July 1, 2026, the bill imposes a sugary beverage distributor tax on each distributor for the privilege of selling sugary beverages, powders, and syrups in the State. The rate of the sugary beverage distributor tax is set as follows:

- $0.02 per ounce of a sugary beverage *sold* to a retailer for sale in the State to a consumer or, in the case of a distributor who is also a retailer, directly offered for sale to a consumer in the State by the distributor; and
- $0.02 per ounce of the sugary beverage *produced* from syrup or powder sold to a retailer in the State to a consumer or, in the case of a distributor who is also a retailer, directly offered for sale to a consumer in the State by the distributor. The amount of the tax is based on the larger of (1) the largest volume resulting from the use of the syrup or powder according to any manufacturer's instructions or (2) the actual volume produced by the retailer, as reasonably determined by the Comptroller.

Beginning July 1, 2027, the sugary beverage distributor tax rate will increase by inflation based on the Consumer Price Index (CPI), as determined by the Comptroller.

A distributor must exclude the following sugary beverages, syrups, and powders when determining the sugary beverage distributor tax due: (1) those sold to the U.S. government and American Indian tribal governments; (2) those sold by a distributor or retailer expressly for resale or consumption outside the State; and (3) those sold by the distributor to another registered distributor if the sales invoice clearly indicates that the sale is exempt.

Revenue Distribution

Revenues from the sugary beverage distributor tax are distributed to two special funds and the general fund, after the Comptroller's costs to administer the tax are deducted, as follows:

- the first $189.0 million to the Healthy School Meals for All Fund within MSDE;
- the next $50.0 million to the Child Care Scholarship Program within MSDE; and
- the remainder revenue to the general fund.

Sugary Beverage Distributor Registry

A distributor doing business in the State must register each place of business owned and operated by the distributor with the Comptroller. A distributor may not sell a sugary beverage, syrup, or powder in the State unless the distributor has registered with the Comptroller.

Tax Returns and Payment

Each distributor must complete, under oath, and file a return with the Comptroller on or before the 25th of each month for sales of the preceding month. Taxes owed are required with the submission of the return. A person required to file a return must maintain records on how the calculation of the tax owed was based. A person who willfully fails to file a sugary beverage distributor tax return is guilty of a misdemeanor and, on conviction, is subject to a fine of up to $5,000 and/or imprisonment of up to five years.

Healthy School Meals for All Fund

The bill also establishes the Healthy School Meals for All Fund, to be administered by MSDE, to provide funding for (1) the State Free Feeding Program and (2) the Maryland Meals for Achievement In-Classroom Breakfast Program. The fund is a special, nonlapsing fund that is not subject to provisions of the State Finance and Procurement Article.

The fund consists of (1) revenue from the sugary beverage distributor tax; (2) money appropriated in the State budget to the fund; and (3) any other money from any other source accepted for the benefit of the fund.

The fund may be used only for providing meals through the State Free Feeding Program and the Maryland Meals for Achievement In-Classroom Breakfast Program. Expenditures from the fund may be made only in accordance with the State budget. Money expended from the fund for the State Free Feeding Program and the Maryland Meals for Achievement In-Classroom Breakfast Program is supplemental to and is not intended to take the place of funding that otherwise would be appropriated for the programs.

Definitions

A distributor is defined as a person, including a manufacturer or wholesale dealer, who receives, stores, manufactures, packages, or distributes packaged sugary beverages, syrups, or powders for sale to retailers doing business in the State, whether or not the person also sells those products to consumers.

A sugary beverage is defined as a beverage, whether carbonated or noncarbonated, that is intended for human consumption and contains added sugars or nonnutritive sweeteners and is not an alcoholic beverage. A sugary beverage does not include (1) natural fruit juice; (2) natural vegetable juice; (3) milk; (4) infant formula; (5) a beverage for medical use; or (6) water that is not flavored using sugar or nonnutritive sweeteners.

Current Law: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately $6.0 billion in fiscal 2025 and $6.1 billion in fiscal 2026, according to the December 2024 revenue forecast. The State sales and use tax rate is 6%, except for the sale of alcoholic beverages and cannabis products, which are taxed at a rate of 9%.

Generally, the sale of food by grocery stores, not including certain prepared foods, is exempt from the State sales and use tax. The sale of bottled water, carbonated beverages, and soft drinks, including drinks that contain less than 10% fruit or vegetable juice are subject to the sales and use tax. A report by the Comptroller's Office lists the various items and tangible personal property tax services that are subject to the State sales and use tax. A copy of the report can be found here: Sales and Use Tax List of Tangible Personal Property and Services (marylandtaxes.gov).

No states currently levy an excise tax on sweetened beverages. However, several cities have taxes, often referred to as a "soda tax" on certain sweetened beverages, including Boulder, Colorado; Philadelphia, Pennsylvania; Seattle, Washington; and Albany, Berkeley, Oakland, and San Francisco, California. The District of Columbia imposes an 8% sales tax on certain soft drinks.

State Fiscal Effect: State general and special fund revenues increase by a significant amount beginning in fiscal 2027, when the sugary beverage distributor tax takes effect. The amount of the increase depends on the volume of sweetened beverages that are purchased in Maryland each year.

Based on an analysis prepared by the Comptroller's Office, projected revenues from the new tax could total approximately $500 million in fiscal 2027. The assumptions used to develop the estimate are outlined below:

- Maryland per capita consumption of sweetened beverages is 6,340 ounces per year.
- Sales decrease by approximately 30% after the imposition of an excise tax based on a Study by the University of California, Berkeley.
- Sugar sweetened beverages account for 73% of taxable sales under the bill; while artificially sweetened beverages (diet) account for 27% of taxable sales.
- Tax rate increases annually by specified changes in the CPI.

Based on the required distribution of the tax revenues, general fund revenues could increase by approximately $260 million annually. The two special funds will receive $239 million annually from the revenues collected from the new tax.

However, to the extent that the new tax results in higher beverage prices and demand changes more than estimated, State revenues will be impacted accordingly. If consumers purchase fewer amounts of sugary beverages, State revenues resulting from the new tax will decrease. As a point of comparison, cigarette tax revenues in many jurisdictions have decreased over time as demand has decreased as overall cigarette prices have increased. While this has positive benefits from a public health perspective, it does also show the difficulty in tying potentially decreasing revenue sources to specific funding obligations.

Revenue Collections in Neighboring State

As a point of reference, the City of Philadelphia (Pennsylvania) collected $69.6 million from its sugary beverage excise tax in fiscal 2024, $73.4 million in fiscal 2023, $75.4 million in fiscal 2022, $70.2 million in fiscal 2021, and $69.9 million in fiscal 2020. The excise tax rate is set at $0.015 per ounce of sugary beverages sold or produced.

Comptroller's Office Expenditures

The Comptroller's Office will need additional personnel to administer the new tax, including two senior tax attorneys, two revenue examiners, and one financial compliance auditor. The new staff will be tasked with identifying and registering businesses subject to the tax, processing tax returns and payments, auditing tax returns and payments, drafting regulations, enforcing tax compliance, and handling expected litigation. The additional personnel related costs are projected to total $477,100 in fiscal 2027 and $470,100 by fiscal 2030. These costs include salaries, fringe benefits, and ongoing operating expenses. In addition, the Comptroller's Office will incur $1.5 million in computer programming expenses in fiscal 2026 to add the new sugary beverage distributor tax to the current tax system. These costs include discovery, design, development, testing, and system interfaces.

Positions	5.0
Salaries and Fringe Benefits	$438,880
Computer Programming Modifications	1,500,000
Operating Expenses	38,225
Total State Expenditures (FY2026-2027)	**$1,977,105**

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced with the last three years.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Judiciary (Administrative Office of the Courts); Maryland State Department of Education; Maryland Department of Health; Department of Legislative Services

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