

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6354**

**BILL NUMBER: SB 375**

**NOTE PREPARED:** Dec 19, 2006

**BILL AMENDED:**

**SUBJECT:** Sales Tax Exemption for Vending Machine Sales.

**FIRST AUTHOR:** Sen. Steele

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:**  GENERAL  
 DEDICATED  
 FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill provides a Sales Tax exemption for food sold through a vending machine.

**Effective Date:** July 1, 2007.

**Explanation of State Expenditures:** This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Sales Tax forms, as well as update computer software. However, it is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR.

**Explanation of State Revenues:** This bill will reduce Sales Tax revenue by approximately \$10.24 M in FY 2008 and \$10.38 M in FY 2009. The bill provides a Sales Tax exemption for food sold through a vending machine.

Many food items are currently exempt from Sales Tax under IC 6-2.5-5-20, but food sold through vending machines is specifically excluded from the exemption and therefore taxable. This bill strikes that exclusion, thus allowing food sold through vending machines to be exempt from Sales Tax. Please note that this exemption would only be applied to "food" as defined in statute and further explained and interpreted by the DOR. The definitions which apply and a list of examples of vending machine items that would continue to be taxed and exempted under this bill are included in the *Background* section below.

Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and

the Industrial Rail Service Fund (0.033%). The table below illustrates the reduction in Sales Tax revenue that would be distributed to each of these funds.

<b>Fund</b>	<b>FY 2008 (in millions)</b>	<b>FY 2009 (in millions)</b>
General Fund	\$5.036	\$5.104
Property Tax Replacement Fund	\$5.119	\$5.188
Public Mass Transportation Fund	\$0.065	\$0.066
Industrial Rail Service Fund	\$0.014	\$0.015
Commuter Rail Service Fund	\$0.003	\$0.003
<b>TOTAL</b>	<b>\$10.24</b>	<b>\$10.38</b>

*Background:* IC 6-2.5-1-20 defines "food and food ingredients" as "substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and that are consumed for their taste or nutritional value. The term does not include alcoholic beverages, candy, dietary supplements, tobacco products, or soft drinks."

The Department of Revenue (45 IAC 2.2-5-39) provides examples of items which are food and items which are not considered food for Sales Tax purposes. Under current law, ALL of these items, IF bought from a vending machine, WOULD BE TAXABLE. Under the bill, the items labeled FOOD, would be exempt.

FOOD (currently taxable, but exempted by the bill): Cereal & Cereal Products; Cocoa; Coffee & Coffee Substitutes; Cookies; Crackers; Dehydrated Fruit & Vegetables; Diet Foods; Fruit & Fruit Products, including Fruit Juices; Gelatin; Health Foods; Ice Cream, Toppings, and Novelties; Marshmallows; Meat & Meat Products; Milk & Milk Products; Nuts, including salted, but not chocolate or candy-coated; Popcorn; Potato Chips; Tea; Vegetables & Vegetable Products; Vegetable Juices

NON-FOOD (currently taxable, still taxable under the bill): Alcoholic Beverages; Candy & Confectionery; Candied Apples; Caramel-Coated Popcorn; Chewing Gum; Chocolate-Covered Nuts; Ice; Soft Drinks, Sodas & Similar Beverages; Tobacco Products; Water, including mineral, bottled carbonated & Soda.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Automatic Merchandiser, *2005 Industry Report*; American Beverage Association, *What America Drinks?*.

**Fiscal Analyst:** Adam Brown, 317-232-9854.