

**Department of Legislative Services**  
 Maryland General Assembly  
 2003 Session

**FISCAL AND POLICY NOTE**

House Bill 580  
 Ways and Means

(Delegate Marriott, *et al.*)

**Alcoholic Beverage Tax - Special Fund for Alternatives to Incarceration for Drug Offenders**

This bill increases the State tax rates for alcoholic beverages from \$1.50 to \$3.00 per gallon for distilled spirits (from 39.63 cents to 79.26 cents for each liter), from 40 cents to 80 cents per gallon for wine (from 10.57 cents to 21.14 cents for each liter), and from 9 cents to 18 cents per gallon for beer (from 2.3778 cents to 4.7556 cents for each liter). For distilled spirits that contain alcohol greater than 100 proof, the additional tax is raised from 1.5 cents to 3 cents per gallon, for each 1 proof over 100 proof.

The Comptroller is required to distribute 100% of the additional alcoholic beverage tax revenues collected in fiscal 2004 through 2008 to a special fund for programs providing alternatives to incarceration for drug offenders. These funds are supplemental to funding that would otherwise be appropriated.

The bill takes effect July 1, 2003.

**Fiscal Summary**

**State Effect:** Special fund revenues and expenditures each increase by approximately \$25.5 million in FY 2004. Future year revenues increase by 1.5% annually.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
SF Revenue	\$25.5	\$25.9	\$26.3	\$26.7	\$27.1
SF Expenditure	25.5	25.9	26.3	26.7	27.1
Net Effect	\$0	\$0	\$0	\$0	\$0

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

## Analysis

**Current Law:** State tax rates for alcoholic beverages in Maryland are \$1.50 per gallon for distilled spirits, 40 cents per gallon for wine, and 9 cents per gallon for beer.

### Background:

#### *Alcoholic Beverage Taxes*

The tax on distilled spirits has not increased since 1955, and the tax on beer and wine was last increased in 1972.

**Exhibit 1** shows alcoholic beverage tax rates in all 50 states and the District of Columbia.

**State Revenues:** As a result of the alcoholic beverage tax increases, special fund revenues would increase by approximately \$25.5 million in fiscal 2004 based on the following facts and assumptions:

- An estimated 105.3 million gallons of beer are projected to be purchased in fiscal 2004. Due to the tax increase, sales could decrease by .38% in fiscal 2004.
- Approximately 11.0 million gallons of wine are projected to be purchased in fiscal 2004. Due to the tax increase, sales could decrease by .8% in fiscal 2004.
- Approximately 8.5 million gallons of distilled spirits are projected to be purchased in fiscal 2004, including distilled spirits of over 100 proof. Due to the tax increase, sales could decrease by 3.6% in fiscal 2004.

Future year revenues are expected to increase by approximately 1.5% annually.

To the extent that the tax increases proposed by the bill result in a higher incidence of cross-border sales activity than is accounted for in the estimate, revenues would in turn be lower than estimated. This would most likely apply to the sale of distilled spirits, since it is the most price sensitive.

Any expenditures associated with printing new tax forms and postage are assumed to be minimal and could be absorbed within existing budgeted resources.

**State Expenditures:** The bill requires 100% of the revenues generated from the alcoholic beverage tax increase to be distributed to a special fund to provide funding for programs that would provide alternatives to incarceration for drug offenders beginning in

fiscal 2004. The bill does not specify how the funds will be distributed. Since the bill does not specify for what purposes the additional revenues would be used beyond fiscal 2008, it is assumed that the revenues would be subject to the normal budgetary process beginning in fiscal 2009.

**Small Business Effect:** The alcoholic beverage tax increase will result in a decline in sales for all retailers and wholesalers of alcoholic beverages. Those businesses located near the State's borders, particularly those in Montgomery and Prince George's counties, could be more adversely affected as customers in those areas could cross the border to purchase alcoholic beverages, where the taxes are somewhat lower.

Also, small businesses that import beer into the State would be required to prepay the tax.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Health and Mental Hygiene, Department of Public Safety and Correctional Services, Department of Legislative Services

**Fiscal Note History:** First Reader - March 6, 2003  
mdf/jr

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**Exhibit 1  
Alcoholic Beverage Taxes by State, as of January 2003**

<b>State</b>	<b>Distilled Spirits<sup>1</sup> (\$ per gallon)</b>	<b>Wine<sup>2</sup> (\$ per gallon)</b>	<b>Beer<sup>3</sup> (\$ per gallon)</b>
Alabama	*	\$1.70	\$.53
Alaska	\$5.60	.85	.35
Arizona	3.00	.84	.16
Arkansas	2.50	.75	.23
California	3.30	.20	.20
Colorado	2.28	.32	.08
Connecticut	4.50	.60	.19
Delaware	3.75	.97	.16
Florida	6.50	2.25	.48
Georgia	3.79	1.51	.48
Hawaii	5.92	1.36	.92
Idaho	*	.45	.15
Illinois	4.50	.73	.185
Indiana	2.68	.47	.12
Iowa	*	1.75	.19
Kansas	2.50	.30	.18
Kentucky	1.92	.50	.08
Louisiana	2.50	.11	.32
Maine	*	.60	.35
Maryland	1.50	.40	.09
Massachusetts	4.05	.55	.11
Michigan	*	.51	.20
Minnesota	5.03	.30	.15
Mississippi	*	.35	.43
Missouri	2.00	.36	.06
Montana	*	1.06	.14
Nebraska	3.00	.75	.23
Nevada	2.05	.40	.09
New Hampshire	*	**	.30
New Jersey	4.40	.70	.12
New Mexico	6.06	1.70	.41
New York	6.44	.19	.125
North Carolina	*	.79	.53
North Dakota	2.50	.50	.16
Ohio	*	.32	.18
Oklahoma	5.56	.72	.40
Oregon	*	.67	.08
Pennsylvania	*	**	.08
Rhode Island	3.75	.60	.10
South Carolina	2.72	.90	.77
South Dakota	3.93	.93	.27
Tennessee	4.40	1.21	.14
Texas	2.40	.20	.19
Utah	*	**	.35
Vermont	*	.55	.265
Virginia	*	1.51	.26
Washington	*	.87	.261
West Virginia	*	1.00	.18
Wisconsin	3.25	.25	.06
Wyoming	*	**	.02
District of Columbia	1.50	.30	.09

Source: Federation of Tax Administrators

<sup>1</sup>22 states and DC have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

<sup>2</sup>37 states have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

<sup>3</sup>23 states have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

\*In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, and net liquor sales.

\*\*All wine sales are through state stores. Revenue in these states is generated from various taxes, fees, and net profits.