SB 529

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 529 (Senator Jones, *et al.*)
Budget and Taxation

Alcoholic Beverage Tax - Maryland Emergency Medical System Operations Fund

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 which 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 2005 though 2009 to the Emergency Medical System Operations Fund.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: General fund revenue increase of approximately $25.5 million in FY 2004. Special fund revenues increase by 1.5% annually in FY 2005 through 2009.

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

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: 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.

Emergency Medical System Operations Fund

In recent years, trauma centers across the country have faced growing financial difficulties and a declining willingness among physicians to provide trauma care due to increasing numbers of uninsured and underinsured patients, declining reimbursement for hospital and physician services, and increasing medical malpractice insurance costs. In June 2002 Washington County Hospital in Hagerstown was forced to suspend its trauma program due to insufficient availability of trauma physicians to provide the required 24-hour staffing.

According to Maryland TraumaNet, the State association of trauma centers, the most serious financial problem facing Maryland trauma centers is uncompensated care. On average, more than 25% of trauma patients statewide are uninsured, with some trauma centers experiencing uninsured rates as high as 39%. Trauma centers indicate that even when patients are insured, reimbursement levels, particularly under Medicaid, do not cover the cost of providing care. Many trauma physicians, particularly subspecialists, are also facing rapidly increasing medical malpractice premiums.

Trauma centers are also troubled by a growing lack of interest among surgeons to provide trauma care. Most physicians are not employed directly by trauma centers, but practice in the community and agree to be on call for trauma cases either as part of their hospital surgical privileges or as a public service. By their nature, trauma calls frequently impose upon these physicians' elective practices. Therefore, many trauma centers must pay physicians up to $1,000 per day to be on call for trauma cases in order to help physicians offset their losses from uncompensated trauma care and time lost with their private practices.

To address these growing challenges, Chapter 33 of 2001 established a panel to study the potential funding needs of trauma centers participating in the State's Emergency Medical Services System that do not receive funding under the Maryland Emergency Medical System Operations Fund (MEMSOF). Established in 1992, MEMSOF provides partial funding for various emergency medical efforts through an $11 surcharge to motor vehicle registrations.

Chapter 33 specifically directed the panel to: (1) examine the costs associated with the operation of trauma centers; (2) evaluate the amount, extent, source, and contributing factors of any financial gain or loss attributable to each of the State's trauma centers that are not already recovered under the hospital rate-setting system; and (3) consider potential funding sources or other approaches to address any funding needs identified by the study.

State Revenues: As a result of the alcoholic beverage tax increases, general fund revenues would increase by approximately $25.5 million in fiscal 2004 and special fund revenues would increase by approximately $25.9 million in fiscal 2005, based on the following facts and assumptions:

- An estimated 105.3 million gallons of beer are projected to be purchased in Maryland 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 Maryland 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 Maryland 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 MEMSOF beginning in fiscal 2004. Since the bill does not specify for what purposes the additional revenues would be used beyond fiscal 2009, it is assumed that the revenues would be subject to the normal budgetary process beginning in fiscal 2010.

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.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 3, 2003
lc/cer

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

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

State	Distilled Spirits[1] ($ per gallon)	Wine[2] ($ per gallon)	Beer[3] ($ per gallon)
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

[1] 22 states and DC have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.
[2] 37 states have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.
[3] 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 is these states is generated from various taxes, fees, and net profits.