

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

Senate Bill 527 (Senator Ruben, *et al.*)
 Budget and Taxation

Alcoholic Beverage Tax - Tax Rates

This bill increases the State tax rates for alcoholic beverages from \$1.50 to \$4.50 per gallon for distilled spirits (from 39.63 cents to \$1.19 for each liter), from 40 cents to \$1.20 per gallon for wine (from 10.57 cents to 31.71 cents for each liter), and from 9 cents to 27 cents per gallon for beer (from 2.3778 cents to 7.1334 cents for each liter). For distilled spirits that contain alcohol greater than 100 proof, the additional tax is raised from 1.5 cents to 4.5 cents per gallon for each proof over 100 proof.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund revenue increase of approximately \$49.7 million in FY 2005. Future year revenues increase by 1.1% annually. Expenditures are absorbable within existing resources.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$49.7	\$50.3	\$50.8	\$51.4	\$51.9
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$49.7	\$50.3	\$50.8	\$51.4	\$51.9

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: 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 Fiscal Effect: As a result of the tax increases on alcoholic beverages, general fund revenues would increase by approximately \$49.7 million in fiscal 2005 based on the following facts and assumptions:

- An estimated 102.3 million gallons of beer are projected to be purchased in Maryland in fiscal 2005. Due to the tax increase, sales could decrease by .76% in fiscal 2005.
- Approximately 11.5 million gallons of wine are projected to be purchased in Maryland in fiscal 2005. Due to the tax increase, sales could decrease by 1.6% in fiscal 2005.
- Approximately 8.4 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 7.2% in fiscal 2005.

Future year revenues are expected to increase by approximately 1.1% 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 is assumed to be minimal and could be absorbed within existing budgeted resources.

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: A similar bill was introduced as SB 384 in the 2003 session. No action was taken by the Senate Budget and Taxation Committee.

Cross File: None designated, although HB 889 is nearly identical.

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

Fiscal Note History: First Reader - February 23, 2004
mam/mdr

Analysis by: Michael Sanelli

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

Exhibit 1
Alcoholic Beverage Taxes by State, as of January 2004

<u>State</u>	<u>Distilled Spirits¹</u> <u>(\$ per gallon)</u>	<u>Wine²</u> <u>(\$ per gallon)</u>	<u>Beer³</u> <u>(\$ per gallon)</u>
Alabama	*	\$1.70	\$.53
Alaska	\$12.80	2.50	1.07
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	.115
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	3.75	.95	.31
Nevada	3.60	.70	.16
New Hampshire	*	**	.30
New Jersey	4.40	.70	.12
New Mexico	6.06	1.70	.41
New York	6.44	.19	.11
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	*	**	.41
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
U.S. Median	3.75	.64	\$.188

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 in these states are generated from various taxes, fees, and net profits.