

**Department of Legislative Services
Maryland General Assembly
2007 Special Session**

FISCAL AND POLICY NOTE

Senate Bill 232
Budget and Taxation

(Senator Forehand)

Alcoholic Beverage Tax - Rates

This emergency bill increases the State tax rates for alcoholic beverages from \$1.50 to \$4.50 per gallon for distilled spirits, from 40 cents to \$1.20 per gallon for wine, and from 9 cents to 54 cents per gallon for beer. For distilled spirits that contain a percentage of 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.

Fiscal Summary

State Effect: General fund revenues could increase by \$13.9 million in FY 2008, which assumes a May 1, 2008 effective date. Future year revenues reflect full-year collections which are estimated to increase by 2.5% annually. Any expenses associated with printing new tax forms and postage are assumed to be minimal and could be absorbed within existing budgeted resources.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	\$13.9	\$86.0	\$88.1	\$90.3	\$92.6
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$13.9	\$86.0	\$88.1	\$90.3	\$92.6

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: In terms of liters, State tax rates for alcoholic beverages would increase from:

- 39.63 cents to \$1.1891 per liter or 89.1843 cents for each 0.75 liter container for *distilled spirits*;
- 10.57 cents to 31.71 cents per liter or 23.7825 cents for each 0.75 liter container for *wine*; and
- 2.3778 cents to 14.2694 per liter or 5.0625 cents for each 12 ounce container for *beer*.

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: Compared to other states, Maryland has relatively low tax rates on alcoholic beverages. 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 as of January 2007.

State Revenues: As a result of the tax increases on alcoholic beverages, general fund revenues would increase by \$13.9 million in fiscal 2008, assuming a May 1, 2008 effective date, and \$86.0 million in fiscal 2009 based on the following facts and assumptions:

- 10.0 million gallons of distilled spirits are projected to be purchased in Maryland in fiscal 2009, including distilled spirits of over 100 proof; due to the tax increase, sales could decrease by 6.0%.
- 13.7 million gallons of wine are projected to be purchased in Maryland in fiscal 2009; due to the tax increase, sales could decrease by 1.3%.
- 108.1 million gallons of beer are projected to be purchased in Maryland in fiscal 2009; due to the tax increase, sales could decrease by 1.5%.

Future year revenues are expected to increase by approximately 2.5% annually, based on the forecast of the Bureau of Revenue Estimates.

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 these sales are likely to be more price sensitive than the others.

Small Business Effect: The alcoholic beverage tax increase would 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 with the District of Columbia to purchase alcoholic beverages, where the taxes will be considerably 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 17 in the 2007 special session. The Senate Budget and Taxation Committee took no action on the bill.

Cross File: None.

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

Fiscal Note History: First Reader - February 4, 2008
mll/hlb

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Exhibit 1
Alcoholic Beverage Taxes by State
January 2007

State	Distilled Spirits¹ (\$ per Gallon)	Wine² (\$ per Gallon)	Beer³ (\$ per Gallon)
Alabama	*	\$1.70	\$0.53
Alaska	\$12.80	2.50	1.07
Arizona	3.00	.84	0.16
Arkansas	2.50	.75	0.23
California	3.30	.20	0.20
Colorado	2.28	.32	0.08
Connecticut	4.50	.60	0.19
Delaware	5.46	.97	0.16
Florida	6.50	2.25	0.48
Georgia	3.79	1.51	0.48
Hawaii	5.98	1.38	0.93
Idaho	*	.45	0.15
Illinois	4.50	.73	0.185
Indiana	2.68	.47	0.115
Iowa	*	1.75	0.19
Kansas	2.50	.30	0.18
Kentucky	1.92	.50	0.08
Louisiana	2.50	.11	0.32
Maine	*	.60	0.35
Maryland	1.50	.40	0.09
Massachusetts	4.05	.55	0.11
Michigan	*	.51	0.20
Minnesota	5.03	.30	0.15
Mississippi	*	.35	0.43
Missouri	2.00	.30	0.06
Montana	*	1.06	0.14
Nebraska	3.75	.95	0.31
Nevada	3.60	.70	0.16
New Hampshire	*	**	0.30
New Jersey	4.40	.70	0.12
New Mexico	6.06	1.70	0.41
New York	6.44	.19	0.11
North Carolina	*	.79	0.53
North Dakota	2.50	.50	0.16
Ohio	*	.30	0.18

State	Distilled Spirits¹ (\$ per Gallon)	Wine² (\$ per Gallon)	Beer³ (\$ per Gallon)
Oklahoma	5.56	.72	0.40
Oregon	*	.67	0.08
Pennsylvania	*	**	0.08
Rhode Island	3.75	.60	0.10
South Carolina	2.72	.90	0.77
South Dakota	3.93	.93	0.28
Tennessee	4.40	1.21	0.14
Texas	2.40	.20	0.19
Utah	*	**	0.41
Vermont	*	.55	0.265
Virginia	*	1.51	0.26
Washington	*	.87	0.261
West Virginia	*	1.00	0.18
Wisconsin	3.25	.25	0.06
Wyoming	*	**	0.02
District of Columbia	1.50	.30	0.09
U.S. Median	3.75	.69	\$0.188

¹22 states and the District of Columbia have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

²37 states have different rates for products with certain percentages of alcohol and/or other sales/excise taxes.

³23 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.

Source: Federation of Tax Administrators