

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

House Bill 866

(Delegate Holmes, *et al.*)

Economic Matters

Education, Health, and Environmental Affairs

Alcoholic Beverages - Issuance, Renewal, and Transfer of Licenses and Permits -
Payment of State and Local Taxes

This bill requires an applicant for an alcoholic beverages license or permit to provide verification to the license issuing authority that all undisputed taxes payable to the Comptroller and the political subdivision where the establishment for which the license is sought is located have been paid, or that the applicant has provided for payment of the taxes in a satisfactory manner. Verification must be provided by the Comptroller's Office and the political subdivision. The board of license commissioners must disapprove an application if the applicant has not complied with the verification requirements. The board of license commissioners may approve the transfer of a license but condition the actual issuance of the license on compliance with the verification requirement. Prior to the renewal of a license or permit, the license issuing authority must verify through the Comptroller's Office and the appropriate political subdivision that the current holder has paid all undisputed taxes or provided for payment in a satisfactory manner. If the current holder owes undisputed taxes and has not provided for payment, the license or permit may not be renewed.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: State revenues will increase beginning in FY 2010 from additional tax compliance efforts. Expenditures are not affected.

Local Effect: Potential increase in local tax revenues beginning in FY 2010 resulting from additional tax compliance efforts. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The verification requirements do not apply in a political subdivision in which requirements that are at least as restrictive apply under the current statute or under a regulation adopted by the local board.

The bill also repeals a requirement that, before any holder of a license, including a receiver or trustee for the benefit of creditors, may be permitted to transfer the holder's place of business to some other location or sell or assign the license and transfer the holder's stock in trade to another person, all retail sales, amusement, admission, and withholding taxes have been paid to the Comptroller of the Treasury of the State.

Current Law/Background: An application for an alcoholic beverages license is required to contain a statement that the applicant will, if granted a license, conform to all laws and regulations relating to the business in which the applicant proposes to engage. The Comptroller's legal counsel has previously determined that the failure to pay taxes constitutes a violation of "laws and regulations relating to the business."

Under the Comptroller's Liquor License Renewal Project, the Compliance Division informs each jurisdiction of alcoholic beverages licensees that have delinquent State tax liabilities. The board of license commissioners for each jurisdiction is then required to withhold alcoholic beverages licenses from such businesses at renewal. For new license applicants, local jurisdictions need to inquire with the Comptroller's Office to verify that an applicant's State taxes have been paid. There is no specific requirement that local licensing boards contact the Comptroller's Office or other jurisdictions to determine tax status of an applicant for a new license.

In an April 2008 audit of the Comptroller's Compliance Division, the Office of Legislative Audits (OLA) reported that two local subdivisions refuse to withhold alcoholic beverages licenses from businesses with delinquent State taxes. According to the division's records, as of November 2006, 198 licensees in these two subdivisions owed approximately \$4 million in unpaid State taxes. OLA recommended that the Compliance Division, in conjunction with the Comptroller and the Office of the Attorney General, take necessary action to resolve this matter.

In addition to the Comptroller's Liquor License Renewal Project, the Comptroller's Office operates tax compliance programs for most business license applications and renewals pursuant to recently enacted legislation.

State Revenues: The bill requires that all undisputed taxes must be paid (or a satisfactory method of payment arranged) before the issuance or renewal of a liquor

license. As a result, State revenues will increase beginning in fiscal 2010 as a result of additional outstanding tax liability payments from liquor license/permit applicants.

The Comptroller's Office advises that in fiscal 2008 a total of approximately \$6.0 million was collected from liquor license applicants in counties that currently hold license transfers and renewals from applicants with outstanding tax liability – \$4.5 million from renewal applicants and \$1.5 million from transfer applicants. According to the Comptroller's Office, the local boards of license commissioners in all counties, except Prince George's, hold up license renewals due to unpaid taxes. The Comptroller's Office estimates that expanding liquor licensing tax compliance could increase revenues in fiscal 2010 by \$550,000.

Part of the revenue gain represents an acceleration of revenue that would likely have been collected under existing tax compliance efforts or voluntary settlement by the taxpayer and not a net increase in total revenues. Revenue gains in future fiscal years will likely be similar to the estimated revenue gain in fiscal 2010.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Allegany, Caroline, and Talbot counties; Comptroller's Office; Department of Legislative Services

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