

**Department of Legislative Services**  
Maryland General Assembly  
2009 Session

**FISCAL AND POLICY NOTE**

Senate Bill 729

(Senator Madaleno, *et al.*)

Budget and Taxation

**Alcoholic Beverage Tax - Increase and Distribution of Funds**

This bill increases the State tax rates for alcoholic beverages from \$1.50 to \$6.00 per gallon for distilled spirits, from 40 cents to \$1.60 per gallon for wine, and from 9 cents to 36 cents per gallon for beer. The bill also establishes two nonlapsing special funds – the Developmental Disability Support Fund and the Addiction Treatment and Prevention Fund – to be administered by the Department of Health and Mental Hygiene (DHMH). The bill specifies the distribution of alcoholic beverages tax revenues.

The bill takes effect July 1, 2009.

**Fiscal Summary**

**State Effect:** General fund revenues increase by \$20.9 million in FY 2010 and special fund revenues and expenditures increase by \$61.7 million. Future year revenues reflect 2.0% annual increases. Any expenses associated with printing new tax forms and postage are assumed to be minimal and can be absorbed within existing resources.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	\$20.9	\$21.3	\$21.7	\$22.2	\$22.6
SF Revenue	\$61.7	\$62.9	\$64.2	\$65.5	\$66.8
SF Expenditure	\$61.7	\$62.9	\$64.2	\$65.5	\$66.8
Net Effect	\$20.9	\$21.3	\$21.7	\$22.2	\$22.6

*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 addition to increasing the alcoholic beverages tax rates, the bill establishes two special funds – the Developmental Disability Support Fund and the Addiction Treatment and Prevention Fund – and specifies that after distributions into an administrative cost account, 27.5% of alcoholic beverages tax revenues must be distributed to the Developmental Disability Support Fund and 27.5% to the Addiction Treatment and Prevention Fund, with the remainder going to the general fund.

### *Developmental Disability Support Fund (DDSF)*

The purpose of this fund is to support community-based services for individuals with developmental disability. DHMH must use 50% of the money in the fund to support licensed providers by providing funding for the average cost of wages and benefits of community-based direct support staff, as determined by the community services reimbursement rate commission. The remaining 50% of the money in the fund must be used to support services for individuals who are on the administration waiting list and are eligible, but not receiving one or more services, as follows: (1) 25% of the funds for community-based residential services, community-based day services, and supported employment services to individuals; and (2) 75% of the funds for providing community-based respite care, individual support services, and family support services to individuals living with their families. Money from the fund to support community-based services for individuals is supplemental to funding that would otherwise be appropriated for those programs.

DHMH must report to the Governor and the General Assembly by December 1 of each year on the number of individuals served and the services provided in the preceding fiscal year using the fund.

### *Addiction Treatment and Prevention Fund (ATPF)*

The purpose of this fund is to support community-based programs for the treatment and prevention of drug and alcohol addictions in adults and adolescents, including treatment for those with co-occurring substance use and mental health disorders. The fund may only be used to provide additional funding to support such community-based programs.

Money from the fund to support community-based programs for treatment and prevention of drug and alcohol addictions is supplemental to funding that would otherwise be appropriated for those programs.

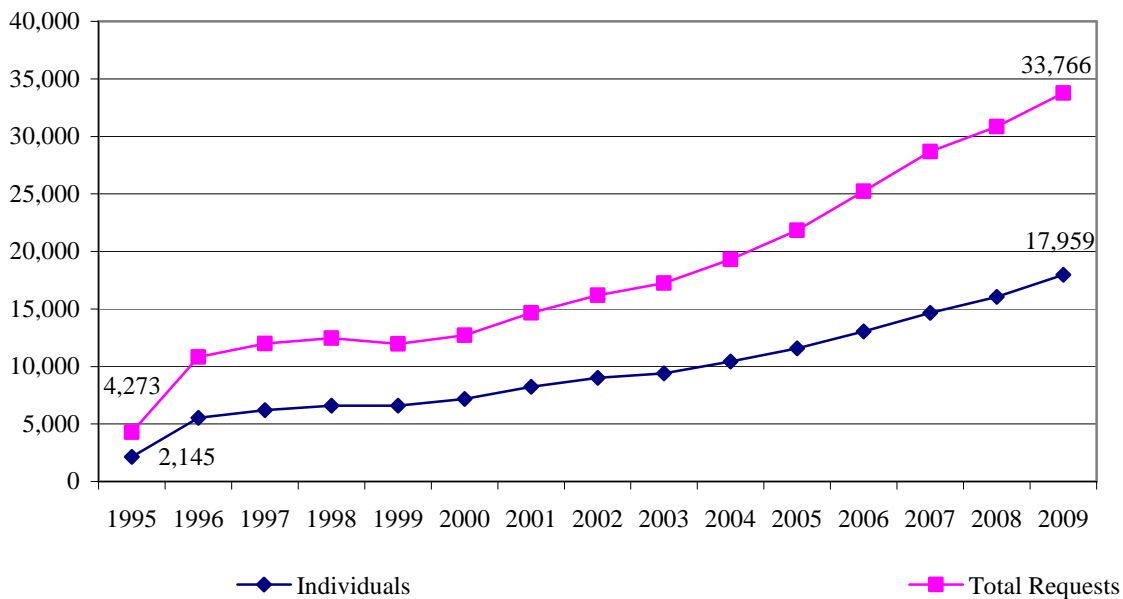
**Current Law:** State tax rates for alcoholic beverages in Maryland are \$1.50 per gallon for distilled spirits, 40 cents per gallon for wine, and 9 cents per gallon for beer.

**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 beverages tax rates in all 50 states and the District of Columbia as of January 2008.

*Demand for DDA Services*

The Developmental Disabilities Administration (DDA) maintains a waiting list of individuals requesting residential, day, or support services from the administration. Some individuals on the waiting list currently receive some DDA services, but anticipate the need for additional services in the near or immediate future. Others on the waiting list currently do not receive any DDA services. In its annual report on the activities of the Waiting List Equity Fund for fiscal 2008, DHMH reported that there were 17,250 individuals waiting for one or more of three basic services (residential, day, and support services), totaling 31,352 service requests. **Exhibit 2** shows the growth of the waiting list between fiscal 1995 and 2009. As the chart demonstrates, the number of individuals and total service requests has grown significantly from 2,145 individuals requesting 4,273 services in fiscal 1995, to 17,959 individuals requesting 33,766 requests in fiscal 2009.

**Exhibit 2  
DDA Waiting List Growth  
Fiscal 1995-2009**



Source: Department of Health and Mental Hygiene

**State Revenues:** As a result of the tax increases on alcoholic beverages, total alcoholic beverages tax revenues increase by \$82.6 million in fiscal 2010. The bill requires 27.5% of all alcoholic beverages tax revenue to be distributed to each of two special funds with the remainder being distributed to the general fund. As a result, general fund revenues increase by \$20.9 million (over currently estimated collections) and total special fund revenues increase by \$61.7 million. **Exhibit 3** shows the estimated revenue increase and the distribution of revenues pursuant to the bill. The estimate is based on the following facts and assumptions:

- 10.0 million gallons of distilled spirits are projected to be purchased in Maryland in fiscal 2010, including distilled spirits of over 100 proof; due to the tax increase, sales could decrease by 9.0%.
- 13.3 million gallons of wine are projected to be purchased in Maryland in fiscal 2010; due to the tax increase, sales could decrease by 2.0%.
- 103.7 million gallons of beer are projected to be purchased in Maryland in fiscal 2010; due to the tax increase, sales could decrease by 0.9%.

Future year revenues are expected to increase by approximately 2.0% annually, based on the forecast of the Bureau of Revenue Estimates.

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**Exhibit 3**  
**Distribution of Alcoholic Beverages Tax Revenue**  
**(\$ in Millions)**

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Total Revenues	\$112.2	\$114.4	\$116.7	\$119.1	\$121.4
DDSF Revenues	30.9	31.5	32.1	32.7	33.4
ATPF Revenues	30.9	31.5	32.1	32.7	33.4
<b>General Fund Revenues</b>	<b>\$50.5</b>	<b>\$51.5</b>	<b>\$52.5</b>	<b>\$53.6</b>	<b>\$54.7</b>
Under Current Law	29.6	30.2	30.8	31.4	32.0
Additional Revenues	20.9	21.3	21.7	22.2	22.6

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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.

In addition, the total increase in alcoholic beverages tax revenues may be offset to some degree by a reduction in sales tax revenues attributable to sales of alcoholic beverages. As noted, the increased tax on alcoholic beverages results in a decline in demand for these products. Accordingly, sales tax revenues resulting from sales will decrease due to the decline in demand. It is assumed that the price increase attributable to the increase in the excise taxes will be passed along to the end consumer, thereby resulting in a higher retail price for alcoholic beverages, which in turn mitigates the decrease in sales tax revenues resulting from the excise tax increase proposed by the bill.

**State Expenditures:** The bill requires a portion of the revenue generated from the alcoholic beverages taxes (\$61.7 million) to be used for the specified purposes of the Developmental Disability Support Fund and the Addiction Treatment and Prevention Fund established by the bill. Exhibit 3 shows the projected funding for the two funds.

**Small Business Effect:** The alcoholic beverages 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.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 791 (Delegate Bronrott, *et al.*) - Ways and Means and Health and Government Operations.

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

**Fiscal Note History:** First Reader - March 16, 2009  
mcp/hlb

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**Exhibit 1**  
**Alcoholic Beverage Taxes by State**  
**January 2008**

<b>State</b>	<b>Distilled Spirits<sup>1</sup></b> <b>(\$ per Gallon)</b>	<b>Wine<sup>2</sup></b> <b>(\$ per Gallon)</b>	<b>Beer<sup>3</sup></b> <b>(\$ per Gallon)</b>
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	0.32
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
<b>Maryland</b>	<b>1.50</b>	<b>.40</b>	<b>0.09</b>
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
Oklahoma	5.56	.72	0.40
Oregon	*	.67	0.08
Pennsylvania	*	**	0.08

<b>State</b>	<b>Distilled Spirits<sup>1</sup></b> <b>(\$ per Gallon)</b>	<b>Wine<sup>2</sup></b> <b>(\$ per Gallon)</b>	<b>Beer<sup>3</sup></b> <b>(\$ per Gallon)</b>
Rhode Island	3.75	.60	0.10
South Carolina	2.72	.90	0.77
South Dakota	3.93	.93	0.27
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
<b>U.S. Median</b>	<b>3.75</b>	<b>.69</b>	<b>\$0.188</b>

<sup>1</sup>22 states and the District of Columbia 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.

Source: Federation of Tax Administrators