

Department of Legislative Services  
 Maryland General Assembly  
 2011 Session

FISCAL AND POLICY NOTE

House Bill 780 (Delegate Conaway)  
 Ways and Means

Sales and Use Tax - Surcharge - Alcoholic Beverages

This bill imposes a \$0.10 sales and use tax surcharge on the sale of alcoholic beverages in the State. Each unit of alcohol sold is subject to the surcharge; in instances when units are packaged together and sold in a carton or a case, the packaged unit is subject to a surcharge of \$0.10.

The bill takes effect July 1, 2011.

Fiscal Summary

**State Effect:** Significant general fund and Transportation Trust Fund (TTF) revenue increase beginning in FY 2012. The actual amount of the increase depends on the number of alcoholic beverage units sold each year that are subject to the surcharge. Under one set of assumptions, general fund revenues increase by \$25.5 million and TTF revenues increase by \$1.4 million beginning in FY 2012. General fund expenditures increase by \$187,200 in FY 2012 for computer programming changes.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	\$25.5	\$25.9	\$26.0	\$26.4	\$26.9
SF Revenue	\$1.4	\$1.5	\$1.8	\$1.9	\$1.9
GF Expenditure	\$.2	\$0	\$0	\$0	\$0
Net Effect	\$26.7	\$27.4	\$27.9	\$28.3	\$28.8

*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. The State's 6% sales tax is also imposed on the sale of alcoholic beverages.

**Background:** Total alcoholic beverage tax revenues in Maryland are estimated at \$31.2 million for fiscal 2012. Compared to other states, Maryland has relatively low tax rates on alcoholic beverages. The tax on distilled spirits was last increased in 1955, and the tax on beer and wine was last increased in 1972. **Appendix 1** shows alcoholic beverage tax rates for the 50 states and the District of Columbia as of January 2010. A federal excise tax on alcoholic beverages is also imposed – these rates are \$13.50 per gallon for distilled spirits, \$1.07 per gallon for wine, and \$0.58 per gallon for beer.

As noted in Appendix 1, the government directly controls the sales of distilled spirits in 18 states, including Pennsylvania, Virginia, and West Virginia. Sales of wine are controlled by the government in four states, including Pennsylvania. In these states, sales of these products are subject to a variety of taxes and fees.

The sales and use tax is the State's second largest source of general fund revenue, accounting for \$3.7 billion in fiscal 2011 and \$3.8 billion in fiscal 2012, according to the December 2010 revenue forecast. In addition, TTF is projected to receive \$228.7 million and \$237.6 million in sales and use tax revenues in fiscal 2011 and 2012, respectively. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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### Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	6%
Maryland	6%
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 3% for food

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**State Revenues:** State general fund and TTF revenues will increase by a significant amount beginning in fiscal 2012. However, the actual amount of the increase depends on the number of alcoholic beverage units sold each year. Under the bill, individual units, such as a bottle of wine or a bottle of distilled spirits will be subject to the surcharge as will be a case of wine, a case of beer, or a six-pack of beer. The actual revenue increase resulting from the surcharge will depend on the number and type of units sold. For example, beer and wine are often sold in cases and also in single bottles of various sizes. Distilled spirits are sold in units ranging from a few ounces to 1.75 liters.

The Comptroller's Office does not track the number of each type of alcoholic beverage unit that is sold in the State; sales are tracked by the number of gallons, as that is how alcoholic beverage taxes are imposed at the wholesale level. In fiscal 2010, there were 100.8 million gallons of beer, 10.1 million gallons of distilled spirits, and 13.7 million gallons of wine sold in the State. If the surcharge proposed by the bill was applied to the number of gallons sold, revenues would increase by approximately \$12.5 million. However, because the number of actual units sold will be much greater than the number of gallons sold, the revenue generated by the surcharge will be greater as well.

As a point of reference, and *for illustrative purposes only*, there are approximately: (1) 38.2 million liters of distilled spirits in the 10.1 million gallons sold in fiscal 2010; (2) 51.9 million liters of wine in the 13.7 million gallons sold in fiscal 2010; and (3) 179.2 million six-packs of beer in the 100.8 million gallons sold in fiscal 2010. If it is assumed that these are the only units sold, total sales and use tax revenue would increase by approximately \$26.9 million.

Chapter 10 of 2008 altered the distribution of sales and use tax revenues by requiring that, for fiscal 2009 through 2013, 5.3% of revenues be distributed to TTF. Beginning in fiscal 2014, the percentage of revenues distributed to TTF increases to 6.5%. Accordingly, the surcharge will increase general fund revenues by approximately \$25.5 million and TTF revenues by \$1.4 million beginning in fiscal 2012, based on these assumptions. To the extent that the number of units sold are higher or lower than estimated, the revenue estimate would differ.

**State Expenditures:** The Comptroller's Office will incur a one-time expenditure increase of \$187,200 in fiscal 2012 to make programming changes to its SMART system in order to accommodate the new sales and use tax surcharge.

**Small Business Effect:** The alcoholic beverage surcharge may 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 into Virginia and the District of Columbia to purchase alcoholic beverages.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 2, 2011  
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**Appendix 1**  
**Alcoholic Beverage Taxes by State**  
**January 2010**

<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	.28	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	8.55	1.39	0.235
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	5.50	.875	0.15
New Mexico	6.06	1.70	0.41
New York	6.44	.30	0.14
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	0.20
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>0.67</b>	<b>0.19</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