

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 220 (Senator Brochin, *et al.*)
 Budget and Taxation

Sales and Use Tax - Alcoholic Beverages - Rate Reduction

This bill reduces the sales tax rate on the sale of alcoholic beverages from 9% to 5%.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by \$123.6 million in FY 2017 and by \$141.5 million in FY 2021. Expenditures are not affected.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$123.6)	(\$127.9)	(\$132.3)	(\$137.4)	(\$141.5)
Expenditure	0	0	0	0	0
Net Effect	(\$123.6)	(\$127.9)	(\$132.3)	(\$137.4)	(\$141.5)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The general sales and use tax is imposed on a bracket basis approximating 6%. Chapters 571 and 572 of 2011 increased the sales tax rate on the sale of an alcoholic beverage from 6% to 9%. The general 6% tax rate applies to charges for labor, materials, or property used in connection with the sale of an alcoholic beverage and to a mandatory

gratuity or service charge in the nature of a tip for serving food or any type of beverage to a group containing more than 10 individuals.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.5 billion in fiscal 2016 and \$4.7 billion in fiscal 2017, according to the December 2015 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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

Delaware	0%
District of Columbia	5.75%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; plus 0.5% or 1% in certain municipalities

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

State Fiscal Effect: General fund revenues decrease by \$123.6 million in fiscal 2017 and by \$141.5 million in fiscal 2021 as a result of decreasing the sales tax rate on alcoholic beverages from 9% to 5%. This estimate is based on the following:

- the fiscal 2017 sales tax revenue estimate from the sale of alcoholic beverages is \$288.9 million, which is projected to increase by approximately 3.5% annually; and
- sales of alcoholic beverages will increase by 3% annually over current projections as a result of the rate reduction.

Small Business Effect: The sales tax decrease on alcoholic beverages may result in an increase in sales for all retailers and wholesalers of alcoholic beverages. Those businesses located near the State's borders may be more positively affected as customers in other states could cross the border into Maryland to purchase alcoholic beverages due to the lower sales tax rate.

Retailers may also incur increased programming and administrative costs associated with collecting and remitting revenues from the new sales and use tax rate. The Comptroller's *Alcohol and Tobacco Tax Annual Report, Fiscal Year 2015* indicates that 7,212 retail alcoholic beverages licenses were issued for fiscal 2015.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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