

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 157

(Senator Brochin, *et al.*)

Budget and Taxation

Sales and Use Tax - Alcoholic Beverages - Rate Reduction

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

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease by \$130.8 million in FY 2018 and by \$150.1 million in FY 2022. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2018.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$130.8)	(\$135.4)	(\$140.2)	(\$145.1)	(\$150.1)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$130.9)	(\$135.4)	(\$140.2)	(\$145.1)	(\$150.1)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background: 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.

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2017 and \$4.7 billion in fiscal 2018, according to the December 2016 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	0.0%
District of Columbia	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6.0%; 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 27 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 \$130.8 million in fiscal 2018 and by \$150.1 million in fiscal 2022 as a result of reducing the sales tax rate on alcoholic beverages from 9% to 5%. This estimate is based on the following:

- the fiscal 2018 sales tax revenue estimate from the sale of alcoholic beverages is \$305.8 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.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2018 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Small Business Effect: The sales tax decrease on alcoholic beverages may result in an increase in sales for 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 2016* indicates that 7,283 retail alcoholic beverages licenses were issued for fiscal 2016.

Additional Information

Prior Introductions: SB 220 of 2016 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken on the bill.

Cross File: None.

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

Fiscal Note History: First Reader - January 30, 2017
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