

Department of Legislative Services

Maryland General Assembly

2019 Session

FISCAL AND POLICY NOTE

Third Reader - Revised

Senate Bill 596

(Senator McCray)

Education, Health, and Environmental Affairs
and Budget and Taxation

Economic Matters

Alcoholic Beverages - Mead - Definition and Tax Rate

This bill expands the definition of beer to include mead. The bill imposes the same alcoholic beverage tax rate to mead that is imposed on beer, which is \$0.09 per gallon. Mead is defined as a fermented alcoholic beverage consisting primarily of honey and water. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: State revenues decrease beginning in FY 2020 as a result of reclassifying mead as a beer and reducing the alcoholic beverage tax rate on mead by \$0.31 per gallon. State expenditures are not directly affected.

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses that are producers or wholesalers of mead will realize a reduction in alcoholic beverage tax payments.

Analysis

Current Law: Mead is categorized as a honey wine for federal excise tax purposes. As a result, mead is considered a wine in Maryland for regulatory purposes and is taxed accordingly. The alcoholic beverage tax rate for wine is \$0.40 per gallon; whereas the alcoholic beverage tax rate for beer is \$0.09 per gallon.

Under State law, beer is defined as a brewed alcoholic beverage including (1) ale; (2) porter; (3) stout; and (4) hard cider that is derived primarily from apples, apple concentrate and water, pears, or pear concentrate and water; and contains no other fruit product but contains at least one-half of 1% and less than 8.5% of alcohol by volume. Beer also includes an alcoholic beverage that contains (1) 6% or less alcohol by volume, derived primarily from the fermentation of grain, with not more than 49% of the alcoholic beverage's overall alcohol content by volume obtained from flavors and other added nonbeverage ingredients containing alcohol; or (2) more than 6% alcohol by volume, derived primarily from the fermentation of grain, with not more than 1.5% of the alcoholic beverage's overall alcohol content by volume obtained from flavors and other added nonbeverage ingredients containing alcohol.

The Maryland Wine and Grape Promotion Fund is a special nonlapsing fund in the Maryland Department of Agriculture (MDA), used to provide grants to nongovernmental organizations and to conduct other activities for promotional purposes. Chapter 282 of 2015 altered the distribution of alcoholic beverages tax revenue so that the revenue generated from the tax on wine produced at wineries licensed in the State must be distributed to the Maryland Wine and Grape Promotion Fund.

Background: Mead is a fermented alcoholic beverage made primarily of honey and water. Production of mead dates to 9,000 years ago.

The State collected \$6.5 million in alcoholic beverage taxes from the sale of wine and \$8.2 million from the sale of beer in fiscal 2018. The fiscal 2020 revenue forecast assumes \$93,000 from the alcoholic beverage tax on wine will be distributed to the Maryland Wine and Grape Promotional Fund.

State Fiscal Effect: State revenues decrease beginning in fiscal 2020 as a result of reclassifying mead as a beer and reducing the alcoholic beverage tax rate on mead by \$0.31 per gallon. In fiscal 2018, 15.3 million gallons of wine were sold in Maryland; however, the Comptroller's Office does not have data on the amount of mead that was sold.

As a point of reference, if 10,000 gallons of mead are sold in Maryland each year, State revenues will decrease by \$3,100 annually. The revenue loss increases to \$31,000 if 100,000 gallons of mead are sold.

Additional Information

Prior Introductions: None.

Cross File: HB 1316 (Delegates Glenn and Smith) - Rules and Executive Nominations.

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

Fiscal Note History: First Reader - February 20, 2019
sb/hlb Third Reader - March 15, 2019
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