

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 796 (Delegate Buckel)
 Ways and Means

Sales and Use Tax – Alcoholic Beverages – Rate Reduction

This bill reduces the State sales and use tax rate on alcoholic beverages from 9% to 6% for two fiscal years. **The bill takes effect July 1, 2021, and terminates June 30, 2023.**

Fiscal Summary

State Effect: General fund revenues decrease by \$97.9 million in FY 2022 and \$101.2 million in FY 2023. The estimate is based on the current sales and use tax revenue forecast. General fund expenditures increase by \$81,300 in FY 2022.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$97.9)	(\$101.2)	\$0	\$0	\$0
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$98.0)	(\$101.2)	\$0.0	\$0.0	\$0.0

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: The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. 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.

State Sales and Use Tax

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.7 billion in fiscal 2021 and \$4.9 billion in fiscal 2022, according to the December 2020 revenue forecast. The sales tax on alcoholic beverages is projected to generate \$310.9 million in fiscal 2022. **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	6.0%; 10.0% for liquor sold for on-the-premises consumption, soft drinks sold for on-the-premises consumption, and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles; and 8.0% for specified soft drinks
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 eligible food items; 2.5% for specified essential personal hygiene items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 1.0% in all municipalities

*An additional state tax of 0.7% is imposed in localities in Central Virginia, Northern Virginia and the Hampton Roads region, 1.0% is imposed in Halifax County, and an additional 1.7% is imposed in localities in the Historic Triangle.

State Revenues: Reducing the State sales tax rate on alcoholic beverages from 9% to 6% will reduce general fund revenues by approximately \$97.9 million in fiscal 2022 and by approximately \$101.2 million in fiscal 2023, based on the current sales tax revenue forecast. The estimate assumes a 2.75% increase in sales of alcoholic beverages resulting from the sales tax rate reductions.

State Expenditures: The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2022 to notify the approximately 130,000 sales and use tax account holders of the sales tax rate changes.

Small Business Effect: Retailers in Maryland could benefit from an increase in sales resulting from the decrease in the State sales tax rate specified by the bill. Assuming a 2.75% increase in sales resulting from the rate decrease, this would result in approximately \$27,500 in recouped sales for a business with \$1 million in gross sales after the rate is reduced to 6%. However, the actual effect would vary by business.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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Analysis by: Michael Sanelli

Direct Inquiries to:

(410) 946-5510

(301) 970-5510