

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 867

(Delegate Ebersole, *et al.*)

Ways and Means and Economic Matters

Alcoholic Beverage Tax - Ready-to-Drink Cocktails

This bill establishes an alcoholic beverage tax rate for ready-to-drink (RTD) cocktails in an amount equal to \$0.40 per gallon or \$0.1057 per liter. An RTD cocktail is defined as a beverage that (1) contains distilled spirits mixed with nonalcoholic beverages and may contain wine; (2) is 12% or less alcohol by volume; and (3) is contained in original packaging consisting of a metallic container or can that is not more than 12 ounces. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: General fund revenues may decrease by a significant amount beginning in FY 2023. Under one set of assumptions, revenues decrease by approximately \$2.8 million in FY 2023 and by \$3.4 million in FY 2027. General fund expenditures for the Comptroller's Office increase by \$142,000 in FY 2023.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: The alcoholic beverage tax rate for distilled spirits is \$1.50 per gallon or \$0.3963 cents per liter. If distilled spirits contain a percentage of alcohol greater than 100 proof, an additional tax is imposed, for each 1 proof over 100 proof, of \$0.015 per gallon or \$0.3963 per liter. The alcoholic beverage tax rate for wine is \$0.40 per gallon or \$0.1057 per liter. The alcoholic beverage tax rate on beer and mead is \$0.09 per gallon or \$0.023778 per liter.

For fiscal 2023, the December 2021 general fund revenue forecast assumes \$19.2 million in distilled spirits tax revenues, \$6.5 million in wine tax revenues, and \$7.9 million in beer tax revenues.

State Revenues: The Comptroller's Office advises that RTD cocktails are currently taxed at the distilled spirits tax rate of \$1.50 per gallon. Therefore, the bill lowers the tax rate for this type of alcoholic beverage to \$0.40 per gallon, which is the same tax rate imposed on wine. As a result, general fund revenues decrease, potentially significantly, beginning in fiscal 2023. The amount of the revenue decrease depends on the number of gallons of RTD cocktails that are taxed at the new rate each year. However, the Comptroller's Office does not have data on the share of alcoholic beverage tax revenues that are derived directly from RTD cocktails.

Under the following set of assumptions, and *for illustrative purposes only*, general fund revenues may decrease by approximately \$2.8 million in fiscal 2023 and by \$3.4 million in fiscal 2027:

- distilled spirits tax revenues are estimated to be approximately \$19.2 million in fiscal 2023;
- approximately 12.8 million gallons of distilled spirits will be sold in fiscal 2023;
- U.S. sales of RTD cocktails will total \$5.6 billion in calendar 2022;
- Maryland is approximately 1.8% of the U.S. population;
- RTD cocktails make up approximately 20% of the gallonage of distilled spirits sold in Maryland; and
- revenues decrease by approximately 5% annually.

To the extent that the actual proportion of RTD cocktails sold in the State differs from that used in the estimate, the effect on general fund revenues will vary accordingly.

State Expenditures: The bill adds a new alcoholic beverage tax category; as a result, general fund expenditures for the Comptroller's Office increase by \$142,000 in fiscal 2023 for tax form changes and programming modifications to the Compass tax system.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Alcohol and Tobacco Commission; Comptroller's Office; Department of Legislative Services

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