

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1072 (Delegate Barnes)
Ways and Means

Sales and Use Tax - Alcoholic Beverages - Rate Alteration

This bill increases the State sales and use tax rate for alcoholic beverages from 9% to 10%.
The bill takes effect July 1, 2024.

Fiscal Summary

State Effect: General fund revenues increase by \$27.8 million and special fund revenues increase by \$3.5 million in FY 2025, based on the current sales and use tax revenue forecast. Future year revenue increases reflect the sales and use tax revenue forecast. No effect on expenditures.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	\$27.8	\$28.3	\$28.8	\$29.3	\$29.9
SF Revenue	\$3.5	\$3.8	\$4.0	\$4.0	\$4.1
Expenditure	0	0	0	0	0
Net Effect	\$31.3	\$32.1	\$32.7	\$33.4	\$34.0

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 and cannabis products, which are taxed at a rate of 9%. The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.9 billion in fiscal 2024 and \$6.1 billion in fiscal 2025, according to the December 2023

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	6.0%; 10.0% for liquor 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; 8.0% for specified soft drinks; 14.95% for transient accommodations; 18% for motor vehicle parking in commercial lots
Maryland	6.0% 9.0% for alcoholic beverages and cannabis products
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 1.0% for eligible food items; 1.0% for specified essential personal hygiene items
West Virginia	6.0% plus 1.0% in specified municipalities

* An additional state tax of (1) 0.7% is imposed in localities in Central Virginia, Northern Virginia, and the Hampton Roads region; (2) 1.0% in Charlotte, Gloucester, Halifax, Henry, Northampton, Patrick, and Pittsylvania counties, and the City of Danville; and (3) 1.7% is imposed in James City County, York County, and Williamsburg (Historic Triangle). The sales and use tax rate for food and personal hygiene products decreased to 1.0% as of January 1, 2023.

Blueprint for Maryland's Future Fund

Chapter 33 of 2022 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Chapter 33 requires the Comptroller, after making certain other distributions, to pay to the Blueprint for Maryland's Future Fund (BMFF) the following percentage of the remaining sales and use tax revenues:

- 9.2% for fiscal 2023;
- 11.0% for fiscal 2024;
- 11.3% for fiscal 2025;
- 11.7% for fiscal 2026; and
- 12.1% for fiscal 2027 and each subsequent fiscal year.

Chapter 33 also repealed the distribution of sales and use tax revenues to the BMFF from marketplace facilitators, certain out-of-state vendors, and specified digital products or digital codes.

State Fiscal Effect: Increasing the sales and use tax rate on alcoholic beverages from 9% to 10% will increase total sales and use tax revenues by \$31.3 million in fiscal 2025 and by \$34.0 million in fiscal 2029. The estimate is based on (1) the current sales and use tax revenue forecast and (2) a 0.72% decrease in alcoholic beverage taxable sales resulting from the sales and use tax rate increase.

As noted, Chapter 33 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Therefore, any increase in State sales and use tax revenues will also increase BMFF revenues. Based on the estimate above, general fund revenues increase by \$27.8 million, and BMFF revenues increase by \$3.5 million in fiscal 2025, and by \$29.9 million and \$4.1 million, respectively in fiscal 2029.

Small Business Effect: Retailers in Maryland could realize a decrease in sales resulting from an increase in the sales and use tax rate. As a point of reference, a 0.72% decrease in taxable sales would result in approximately \$7,200 in lost sales for a business with \$1 million in gross sales after the rate is increased to 10%. However, the actual impact would vary by business.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 25, 2024
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