DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

February 2, 2021

The Honorable Shane Pendergrass
The Honorable Anne Kaiser
House Office Building
Annapolis, Maryland 21401

Dear Chair Pendergrass and Chair Kaiser:

I am writing on behalf of the Distilled Spirits Council of the United States, the national trade association representing the leading producers and marketers of distilled spirits in the United States, in opposition to HB 463, entitled "*Maryland Health Equity Resource Act.*" As you know, this bill seeks to increase the state sales tax levied on beverage alcohol products by an additional one percent. I have attached an economic analysis that details our opposition.

By almost any measure, beverage alcohol in Maryland is already overtaxed. The current taxation scheme includes a federal excise tax, a state excise tax, significant state and local licensing fees imposed on licensees and retailers of alcohol, and a current sales tax of nine percent, which is thirty-three percent higher than any other product sold in Maryland. When these taxes and fees are piled one upon the other, it results in nearly 50 percent of the retail price going towards a tax or fee of some kind on every bottle of distilled spirits sold in Maryland. The current tax burden makes government an unequal partner in the beverage alcohol business.

Taxes on beverage alcohol are taxes on the hospitality industry and, unfortunately, retailers have little choice but to pass the higher tax rates along to consumers in the form of higher prices. The additional taxes proposed in HB 0463 will have a number of negative impacts on consumers, citizens, taxpayers and voters in the state.

1. **Prices will go up.** Off-premise retailers will have no choice but to raise prices to pay for the increased taxes. As sales decline, they will have no choice but to raise shelf prices to make up for lost revenue.

2. **Sales will go down.** People react to higher prices, and we project Maryland businesses will lose more than $12 million in sales from spirits; including beer and wine will bring lost sales to $21 million. When the 3 percent additional sales tax was imposed in 2011, sales in Maryland declined while sales in tax-free Delaware rose more than 5 percent. During that same period nationwide, alcohol sales increased 2.8 percent.

3. **Jobs will be lost.** Increased taxes are simply passed along to consumers in the form of higher prices. People react to higher prices and Maryland businesses are projected to lose significant retail sales. As sales fall, so does economic activity. Gross state product (a measure of general economic activity) will decline, and more than 300 jobs will be lost.

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4. **<u>It is a significant tax increase.</u>** The tax increase proposed by HB 0463 is a 11 percent tax increase on beverage alcohol, massive by any measure. There is often an attempt by politicians to downplay tax increases by calculating them at the smallest possible impact level – by the drink, by the glass, by the can – but facts are facts regardless of any attempt to minimize them. This is a huge tax increase.

While it is true there was an initial upsurge in package store sales in the early stages of the COVID-19 pandemic, those gains are likely to be short-lived. Nationally, we know that by the end of the year, sales growth rates for spirits were back down into the single digits, and we believe the same trends will occur in Maryland. A tax increase will only make economic recovery more difficult for the state's package liquor stores.

The state of Maryland generates substantial sums of tax revenue from the beverage alcohol industry under the current taxation scheme. And yet, here we are facing a proposal to impose higher taxes on the hospitality industry and its customers. The hospitality industry should not be looked upon as a piggy bank that can be tapped whenever the state wants more money regardless of how laudable the goal might be. This proposed new tax increase is onerous. Maryland businesses and citizens would be right to ask themselves, "When is enough, enough?"

This tax increase will cause consumer prices to go up, retailer sales to go down and a significant loss of Maryland jobs. At a time when the state should be working to support the hospitality industry recover from the harsh economic impacts of the pandemic, instead, it is proposing a devastating tax increase.

In closing, adding an additional burden to an already heavily taxed product is not good policy and we urge the Committee to reject this proposal and the negative impacts it would have on Maryland consumers and businesses, as well as the local economy.

Sincerely,

Jay M. Hibbard

Jay M. Hibbard
Senior Vice President – Government Relations
Distilled Spirits Council of the U.S.