

DIAGEO

Testimony in Support of SB 793 (Alcoholic Beverage Tax – Ready-to-Drink Cocktails)

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Senate Budget & Taxation Committee

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Good afternoon, Chairman Guzzone and Members of the Committee:

My Name is Dwayne Kratt and I represent Diageo, a distiller and brewer of beer products. I am here today in support of Senate Bill 793 which would reform the tax rate on low-proof alcohol beverages so that the tax rate is fairer and more equitable when compared to like products with similar levels of alcohol.

Currently, spirits based low-proof, ready-to-drink beverages are taxed at a rate of \$1.50 a gallon or almost 17 times higher than malt beverages with similar alcohol by volume or ABV.

To say this in another way, I have three Diageo products:



Tanqueray Gin RTDs

6% ABV – 12 oz., excise tax
is **14 Cents** for this container

Guinness Blonde

5% ABV – 12 oz., excise
tax is just **< a penny**

Guinness Draught

4.2% ABV – 14.9 oz.,
excise is just **> a penny**

This dramatic tax difference on products with roughly the same amount of alcohol by volume creates an unfair marketplace especially when these products generally compete against malt or sugar-based seltzers that are taxed at the much lower beer rate.

In response, this legislation creates a new low spirit RTD category with a tax rate of 40 cents per gallon for spirit based RTDs at 12% ABV or less. The rate is **still** significantly higher than the beer rate – more than 4 times higher, but it does provide these products with a “fairer opportunity” to compete.

Do we believe this legislation will cost MD tax revenue?

No, we don't. The reason is that these low spirit RTD products compete against lower taxed beer products and seltzers. They will still be taxed at a higher rate than beer. The anticipated “substitution” will be from beer/sugar-based products taxed at .09 per gallon to low spirit RTDs taxed at .40 per gallon. “Regular” spirits that are usually 40% ABV and taxed at \$1.50 will not see a decrease in sales due to these products.

The result is that we anticipate the state will gain revenue via increased excise and sales taxes, although not a significant amount.

Is this proposal outside the norm of what other states are doing?

The answer to this question is also no. In 23 states, these low alcohol spirit-based products are taxed a lower rate than compared to what I will call “full proof spirits” which are generally 40% ABV. We are also seeing several states contemplate similar legislation to this bill.

Bottom line is alcohol is alcohol – it doesn’t matter if the alcohol is derived from brewing, fermentation or distilling.

The common metric here is *the alcohol by volume*. When the ABV is roughly the same, it doesn’t matter if the product is a beer, a wine, or a spirit. Anyone who suggests otherwise is incorrect.

In conclusion, we are simply asking for more equitable treatment for similar products.

Thank you for your consideration.