



# Tax Analysis

## HB 463 Bad Tax Policy

Current beverage alcohol taxes in Maryland are already high and unjustifiable when viewed in either an economic or social context. If enacted, the new sales tax rate increase would cause Maryland retailers to lose around \$21 million in sales and an estimated 300 Marylander workers to lose their jobs.

### Distilled Spirits Already Overtaxed

- For a typical bottle of distilled spirits in Maryland, 29% of the retail price goes to pay direct taxes and fees. When all taxes are considered, around 50% of the purchase price goes toward taxes.
- The proposed tax increase is not really just a 1% tax, but added to the tax increase of 2011 will mean that beverage alcohol faces a special sales tax rate of 4% in Maryland. Thus, the total sales tax burden in Maryland, when the regular 6% tax is included is 10%. Maryland package stores are already at a competitive disadvantage vis-à-vis Delaware where there is no sales tax. So, 10% versus zero. It is not difficult to determine where border shoppers will do their buying.
- In fact, per adult alcohol volume sales in Maryland declined by 0.5% a year after the 3% tax was imposed in 2011, while the sales in Delaware rose more than 5%. Nationwide alcohol sales increased 2.8% during the same period.

### Economic Impact

- Spirits volumes are projected to decline by over 83,000 gallons, while wine would drop by 80,000 gallons and beer by nearly 347,000 gallons. These lost spirits sales will be worth over \$12 million at retail. Including beer and wine brings lost sales to \$21 million.
- While the proposed tax increase will not be applied to on-premise establishments until 2023, restaurants in Maryland have been hit harder by Covid-19 related quarantining than any other industry. The employment at food services and drinking places is still down by more than 11% as of November 2020 and is not likely to recover anytime soon. The industry needs to add around 23,000 jobs to recover job losses caused by Covid-19. Imposing yet another tax on a struggling economic sector is simply not good public policy.



- There is a belief that package stores have reaped great financial rewards as a result of restaurant closings. While it is true that there was an initial upsurge in package store sales, 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.
- More importantly, we believe that at least some of the initial increase in spirits sales were the result of consumers stocking their in-home bars in response to restaurant closings. Distilled spirits have an infinite shelf life. Much of what was purchased in 2020 will not be consumed until sometime in 2021. Thus, above trend sales growth in 2020 is likely to reduce sales in 2021.

**Beverage alcohol taxes do not act as a deterrent to abusive drinking; population level policies ineffective.**

- There is the perception that higher alcohol taxes reduce alcohol abuse. This was not the case in Maryland after the sale tax increase in 2011. According to the National Survey on Drug Use and Health, past month and binge drinking increased significantly in Maryland between 2010 and 2012, up 14.3% and 12.1%, respectively. Comparatively, the national average for past month use was flat at 0.2% and binge use decreased by -2.5%. During this same period, the National Highway Traffic Safety Administration reported drunk driving in Maryland was up one percentage point, while the national average remained flat.
- Beverage alcohol taxes do not appear to act as a deterrent to abusive drinking. The National Institute on Alcohol Abuse and Alcoholism (NIAAA), the government's lead agency on alcohol issues, reported in its January 2001 issue of *Alcohol Alert* that research suggests the heaviest-drinking 5 percent of drinkers do not reduce their consumption significantly in response to price increases, unlike drinkers who consume alcohol at lower levels.
- Consistent with the NIAAA findings was a 2009 meta-analysis, "Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies," published in *Addiction*. The study found that heavy drinkers are far less responsive to price increases than the total population of drinkers. And, it is important to note that "heavy" is often defined in alcohol studies as anyone having more than two drinks per day – not necessarily someone who has an alcohol use disorder. If drinkers who consumed five or more drinks per day were isolated these populations would be even *less* responsive to higher prices.
- Another 2009 study published by the National Bureau of Economic Research and conducted by researchers at the Yale School of Public Health showed that heavy drinkers were not at all responsive to higher prices. Thus, the study concluded that higher alcohol taxes could not be justified based upon a public health or economic justification.