

Tax Analysis

HB 791/SB 729 Destroy Jobs

Current beverage alcohol taxes in Maryland are already high and unjustifiable when viewed in either an economic or social context. The proposed rates represent at least a 300% increase in current taxation levels and would cause distilled spirits prices to rise by over 11%. If enacted, the new excise tax rates would cause Maryland retail sales to be reduced by an estimated \$133 million and almost 2,400 Maryland workers are projected to lose their jobs.

Distilled Spirits Already Overtaxed

- The proposal to raise the distilled spirits excise tax to \$6.00/ gallon represents a 300% increase over the current rate. Wine and beer tax rates would also go up substantially. Beverage alcohol excise taxes are really taxes on the hospitality industry.
- These excise tax increases come despite the fact that, by any measure, beverage alcohol is 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 52% of the purchase price goes toward taxes.
- Naturally, the proposed excise tax increase would raise prices for Maryland consumers. Spirits prices are expected to increase by over 11%. Wine prices would increase by almost 7% and beer prices would go up by around 5%.
- The tax burden on beverage alcohol is already so high that Federal, State and local governments already collect over \$2 in taxes for every \$1 that the industry (suppliers, wholesalers, retailers and restaurants) **earns** in profit. Government is an unequal partner in the beverage alcohol business.

Economic Impact: jobs destroyed

- Unfortunately, people react to higher prices. As prices rise spirits volumes will go down. Maryland will lose sales in two ways. First, there will be the natural reaction by Marylanders to buy less of something that is more expensive. Spirits volumes are projected to decline by nearly 800,000 gallons as a result, while wine would drop by almost 450,000 gallons and beer by nearly 2.0 million gallons. These lost spirits sales will be worth \$85 million at retail. Including beer and wine brings lost sales to \$126 million.



- But, Maryland will also lose sales from reduced cross-border purchases. Maryland retailers have a competitive advantage over many neighboring states allowing Maryland retailers to “export” an estimated 225,000 gallons of distilled spirits each year to customers in nearby states – worth around \$13 million to retailers.
- However, if the excise tax proposal is enacted many of Maryland’s out-of-state customers will simply stay home. Maryland retailers are projected to lose an additional \$6.2 million in sales. Thus, between lost resident purchases and reduced cross-border sales spirits retailer losses are expected total \$91 million. Total losses across spirits, beer and wine will be \$133 million.
- The \$133 million figure is a minimum estimate. Because the state will also lose cross boarder beer and wine sales, as well as complimentary food items, actual losses will be much greater.
- The power to tax is the power to destroy. As volumes fall, so does economic activity. Gross state product (a measure of general economic activity) is expected to be reduced by almost \$220 million. An estimated 2,400 jobs would be destroyed in the process, many within the hospitality industry.
- These projections are consistent with Maryland’s experience following increases in the Federal Excise Tax in 1991. According to the U.S. Bureau of Labor Statistics, between 1991 and 1992, employment by Maryland wholesalers and package store operators declined by over 1,300 jobs – and these figures do not count losses from taverns and restaurants.

Attacking a home state industry

- Some 300 people are employed at a spirits bottling plant owned by Diageo in Relay, Maryland. The Relay jobs are the kind of high paying manufacturing jobs that most states would like to attract. While the typical Marylander earns \$43,000 annually, Diageo’s Relay employees average around \$60,000 per worker – and get full benefits.
- Naturally, as spirits volumes fall, manufacturing jobs are put at risk as well as wholesale and retail jobs.

Excise taxes maximize economic harm

- The principles of good taxation tell us that the most efficient and equitable taxes are those that have the lowest rates possible, but that are applied to the broadest possible base. By doing so, a tax can both maximize revenues while also minimizing economic pain.
- Excise taxes, however, focus directly on a single product with high tax rates, thereby *maximizing* economic harm.

Excise taxes are not user fees, but discriminatory taxes

- Some argue that beverage alcohol excise taxes are “user fees” imposed to cover perceived social costs of alcohol abuse and the programs necessary for alcohol abusers.
- However, in a true user fee the people who pay the fee also receive the benefits of the government provided programs being paid for. Payment of the tax is directly proportional to use of the government service. The classic example of a user fee is the gasoline excise tax. Gasoline excise tax payments are proportional to the amount that you drive and the use of government provided roadways.
- However, there are no negative social costs associated with normal moderate consumption of beverage alcohol, and 90-95% of legal age adults who enjoy beverage alcohol fall into this category.
- Since few of the citizens paying the tax would derive any benefit, excise taxes are not user fees at all; they are simply highly targeted, discriminatory taxes. Without the discredited user fee rationale, there is no social or economic reason to tax beverage alcohol differently from any other product.

People pay taxes, not corporations. Excise taxes are regressive.

- Corporations do not pay taxes. Corporations are merely tax collectors that pass proceeds along to the various Federal, State and Local Treasuries. People pay taxes. Almost all tax increase levied on businesses are passed along to consumers in the form of higher prices.
- Excise taxes are known to be the most regressive form of taxation, impacting persons of lower income far more than the wealthy. When beverage alcohol taxes are raised, it is the working poor who are most affected. Over one-third of all beverage alcohol consumers (sprints, beer or wine) come from households having income of less than \$50,000.

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

- In addition to failing the user fee test, beverage alcohol excise taxes do not appear to act as a deterrent to abusive drinking. Raising taxes on beverage alcohol only serves to penalize responsible beverage alcohol consumers and does not deter abusers for whom taxes are of little concern. 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.
- A 2008 study “Secular Trends in Alcohol Consumption over 50 Years: The Framingham Study,” published in *The American Journal of Medicine*, showed that over the 50 year period from 1948-2003, the prevalence of alcohol use disorders in the population has been constant. This finding is also consistent with the NIAAA report; over that 50 year period the affordability of beverage alcohol and alcohol control policies in general have varied widely; from the highly restrictive distribution policies and relatively high tax rates of the late 1940’s and 1950’s to the 1970’s and early 1980s when the legal drinking age was only 18 in many states. And yet, despite these wide swings the level of alcohol use disorders was relatively constant.