

# **Alcohol Excise Taxes in Maryland: A Case for an Increase**



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## **Budget Deficits and Alcohol Excise Taxes in Maryland**

Entering fiscal year 2005, Maryland faces an estimated revenue shortfall of \$800 million.<sup>1</sup> In response, the state government has steeply raised tuition for state public universities and has considered making further cuts to education and other state programs. The state faces continued decreases in revenues, and the deficit will likely grow. By law, since Maryland must maintain a balanced budget, it must cut services, increase revenues, or both. Raising alcohol excise taxes, last done in 1972 for beer and wine, and 1955 for liquor, provides one rational, politically popular means of providing needed new state revenues.

Maryland currently ranks 9<sup>th</sup> lowest for the beer-tax rate, 13<sup>th</sup> lowest for the wine-tax rate, and shares the lowest liquor-tax rate in the U.S. with the District of Columbia.

Representative William Bronrott (D) introduced HB 889 in February to triple the current tax rates on all alcoholic beverages. According to the bill, that increase would add an estimated \$51 million in revenue in the first year, providing much-needed funds and helping to reduce rates of alcohol-related problems, particularly among underage drinkers. Public opinion polls show that a strong majority support raising alcohol taxes, especially when the money is earmarked for alcohol prevention and treatment programs.

This report compares the bill's increase proposal to several other alcohol-tax increase options. Regardless of the amount of increase, revenues raised would inevitably lower the state's budget deficit or provide funds for state prevention programs and/or other public services. For issues of simplicity, this analysis does not address alcohol-tax issues in Montgomery County, Maryland, which follows control state mark-up standards for liquor and wine.

### **Higher Alcohol Taxes Would Increase Prices and Reduce Alcohol Problems**

Research from the National Institute on Alcohol Abuse and Alcoholism (NIAAA) reports that increasing beer taxes effectively reduces alcohol problems.<sup>2</sup> Evidence is so strong on this matter that the National Academy of Sciences recently recommended that states increase alcohol taxes as one key approach to reduce underage drinking.<sup>3</sup>

Many studies have demonstrated other beneficial consequences of increasing alcoholic-beverage taxes, especially on beer:

- Higher beer taxes would likely lead to higher prices<sup>4</sup> and reductions in the quantity and frequency of drinking among youth,<sup>5</sup> who are among the most price-sensitive consumers.
- Higher beer taxes would reduce traffic-crash fatality rates, especially among young drivers,<sup>6</sup> and result in fewer cases of some types of crime.<sup>7</sup>
- For every ten percent increase in the beer excise tax, the probability of severe violence towards children decreases by 2.3 percent.<sup>8</sup>
- According to researchers at the U.S. Centers for Disease Control and Prevention, a beer-tax increase of \$0.20 per six-pack would reduce gonorrhea rates by 8.9 percent and syphilis rates by 32.7 percent.<sup>9</sup>

## Public Opinion, Public Costs

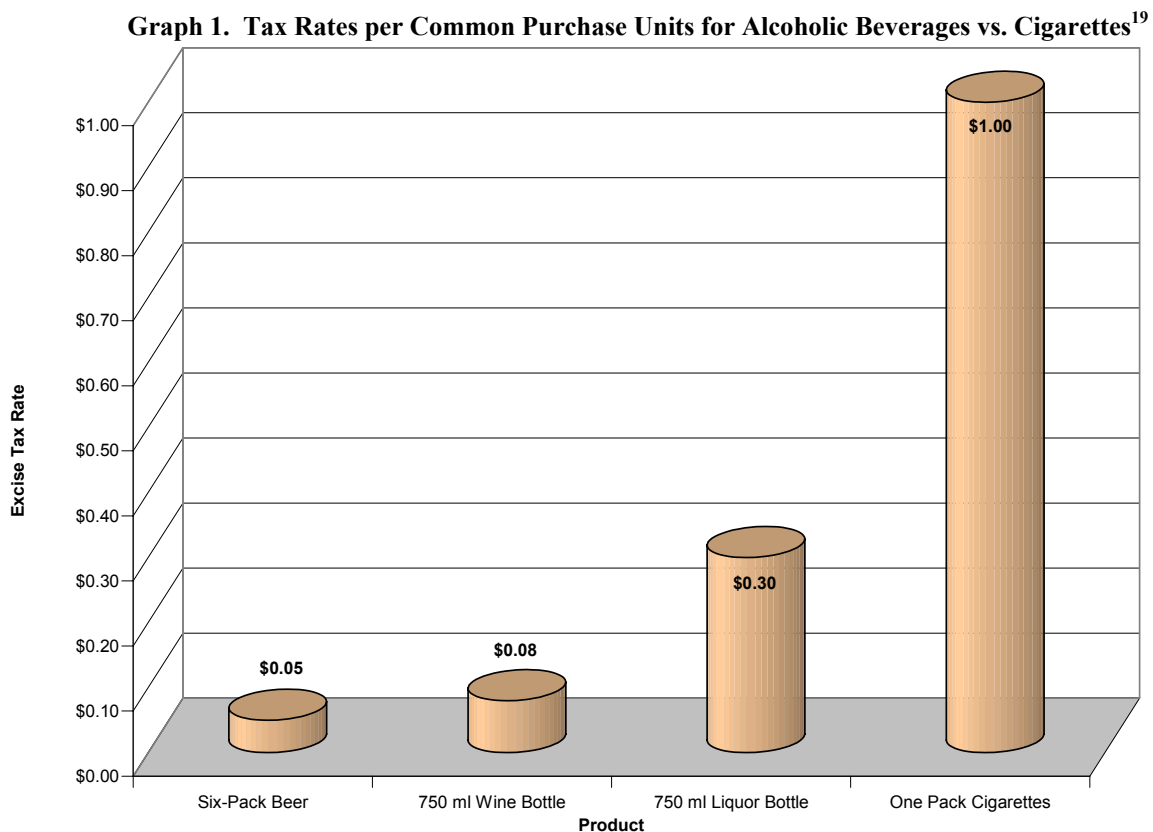
In a national survey, 82 percent of adults favored an increase of five cents per drink in the tax on beer, wine, or liquor to pay for programs to prevent minors from drinking and to increase the availability of alcohol treatment programs.<sup>10</sup> In surveys on alcohol excise taxes conducted in several states, results have consistently shown that between 76 and 80 percent of respondents either believe that increasing alcohol taxes is “good” or “acceptable,”<sup>11</sup> or support an increase in state alcohol excise taxes.<sup>12</sup>

In 1998, the estimated economic cost of alcohol abuse in the U.S. exceeded \$184 billion. That cost equals roughly \$683 for every man, woman and child living in the U.S.<sup>13</sup> The cost to Americans of underage drinking *alone* totals nearly \$53 billion.<sup>14</sup> Each year, the federal government spends nearly \$1.0 billion on alcohol prevention services for people of all ages, less than two percent of the annual cost of alcohol use by youth alone.<sup>15</sup>

States and their taxpayers, including those in Maryland, bear a substantial portion of those costs. Maryland residents spend more than \$777 million on alcohol-related healthcare costs.<sup>16</sup> The average alcohol-related fatality costs the state \$3.5 million: \$1.3 million in monetary costs and \$2.2 million in quality of life losses.<sup>17</sup> In 2002, the state reported 9,355 cases of gonorrhea,<sup>18</sup> a number that would decline with an increase in alcohol taxes.

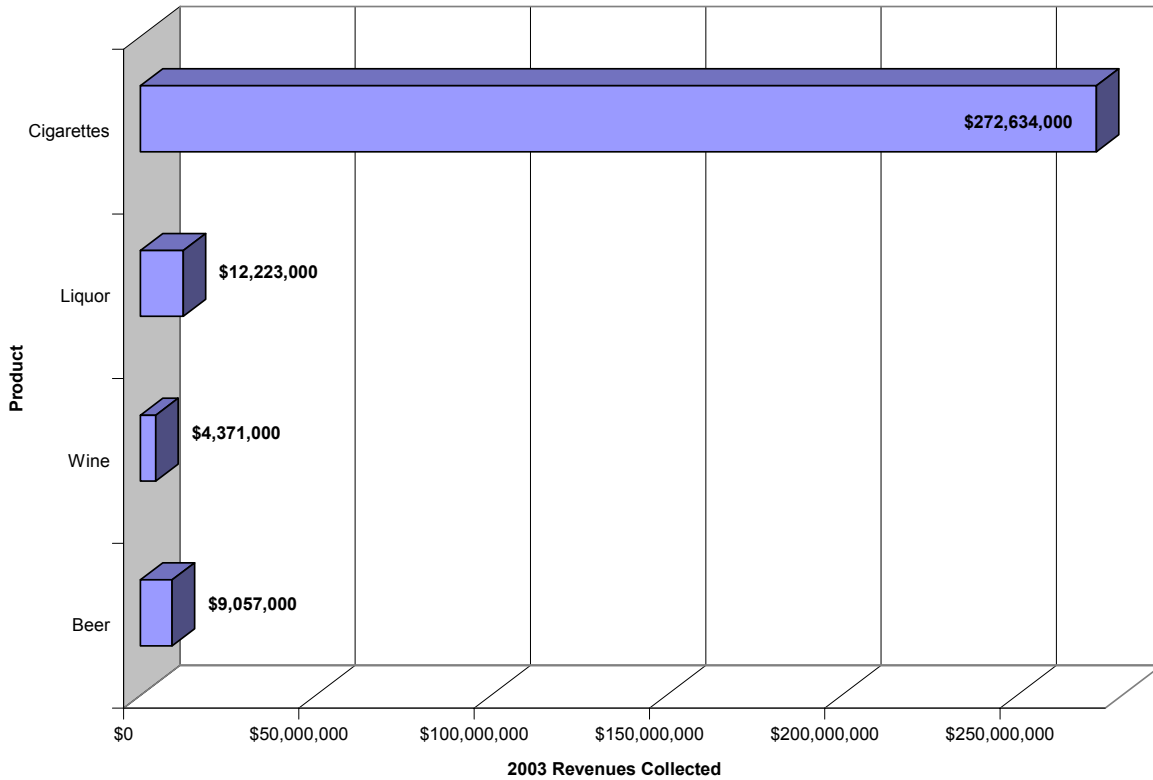
## Alcohol and Tobacco Tax Comparison

At its current rate, the excise tax on a pack of cigarettes in Maryland dwarfs the tax rates for a six-pack of beer and a bottle of wine, and is more than three times the tax on a bottle of liquor (Graph 1).



Revenues collected from alcohol and tobacco excise taxes in the state also vary greatly. At \$272.6 million, collections from the cigarette excise tax totaled more than ten times those from alcohol excise taxes (\$25.7 million) in 2003 (Graph 2).<sup>20</sup> Although the cigarette tax contributes significantly to state revenues, only 15.4 percent of Maryland adults 18 and over smoked cigarettes in 2002.<sup>21</sup> By contrast, 55.8 percent of Marylanders over the age of 18 consumed alcohol in 2001,<sup>22</sup> yet alcohol taxes make up much less of the state’s revenue collections.

**Graph 2. 2003 Alcohol Excise Tax Revenues vs. Cigarette Excise Tax Collections<sup>23</sup>**



**Alcohol-Tax Increase Proposal in HB 889**

HB 889 proposes tripling the current excise tax rates on all alcoholic beverages. The tax on common purchasing units would rise from \$0.05 to \$0.15 on a six-pack of beer; on a bottle of wine, from \$0.08 to \$0.24; and on a bottle of liquor, from \$0.30 to \$0.89. Those increases would net the state an estimated \$50.6 million in additional revenue.

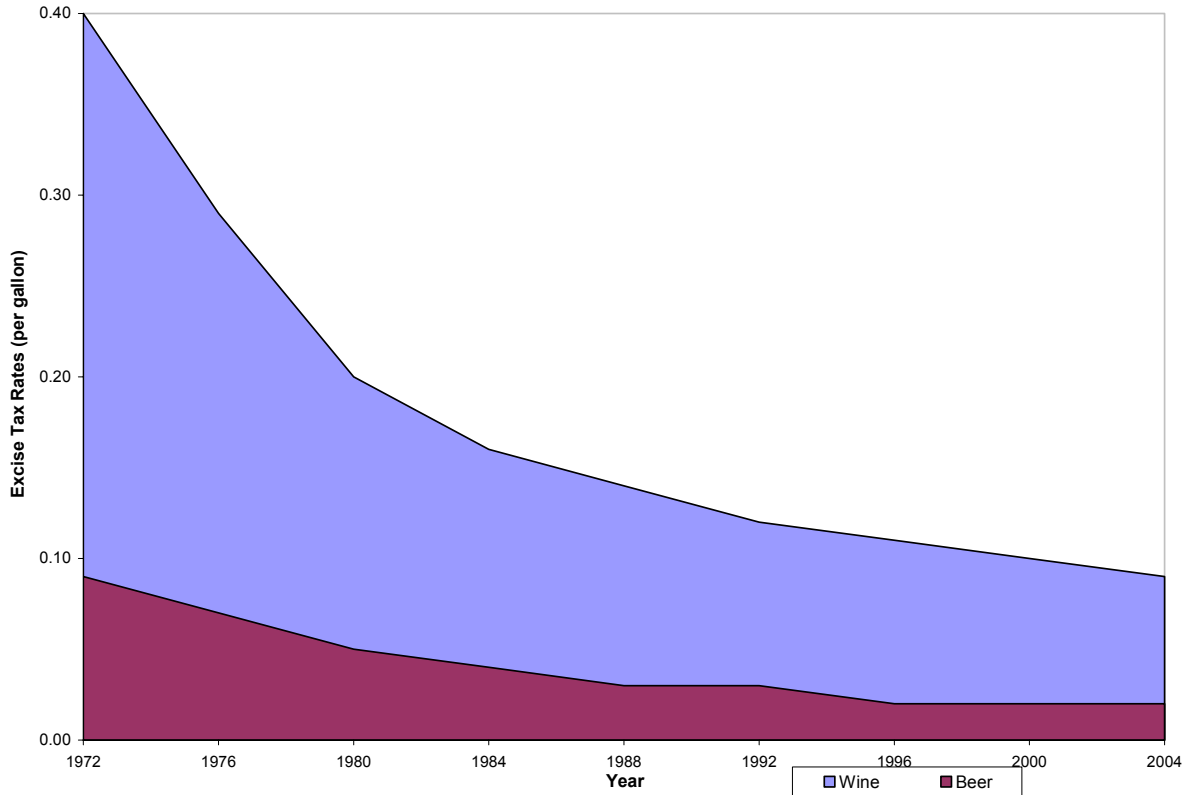
**Other Tax-Increase Strategies**

The tax increase proposal in HB 889 presents one alternative by which the state can raise taxes and gain much-needed revenue. Other options to increase alcohol taxes include: 1) indexing the current tax rates for inflation since they were last raised; 2) matching Maryland’s alcohol excise tax rates to the average tax rate of all states; and 3) equalizing Maryland’s rates to the highest rates of its surrounding states. We address each of these proposals and then include a few more tax-increase options.

*Effects of Inflation on Tax Rates and Revenues*

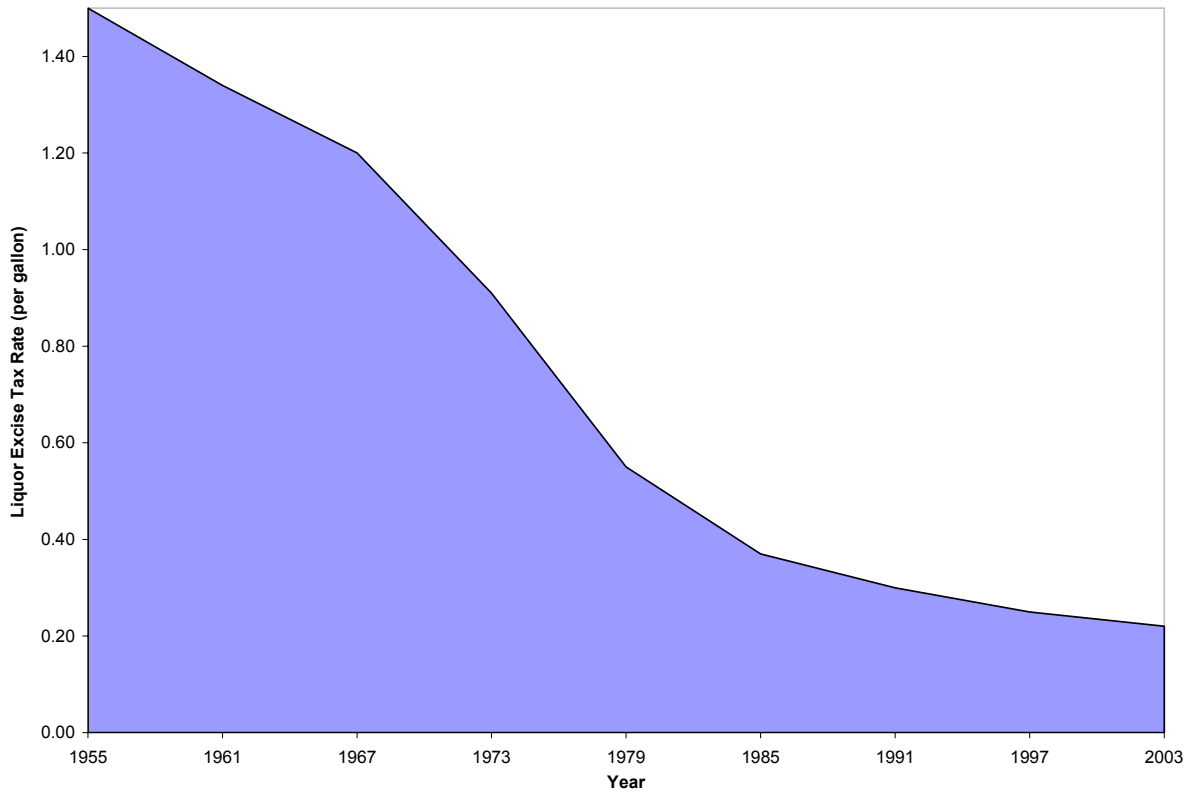
Generally, alcohol excise tax rates have not increased to compensate for the effects of inflation. As a result, Maryland's real tax rates have declined over most of the post-war period. Beer and wine taxes were last raised to their current rates in 1972, and the liquor tax was last raised in 1955 (Graph 3). This erosion of real tax rates has contributed to overall declines in real revenues and real beverage prices over time.<sup>24</sup>

**Graph 3. The effects of inflation on Maryland's beer and wine excise tax rates since 1972.**



In 1972 dollars. Source: U.S. Bureau of Labor Statistics, 2004.

**Graph 4. The effects of inflation on Maryland's liquor excise tax rate since 1955.**



In 1955 dollars. Source: U.S. Bureau of Labor Statistics, 2004.

The current excise tax on beer, at \$0.09 per gallon, now has a real value of only \$0.02 per gallon and the \$0.40 per gallon tax on wine is now worth \$0.09 per gallon. The \$1.50 per gallon rate on distilled liquor, eroded since 1955, is now worth \$0.22 per gallon. Indexing for inflation since 1972, the tax on beer, now \$0.09 per gallon, would be \$0.40 per gallon today; on wine, currently \$0.40 per gallon, the tax would be \$1.77 per gallon. The tax rate on liquor, now \$1.50 per gallon, would be \$10.37 per gallon if adjusted for inflation since 1955. Had the tax rates on beer, wine, and liquor been indexed for inflation, the state would have collected, approximately, more than \$141.2 million in revenues in 2003, an increase of \$115.5 million (Table 1).

**Table 1. Alcohol Tax Rates and Revenues Have Eroded, Due to Inflation**

| <b>Product</b> | <b>Current Tax Rate (per gallon)</b> | <b>2003 Revenue</b>   | <b>Current Tax Rate, at Eroded Value* (per gallon)</b> | <b>Revenue if Tax Indexed for Inflation</b> |
|----------------|--------------------------------------|-----------------------|--|---|
| <b>Beer</b>    | \$0.09                               | \$9.1 million         | \$0.02   | \$39.8 million                              |
| <b>Wine</b>    | \$0.40                               | \$4.4 million         | \$0.09   | \$19.1 million                              |
| <b>Liquor</b>  | \$1.50                               | \$12.2 million        | \$0.22   | \$82.3 million                              |
| <b>Total</b>   |                                      | <b>\$25.7 million</b> |  | <b>\$141.2 million</b>                      |

\* In 1972 dollars for beer and wine; in 1955 dollars for liquor.

*Maryland's Alcohol Excise Taxes Compared to the Average of All States*

All of Maryland's alcohol tax rates fall far below the average tax rates of all U.S. states (Table 2).

**Table 2. Maryland's Alcohol Excise Tax Rates Compared to the U.S. Average**

| <b>Product</b> | <b>Maryland</b><br>(per gallon) | <b>State Average<sup>25</sup></b><br>(per gallon) |
|----------------|---------------------------------|---|
| <b>Beer</b>    | \$0.09                          | \$0.26  |
| <b>Wine</b>    | \$0.40                          | \$0.78  |
| <b>Liquor</b>  | \$1.50                          | \$3.92  |

If Maryland raised current alcohol taxes to equal the average state rate for each of those products, the state would gain \$44.2 million more in revenue, bringing the total expected revenue to \$69.9 million.

*Alcohol Excise Taxes in Maryland and Neighboring States*

Maryland's alcohol excise tax rates remain below the state average and most of those in neighboring states, Virginia, Washington, D.C., Pennsylvania, West Virginia, and Delaware (Table 3).

**Table 3. Maryland's Alcohol Excise Tax Rates Compared to Neighboring States<sup>26</sup>**

| <b>Product</b> | <b>Maryland</b><br>(per gallon) | <b>Virginia</b><br>(per gallon) | <b>Washington, D.C.</b><br>(per gallon) | <b>Pennsylvania</b><br>(per gallon) | <b>West Virginia</b><br>(per gallon) | <b>Delaware</b><br>(per gallon) |
|----------------|---------------------------------|---------------------------------|---|-------------------------------------|--------------------------------------|---------------------------------|
| <b>Beer</b>    | \$0.09                          | \$0.26                          | \$0.09                                  | \$0.08                              | \$0.18                               | \$0.16                          |
| <b>Wine</b>    | \$0.40                          | \$1.51                          | \$0.30                                  | 18% mark-up                         | \$1.00                               | \$0.97                          |
| <b>Liquor</b>  | \$1.50                          | 20% mark-up                     | \$1.50                                  | 18% mark-up                         | 21% mark-up                          | \$3.75                          |

*Estimated Revenue Gains Due to Proposed Alcohol-Tax Increases*

Table 4 shows Maryland’s potential revenue gains and changes in consumption estimated from proposals to increase alcohol excise tax rates. For these cases, we define a standard drink serving as 12 ounces of beer, 5 ounces of wine, and 1.5 ounces of liquor.

**Table 4. Projected Revenues and Consumption Changes Due to Alcohol Tax-Increase Proposals**

| <b>Increase Proposal</b>  | <b>Product</b> | <b>Current Tax Rate (per gallon)</b> | <b>New Tax Rate (per gallon)</b> | <b>Projected Revenue Increase</b> | <b>Projected Revenue</b> | <b>Projected Consumption (millions)</b> | <b>Percent Decrease in Consumption</b> |
|---|----------------|--------------------------------------|----------------------------------|-----------------------------------|--------------------------|---|--|
| <b>HB 889</b><br>(triple current rate)                                  | Beer           | \$0.09                               | \$0.27                           | \$17.9 million                    | \$27.0 million           | 100.0 gallons                           | -0.67 %                                |
|   | Wine           | \$0.40                               | \$1.20                           | \$8.6 million                     | \$13.0 million           | 10.8 gallons                            | -0.75 %                                |
|   | Liquor         | \$1.50                               | \$4.50                           | \$24.1 million                    | \$36.3 million           | 8.1 gallons                             | -0.88 %                                |
|   | <b>Total</b>   |                                      |                                  | <b>\$50.6 million</b>             | <b>\$76.3 million</b>    | <b>118.9 gallons</b>                    | <b>-0.69 %</b>                         |
| <b>Penny per Drink</b>  | Beer           | \$0.09                               | \$0.20                           | \$11.0 million                    | \$20.0 million           | 100.2 gallons                           | -0.41 %                                |
|   | Wine           | \$0.40                               | \$0.72                           | \$3.5 million                     | \$7.8 million            | 10.9 gallons                            | -0.30 %                                |
|   | Liquor         | \$1.50                               | \$2.35                           | \$6.9 million                     | \$19.1 million           | 8.1 gallons                             | -0.25 %                                |
|   | <b>Total</b>   |                                      |                                  | <b>\$21.4 million</b>             | <b>\$46.9 million</b>    | <b>119.2 gallons</b>                    | <b>-0.39 %</b>                         |
| <b>Nickel per Drink</b>   | Beer           | \$0.09                               | \$0.62                           | \$52.1 million                    | \$61.2 million           | 98.6 gallons                            | -1.98 %                                |
|   | Wine           | \$0.40                               | \$2.00                           | \$17.2 million                    | \$21.5 million           | 10.8 gallons                            | -1.51 %                                |
|   | Liquor         | \$1.50                               | \$5.77                           | \$34.2 million                    | \$46.4 million           | 8.0 gallons                             | -1.25 %                                |
|   | <b>Total</b>   |                                      |                                  | <b>\$103.5 million</b>            | <b>\$129.1 million</b>   | <b>117.4 gallons</b>                    | <b>-1.88 %</b>                         |
| <b>Dime per Drink</b>   | Beer           | \$0.09                               | \$1.16                           | \$103.0 million                   | \$112.1 million          | 96.6 gallons                            | -3.99 %                                |
|   | Wine           | \$0.40                               | \$3.60                           | \$33.8 million                    | \$38.2 million           | 10.6 gallons                            | -3.02 %                                |
|   | Liquor         | \$1.50                               | \$10.03                          | \$67.5 million                    | \$79.7 million           | 7.9 gallons                             | -2.49 %                                |
|   | <b>Total</b>   |                                      |                                  | <b>\$204.3 million</b>            | <b>\$230.0 million</b>   | <b>115.1 gallons</b>                    | <b>-3.80 %</b>                         |
| <b>Double Current Rate</b>  | Beer           | \$0.09                               | \$0.18                           | \$9.0 million                     | \$18.1 million           | 100.3 gallons                           | -0.34 %                                |
|   | Wine           | \$0.40                               | \$0.80                           | \$4.3 million                     | \$8.7 million            | 10.9 gallons                            | -0.38 %                                |
|   | Liquor         | \$1.50                               | \$3.00                           | \$12.1 million                    | \$24.3 million           | 8.1 gallons                             | -0.44 %                                |
|   | <b>Total</b>   |                                      |                                  | <b>\$25.4 million</b>             | <b>\$51.1 million</b>    | <b>119.3 gallons</b>                    | <b>-0.35 %</b>                         |
| <b>Match National Average</b>   | Beer           | \$0.09                               | \$0.25                           | \$16.0 million                    | \$25.0 million           | 100.0 gallons                           | -0.60 %                                |
|   | Wine           | \$0.40                               | \$0.78                           | \$4.1 million                     | \$8.5 million            | 10.9 gallons                            | -0.36 %                                |
|   | Liquor         | \$1.50                               | \$4.50                           | \$24.1 million                    | \$36.3 million           | 8.1 gallons                             | -0.88 %                                |
|   | <b>Total</b>   |                                      |                                  | <b>\$44.2 million</b>             | <b>\$69.8 million</b>    | <b>119.0 gallons</b>                    | <b>-0.59 %</b>                         |
| <b>Indexed for Inflation</b><br>(1972 for beer & wine, 1955 for liquor) | Beer           | \$0.09                               | \$0.40                           | \$30.7 million                    | \$39.8 million           | 99.5 gallons                            | -1.16 %                                |
|   | Wine           | \$0.40                               | \$1.77                           | \$14.7 million                    | \$19.1 million           | 10.8 gallons                            | -1.29 %                                |
|   | Liquor         | \$1.50                               | \$10.37                          | \$70.1 million                    | \$82.3 million           | 7.9 gallons                             | -2.59 %                                |
|   | <b>Total</b>   |                                      |                                  | <b>\$115.5 million</b>            | <b>\$141.2 million</b>   | <b>118.2 gallons</b>                    | <b>-1.27 %</b>                         |



## **Higher Taxes Will Cause Only Modest Price Changes**

### *Alcoholic-Beverage Prices Compared to Other Products*

Prices for off-premise alcoholic beverages<sup>27</sup> have risen more slowly than for all other consumer products combined. The consumer price index (CPI), which measures the price value of products, illustrates this fact. Between 1983 and 2003, the CPI growth for all products was 18 percent higher than for beer, 33 percent higher than for wine, and 13 percent higher than for liquor.<sup>28</sup>

The alcohol excise tax factors into product price. The failure to keep alcohol taxes at appropriate levels has contributed to the relative decline of alcoholic-beverage prices. Artificially low prices are not a boon to consumers or public health. Cheaper alcoholic-beverage prices lead to higher consumption and more alcohol-related problems. Raising taxes on those products can help reduce consumption modestly while providing funding for much-needed treatment and prevention programs.

Although alcoholic-beverage producers have raised prices on their products several times within the past year, that amount does not fill the gap in price created by eroded tax values. As opposed to excise taxes, industry-driven price increases do not directly contribute funds to state revenues.

It doesn't take dramatic increases in price to reap public health gains. States will feel modest positive effects of tax-driven price increases, even with relatively small changes.

### *Minimal Price Rises Expected*

HB 889 would increase prices on the common purchasing units of alcoholic beverages by modest amounts – an average of three cents per drink. Considering that alcohol-related crashes alone cost an average of \$0.70 per drink,<sup>29</sup> raising the price of a single can of beer or a glass of wine by two to three cents seems little to pay for the economic toll that alcohol-related problems take on society.

Table 5 illustrates the estimated rise in prices for each type of alcohol-tax increase. For instance, an average consumer who purchases a six-pack of beer a week would likely spend about eleven cents more per week on a six-pack if HB 889 passes. Under the most aggressive tax-increase proposal, a dime per drink, the price of a six-pack per week would rise by about \$0.65. Those are modest price changes, especially considering that the average Maryland resident (including heavy drinkers who consume most of the beer) drinks no more than a six-pack of beer per week.<sup>30</sup> In fact, 42.2 percent of Marylanders do not drink at all.<sup>31</sup>

**Table 5. Price Increases for Various Tax-Increase Proposals**

| Increase Proposal             | Product | Price Increase* per  |   |
|-------------------------------|---------|--|---|
|                               |         | Purchasing Unit<br>(six-pack of beer, 750 ml bottle of wine or liquor) | Standard Drink<br>(12 oz. beer, 5 oz. wine, 1.5 oz. liquor) |
| <b>HB 889</b>                 | Beer    | \$0.11   | \$0.02  |
|                               | Wine    | \$0.17   | \$0.03  |
|                               | Liquor  | \$0.64   | \$0.04  |
| <b>Penny per Drink</b>        | Beer    | \$0.07   | \$0.01  |
|                               | Wine    | \$0.05   | \$0.01  |
|                               | Liquor  | \$0.18   | \$0.01  |
| <b>Nickel per Drink</b>       | Beer    | \$0.32   | \$0.05  |
|                               | Wine    | \$0.27   | \$0.05  |
|                               | Liquor  | \$0.91   | \$0.05  |
| <b>Dime per Drink</b>         | Beer    | \$0.65   | \$0.11  |
|                               | Wine    | \$0.55   | \$0.11  |
|                               | Liquor  | \$1.82   | \$0.11  |
| <b>Double Current Rate</b>    | Beer    | \$0.05   | \$0.01  |
|                               | Wine    | \$0.07   | \$0.01  |
|                               | Liquor  | \$0.32   | \$0.02  |
| <b>Match National Average</b> | Beer    | \$0.10   | \$0.02  |
|                               | Wine    | \$0.06   | \$0.01  |
|                               | Liquor  | \$0.64   | \$0.04  |
| <b>Indexed for Inflation</b>  | Beer    | \$0.19   | \$0.03  |
|                               | Wine    | \$0.23   | \$0.05  |
|                               | Liquor  | \$1.89   | \$0.11  |

\*Includes a 7.5% mark-up on the tax increase. Young, D.J. & Bielinska-Kwapisz, A. (2002). Alcohol Taxes and Beverage Prices. *National Tax Journal*. LV(1):57-74.

## Notes

CSPI used the following equation to calculate the projected volume consumed and revenue generated from potential increases in Maryland's alcohol excise tax rate:

$$V_1 = V_o (1 + PE (PI/CP))$$

Where:  $V_1$  = projected volume consumed

$V_o$  = 2001 volume consumed

PE = price elasticity

PI = price increase (including a 7.5 percent mark-up)

CP = current price

The price increase assumes a 7.5 percent mark-up (a conservative estimate<sup>32</sup>) on the tax increase. The current price (CP) was obtained by calculating that an average six-pack of beer costs \$4.86 or \$8.65 per gallon. These numbers represent total retail sales of beer divided by the total volume of beer sold in the U.S. This same method can be localized using Maryland data, if available.

For this report, we used a price elasticity of -0.30, from a study in NIAAA's *10<sup>th</sup> Special Report to Congress*.<sup>33</sup> Although the study applied this value specifically to beer consumption and revenue, we used this value for all beverage types, to provide conservative estimates of the projected revenues. Applying different elasticities to wine and liquor would result in slightly different estimates of consumption decreases and revenue gains.

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<sup>11</sup> Montana Statewide Survey, MEA-MFT, Billings, Montana. December 2001. Online: [www.mea-mft.org/sspoll.html](http://www.mea-mft.org/sspoll.html).

<sup>12</sup> The Robert Wood Johnson National Alcohol Opinion Poll (The Oregon Coalition to Reduce Underage Drinking). February 2002. Online: [www.ocrud.org/pdf/beertax.pdf](http://www.ocrud.org/pdf/beertax.pdf).

<sup>13</sup> National Institute on Alcohol Abuse and Alcoholism (2000). *10th Special Report to the U.S. Congress on Alcohol and Health*. NIH Publication No. 00-1583. Rockville, MD: U.S. Department of Health and Human Services, ch. 6.

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