How Will New Tax on Alcohol Affect Revenues?

As part of a package of sales tax changes that went into effect in 2009, Massachusetts’ general sales tax rate was raised from 5 percent to 6.25 percent and alcoholic beverages were made newly subject to the general sales tax. The most recent estimates from the Department of Revenue indicate that applying the general sales tax to alcoholic beverages resulted in an additional $93 million in tax revenue in FY 2010 and will produce an added $112 million in FY 2011.¹

As a result of the 2009 tax law changes, alcoholic beverages now are subject to two types of taxes in Massachusetts: the general sales tax (discussed above) and a selective sales tax. The selective sales tax on alcoholic beverages was adopted in Massachusetts in 1933 -- after the repeal of Prohibition -- and, until 2009, was the only tax placed on alcoholic beverages.² In FY 2009, the Commonwealth collected $72 million through the selective sales tax on alcoholic beverages.³

Historically, alcoholic beverage tax revenues have been lower in Massachusetts than in most other states as a percentage of state personal income. Using the most current nationally comparable data from the US Census Bureau (FY 2008), we see that Massachusetts collected $71.9 million in selective sales taxes on alcoholic beverages, an amount equal to 0.02 percent of state personal income. In FY 2008, Massachusetts ranked 41st in the share of state personal income collected from the selective sales tax on alcoholic beverages (see figure, below).⁴
For the 50 states, selective sales taxes on alcoholic beverages averaged 0.05 percent of personal income in FY 2008, a percentage more than twice as high as in Massachusetts.\(^5\) These FY 2008 figures, however, do not include the effects of the 2009 Massachusetts tax law change making alcoholic beverages subject to the general sales tax. In fact, these Census figures do not include general sales tax revenues derived from alcohol sales in any of the 50 states where such taxes may apply (the Census Bureau does not track the amount of general sales tax revenue derived from the sale of alcoholic beverages).

While it is clear that the Commonwealth will collect considerably more tax revenue from alcoholic beverages now that these beverages are subject to both a selective sales tax and the general sales tax, the data limitations described above make state-by-state comparisons of total alcohol-related collections very difficult.

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\(^1\) The FY 2011 estimate is a MassBudget calculation for a full 12-month period and is based on DOR’s 10-month estimate for FY 2010 of $93 million (the new law went into effect 2 months after

2 The selective sales tax on distilled spirits (liquor) is currently $4.05 a gallon; wine is taxed at 55 cents a gallon; and, beer is taxed at 11 cents a gallon. These rates have not changed (nor been adjusted for inflation) in over 20 years:

http://www.mass.gov/?pageID=dorterminal&L=5&L0=Home&L1=Businesses&L2=Help+%26+Resources&L3=Legal+Library&L4=Administrative+Procedures&sid=Ador&b=terminalcontent&f=dor_rul_reg_adminprocedure_ap115&csid=Ador

3 MA Department of Revenue, Blue Book, June 2010 (Table B):


The selective sales tax is assessed on wholesalers but some or most of the costs likely are passed on directly to consumers through higher retail price. The portion of such taxes that wholesalers (or, subsequently, retailers) are able to pass along to consumers is a matter of debate among economists but depends on the degree of competition among wholesalers (and retailers) and on the price sensitivity of consumers.

4 U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 2007-08*. The 2007-08 Census data is the most recent available: http://www.census.gov/govs/estimate/

State Personal Income data comes from the US Bureau of Economic Analysis:

http://www.bea.gov/regional/sqpi/default.cfm?selTable=SQ1

5 The national average in FY 2008 (0.04727 percent) was 116 percent higher than in Massachusetts (0.02185 percent).