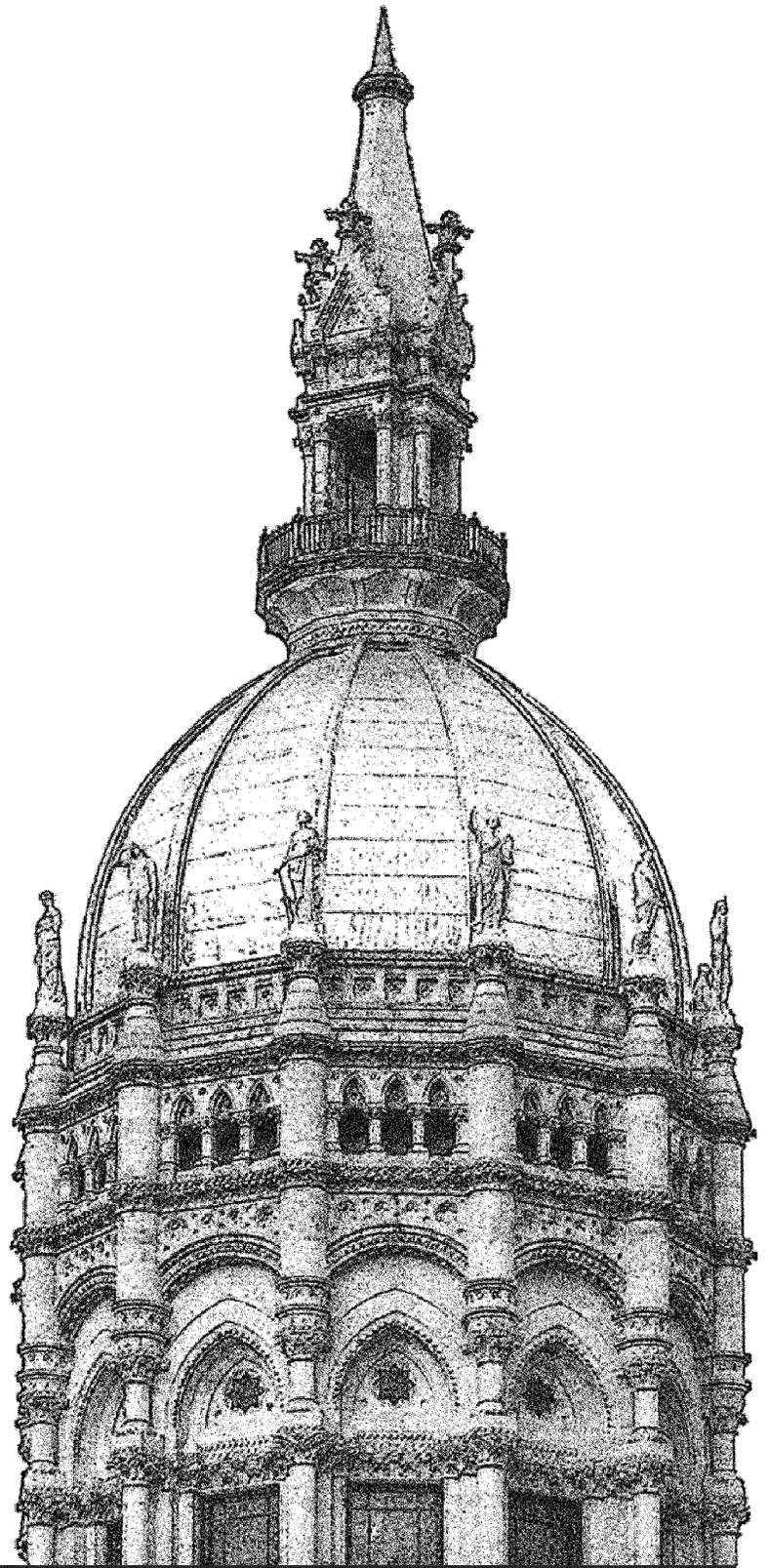


An Excerpt from:

**Connecticut's
Economic
Competitiveness
In Selected Areas**

DECEMBER 2009

**Sunday Sales of
Alcohol**



PRI

**Legislative Program Review and
Investigations Committee**

Connecticut General Assembly

**CONNECTICUT GENERAL ASSEMBLY
LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE**

The Legislative Program Review and Investigations Committee is a bipartisan, statutory committee of the Connecticut General Assembly. It was established in 1972 to evaluate the efficiency, effectiveness, and statutory compliance of selected state agencies and programs, recommending remedies where needed. In 1975, the General Assembly expanded the committee's function to include investigations, and during the 1977 session added responsibility for "sunset" (automatic program termination) performance reviews. The committee was given authority to raise and report bills in 1985.

The program review committee is composed of 12 members. The president pro tempore of the Senate, the Senate minority leader, the speaker of the house, and the House minority leader each appoint three members.

2009-2010 Committee Members

Senate

John A. Kissel
Co-Chair
Donald J. DeFronzo
John W. Fonfara
Scott L. Frantz
Anthony Guglielmo
Andrew M. Maynard

House

Mary M. Mushinsky
Co-Chair
Vincent J. Candelora
Mary Ann Carson
Marilyn Giuliano
Brendan Sharkey
Diana S. Urban

Committee Staff

Carrie Vibert, Director
Catherine M. Conlin, Chief Analyst
Jill Jensen, Chief Analyst
Brian R. Beisel, Principal Analyst
Michelle Castillo, Principal Analyst
Maryellen Duffy, Principal Analyst
Miriam P. Kluger, Principal Analyst
Scott M. Simoneau, Principal Analyst
Michelle Riordan-Nold, Associate Analyst
Janelle Stevens, Associate Analyst
Eric Michael Gray, Legislative Analyst II
Bonnine T. Labbadia, Executive Secretary

Project Staff

Catherine M. Conlin
Michelle Riordan-Nold

STATE CAPITOL ROOM 506
Email: pri@cga.ct.gov

HARTFORD, CT 06106

(860) 240-0300

www.cga.ct.gov/pri/index.asp

Tax Policy: Connecticut and Surrounding States

In addition to the broader study concerning aspects of Connecticut’s economic competitiveness, examined in earlier chapters, the study scope also called for a narrower look at Connecticut’s economic competitive position with its border states. This chapter compares Connecticut’s tax policy on retail sales with the surrounding border states of New York, Massachusetts, and Rhode Island.

Sales Tax Policy

General sales tax rates vary by state and also by the items that are considered taxable. In addition to state sales tax, localities in some states may impose an additional sales tax. Connecticut applies only one uniform state sales tax rate.

Connecticut has maintained a sales tax rate of 6 percent since 1992 but with the recent passage of the FY 2010-2011 biennial budget, the sales tax will be lowered to 5.5 percent effective January 1, 2010, (however, the rate change will not take effect if any of the monthly financial statements issued by the comptroller indicates gross tax revenue to the General Fund for FY 10 to be at least one percent less than the estimated gross tax revenue adopted by the Finance, Bonding, and Revenue Committee). Rhode Island has consistently had the highest *state* sales tax of the surrounding states, taxing items at 7 percent. However, when including the additional local sales tax, the New York counties that border Connecticut - Dutchess, Putnam, and Westchester – have the highest sales tax rates ranging from 8.125 percent to 8.375 percent. Massachusetts had the lowest sales tax rate of any of the border states until August 1, 2009, when rates were raised to 6.25 percent. This now means Connecticut has the lowest rate of the four states, as shown in Table I-1.

State	State Tax Rate	Local Tax Rate	Total Sales Tax
Connecticut	6%	-	6%
Massachusetts	6.25%	-	6.25%
New York	4%	4.125-4.375%	8.125 – 8.375%
Rhode Island	7%	-	7%
Source: Tax Foundation			

Rhode Island is the only border state that is a member of the Streamlined Sales Tax Project (SSTP). The goal of the project is to demonstrate to Congress uniformity among the various states’ sales taxes. If consistency can be shown, then it improves the chances of achieving federal legislation that would permit the states to collect sales tax on interstate commerce such as Internet and catalog purchases, and lessen the complications associated with doing business in multiple states. The STTP requires using standardized definitions for terms (e.g., clothing, food, and computer software) and eliminating thresholds (taxing items at different rates) as Connecticut does for clothing. Participation is optional -- 23 other states across the

country participate in the program but Connecticut has not. Currently, Congress is considering legislation that would implement the Streamlined Sales Tax Project nationwide.

Sales tax revenue. Generally, sales tax revenue is somewhat less volatile than other types of taxes. However, a slow-down in the economy will result in a decrease in sales tax revenue. About 40 percent of all Connecticut's state (not local) taxes come from the sales and gross receipts tax. As with the other border states, the percentage of total revenue that is derived from the sales tax has been declining since 2005. As illustrated in Table I-2, Rhode Island relies more heavily on its sales tax revenues, collecting about half its revenue from the sales tax.

	2005	2006	2007	2008
Connecticut	44%	41%	39%	39%
Massachusetts	32%	31%	29%	28%
Rhode Island	52%	51%	49%	50%
New York	34%	33%	31%	31%

Source: US Census Bureau, State Tax Collections 2005-2008

Excise Taxes

Excise taxes, which are known as selected sales taxes, are applied to specific consumer products and typically levied in addition to the sales tax. Alcoholic beverages (beer, wine, and liquor), tobacco products (cigarettes and cigars), and motor fuel (gasoline and diesel) are the most common consumer products that have excise taxes.

Excise taxes are typically charged on the item itself rather than a percentage of the price. For example, the excise tax on cigarettes may be \$2 per package, not a percent of the price of the package. In comparison to other types of taxes, such as income and sales tax, excise taxes are not a major revenue generator for states. Excise taxes in Connecticut make up approximately 6 percent of the state revenues collected annually.

Cigarette excise tax. In addition to charging consumers a sales tax, an excise tax is imposed on cigarettes. Payment is indicated by affixing a stamp to each pack of cigarettes. As of January 1, 2009, Connecticut had the lowest excise tax on cigarettes when compared to border towns as is shown in Table I-3. However, due to the FY 2010-2011 biennial budget passed in August, Connecticut's tax will increase 50 percent to \$3 a pack, making it the second-highest tax behind Rhode Island of the four comparative states. Although the rate was increased by 50 percent, past experience with rate increases show that state revenues will not grow by 50 percent because as cigarette prices increase, sales of cigarette packs have tended to decrease.

	2006	2007	2008	2009
Connecticut	\$1.51	\$1.51	\$2.00	\$3.00
Massachusetts	\$1.51	\$1.51	\$1.51	\$2.51
Rhode Island	\$2.46	\$2.46	\$2.46	\$3.46
New York	\$1.50	\$1.50	\$1.50	\$2.75

Source: Tax Foundation

Although one might conclude that the high tax rate on cigarettes would result in more cross-border shopping into other states, this is likely not the case. A recent study found that only a small percent of smokers purchase outside their state.¹ The study analyzed data from the Current Population Survey Tobacco Use Supplement (U.S. Census) and found that approximately 0.8 percent of consumers report purchasing cigarettes from “other” locations, which include the Internet and Indian reservations, while 96 percent of smokers purchase from within their home state. One could conclude from this that cigarette smokers purchase as needed rather than planned purchasing in bulk.

As shown in Table I-4, Connecticut collected in 2008 approximately \$330 million in cigarette excise tax revenue. This was the largest amount collected for the past six years. The large increase in revenue was due to an increase in the excise rate by \$0.49 a pack even though the state saw a decline in packages of cigarettes sold.

Smoking rates have been declining for the past five years according to available sales data reviewed by staff. The state experienced a decrease in sales volume of 10 percent when the excise tax was increased from \$1.11 per pack to \$1.51 per pack (36 percent increase). In the years following the tax increase, sales decreased by an average of 2 percent a year. In 2008 when the tax per pack was increased from \$1.51 to \$2 a pack, sales decreased by 5 percent, but more revenue was collected due to the higher tax rate.

Table I-4: Cigarette Sales, FY 2003 to FY 2008			
	Packages Sold (in millions)	Percent change	Excise Tax Revenue Collected (\$in millions)
FY 2003	204		\$252
FY 2004	185	(10%)	\$276
FY 2005	179	(3%)	\$270
FY 2006	179	-	\$268
FY 2007	172	(4%)	\$264
FY 2008	163	(5%)	\$330
*Data includes total cigarette sales. Cartons with more than 25 cigarettes are taxed at higher rate but represent only about .01 - .05 percent sales			
Source: Department of Revenue Services			

Motor vehicle fuels excise tax. Motor vehicle fuel used or sold in Connecticut is taxed in a number of ways. Gasoline and gasohol (mixture of gasoline and alcohol – mostly ethanol) are taxed by the state at 25 cents per gallon, and by the federal government at 18.4 cents per gallon. In addition there is a state Petroleum Products Gross Earnings Tax of 7.5 percent, which increases the cost per gallon of gasoline by approximately 13 cents per gallon.² Thus, the total tax on a gallon of gasoline in Connecticut is 56.4 cents.

¹ Chiou, Lesley and Muehlegger, Erich, “Crossing the Line: The Effect of Cross Border Cigarette Sales on State Excise Tax Revenues,” February 2008.

² Independent Connecticut Petroleum Association

Compared with the border states, Connecticut has the second-highest total tax on gasoline as shown in Table I-5.

Table I-5: Gasoline Excise Taxes				
	Excise Tax	Other State Taxes	Federal Tax	Total Taxes
New York	\$0.08	\$0.32	\$0.184	\$0.584
Connecticut	\$0.25	\$0.13	\$0.184	\$0.564
Rhode Island	\$0.27	\$0.04	\$0.184	\$0.494
Massachusetts	\$0.21	\$0.025	\$0.184	\$0.419
Source: ICPA				

Committee staff had hoped to look at gas sales data by town, but due to data limitations this type of analysis was not feasible.

Alcohol excise and sales taxes. States also impose excise taxes on alcoholic beverages based on alcohol volume. In Connecticut, a tax is imposed also on all distributors of alcoholic beverages based on the quantity of alcohol sold to off-premise establishments.

Table I-6 shows how Connecticut’s alcohol excise tax rate compare to the border state rates of Massachusetts, Rhode Island, and New York.

Table I-6: Alcohol Excise Tax, Rates as of July 1, 2009			
	Spirits (per gallon)	Wine (per gallon)	Beer (per gallon)
Connecticut	\$4.50	\$0.60	\$0.20
Massachusetts	\$4.05	\$0.55	\$0.11
Rhode Island	\$3.75	\$0.60	\$0.11
New York	\$6.44	\$0.30	\$0.14
Source: Tax Foundation			

In addition to the excise tax, all the states that border Connecticut now charge sales tax on alcoholic beverages; however, this is a recent development. Massachusetts did not impose sales tax on alcohol until August 1, 2009, so the impact could not be assessed.

Tax Policy on Alcoholic Beverages

In addition to the excise and sales tax on alcohol, there are other tax policies that also may affect sales. Unlike cigarettes and other items subject to sales tax, some states impose restrictions on when and where alcohol can be sold.

When. Connecticut, for example, is the only remaining New England state that does not allow off-premise alcohol to be sold on Sundays. States also impose restrictions on the hours when alcohol can be sold. Following are the permitted alcohol sale hours of Connecticut and its border states:

- Connecticut – Sales Monday to Saturday 8 am–9 pm

- Rhode Island – Sales Monday to Saturday 9 am–10 pm; Sunday noon–6 pm
- New York – Sales of wine and spirits Monday to Saturday 9 am–midnight; Sunday noon–9 pm; beer can be sold 24 hours a day
- Massachusetts - Sales Monday to Saturday 8 am–11 pm; Sunday noon–11 pm

Where. States also vary in the types of stores where liquor can be sold whether in grocery stores, stand-alone registered liquor stores, or state-run distribution centers. Each of the bordering states applies different restrictions as to where retail purchases of alcohol can occur. In Connecticut, outside of liquor stores, only beer can be sold in grocery stores. In New York, beer is only sold at supermarkets and convenience stores with wine and liquor sold only at liquor stores. In Massachusetts, beer and wine can be sold in grocery and convenience stores but not liquor. Rhode Island has the most restrictive provisions, requiring that alcohol of any kind be sold only in liquor stores.

It is difficult to measure the effect location restrictions has on alcohol sales. However, a common assumption is that if alcohol is more readily available -- for example, sold in grocery stores -- consumers are more likely to purchase more than if they had to make separate trips to purchase alcohol.

Consumption. Massachusetts and Rhode Island have had consistently higher per capita alcohol consumption rates than Connecticut for the past ten years (See Appendix I for detailed data).³ However, Rhode Island only allows beer, wine, and liquor to be sold at liquor stores whereas Massachusetts allows beer and wine to be sold in multiple locations including grocery stores. Although a direct correlation cannot be drawn, the consumption data do not appear to support the hypothesis that greater access leads to larger per capita sales.

Sunday Alcohol Sales

Allowing Sunday sales of alcohol has been a policy states have debated for many years. Since 2002, 13 states, including Massachusetts, Rhode Island, and New York, have changed their laws repealing Sunday sales bans. Now only 14 states have a ban, with Connecticut the only New England state continuing to prohibit the sale of alcohol on Sunday.

By still having this law in place, the concern is that Connecticut loses sales tax revenue to border states. Rhode Island, New York, and Massachusetts all allow alcohol sales seven days a week, although this has been a fairly recent development in all three bordering states. Table I-7 lists the states that currently have a ban on Sunday alcohol sales and those that have repealed their bans.

³ National Institute on Alcohol and Alcoholism of the National Institutes of Health

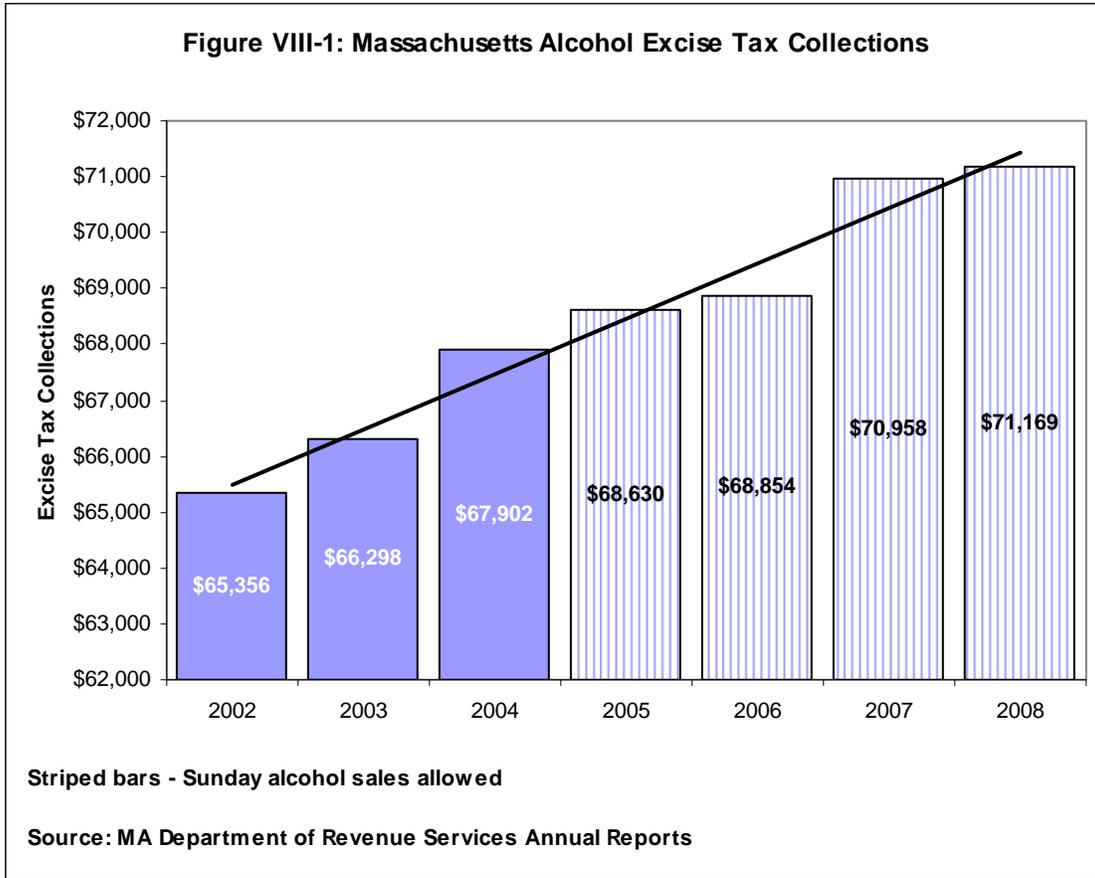
Table I-7: Status of State Regarding Sunday Sales		
Prohibit	Repealed Bans Since 2002	Repealed Before 2002
Alabama	Colorado	Alaska
Arkansas	Delaware	Arizona
Connecticut	Idaho	California
Georgia	Kansas	Florida
Indiana	Kentucky	Hawaii
Minnesota	Massachusetts	Illinois
Mississippi	New York	Iowa
Montana	Ohio	Louisiana
North Carolina	Oregon	Maine
Oklahoma	Pennsylvania	Maryland
South Carolina	Rhode Island	Michigan
Tennessee	Virginia	Missouri
Texas	Washington	Nebraska
Utah		Nevada
West Virginia		New Hampshire
		New Jersey
		New Mexico
		North Dakota
		South Dakota
		Vermont
		Wisconsin
		Wyoming

Source : March 2009 issue of State Legislature

This analysis, as per the scope of study, of the permission and/or prohibition of Sunday sales of alcohol focuses on the impact of tax policy and tax revenue for the state, not the social policy implications of allowing Sunday sales.

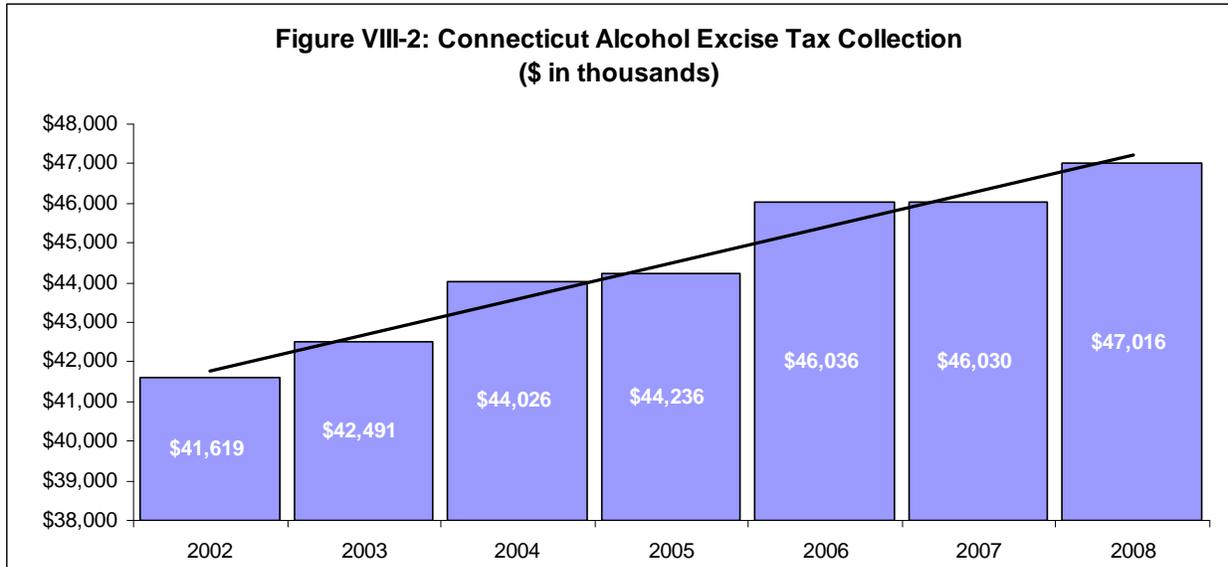
In an effort to determine the effect on Connecticut tax revenue by allowing Sunday sales, PRI reviewed the excise tax revenues collected in Massachusetts, both prior to allowing Sunday sales and after the ban was lifted. Prior to August 1, 2009 Massachusetts did not have a sales tax on alcohol, only an excise tax.

Figure I-1 shows the annual excise tax collections on alcohol in Massachusetts from 2002 to 2006. As the chart depicts, revenue collections have been increasing since 2002. One might expect a larger than normal increase in revenue in 2004 when Sunday sales began and then a leveling off as consumers adjusted to the change. However, as depicted in the figure, allowing Sunday sales had little impact on excise tax collections. Prior to allowing Sunday sales, excise tax collections were increasing and continued to increase at a steady rate after the law changed with a large increase occurring between 2006 and 2007, two years after the Sunday sales ban was lifted. Although 2004 revenues did increase 2.4 percent from 2003, the largest percentage increase in tax collections occurred between 2006 and 2007 (3.1 percent); during this time period no tax policy (sales nor excise taxes) on alcohol changed in that state.



	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Percent Increase	1.4%	2.4%	1.1%	0.3%	3.1%

PRI also analyzed excise tax collections for the same time period in Connecticut with the data presented in Figure VIII-2 below. Over the period, overall excise taxes from alcohol sales rose 13 percent, greater than the increase in Massachusetts (9 percent), even though the ban on Sunday sales was lifted in Massachusetts during this time period, and remained in place in Connecticut.



Upon review of recent literature, it appears that location of sales (i.e., where alcohol is allowed to be sold) prior to lifting a Sunday alcohol sales ban impacts sales once the ban is lifted. A recently released study by Stehr explored the effects of Sunday sales bans on taxes and cross-border shopping.⁴ In states with the least restrictions on where alcohol is sold (e.g. grocery stores versus liquor stores), sales improved only marginally, while those that had the most restrictive location requirements, sales increased the most after a ban was lifted.

The study showed that in general, repealing a Sunday ban on spirits (hard liquor only) will increase sales by 3.5 percent but the increase in beer sales was only marginally significant at 2.4 percent. However, in states that did not allow spirits to be sold in grocery stores and then repealed the statewide ban on Sunday sale of spirits, the sales of spirits increased by 7.2 percent. In states that already allowed spirits to be sold in grocery stores prior to the repeal of a Sunday sales ban, there was no significant effect.

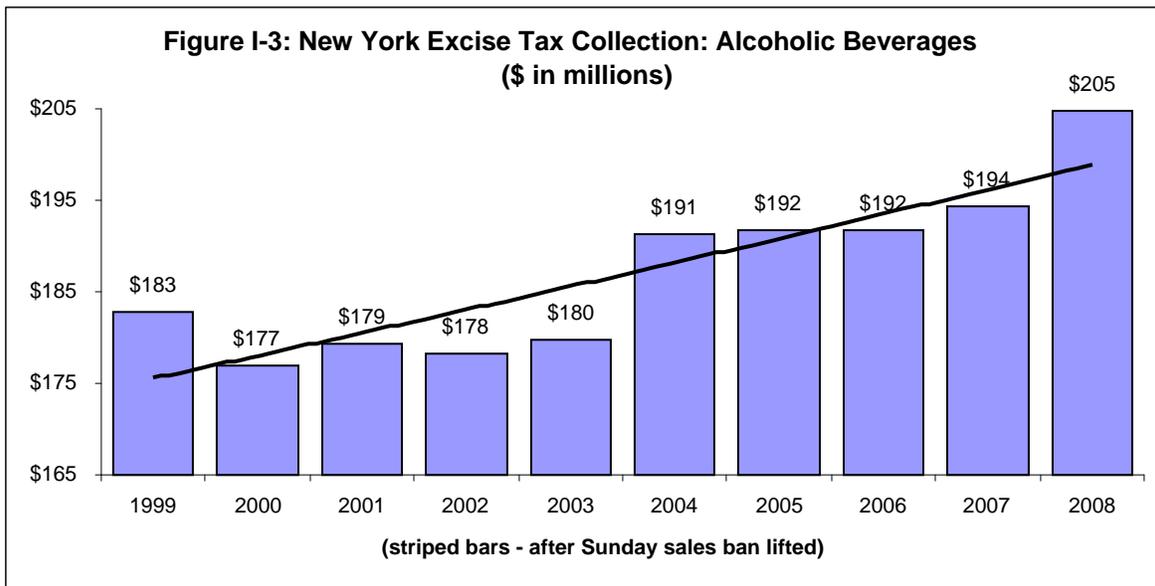
The study looked at the different effects of repealing the Sunday ban, depending on the location of sale of alcohol types and, in particular, whether spirits were sold in grocery stores. The study did not calculate the effect of selling beer and wine in grocery stores, however, it could be the combination of selling beer and wine in grocery stores prior to a Sunday ban, as was the case in Massachusetts, does not greatly affect sales after the ban is lifted. In addition, prior to lifting the Sunday ban, Massachusetts allowed Sunday sales during the holiday season, between Thanksgiving and New Year's Day, and since 1990, also allows stores within 10 miles of the New Hampshire and Vermont borders to be open on Sundays year round. All of these factors could have dampened the effect the repeal of the ban on Sunday alcohol sales had on tax revenue in Massachusetts.

Other state comparison. Due to the additional factors that may have contributed to the unique situation in Massachusetts, PRI analyzed several other states' experiences pre- and post

⁴ Stehr, Michael, "Excise Taxes on Drinking and Cross-Border Shipping for Alcoholic Beverages," National Tax Journal, March 2007.

Sunday sales repeals and the results are discussed below. New York, Colorado, and Kansas allow only the sale of beer in grocery stores, similar to Connecticut. All three states now allow the sale of alcohol on Sunday, although certain counties in Kansas – about 25 percent - do not allow Sunday sales. In terms of border competition, Kansas stores compete for customers along the Missouri border, a highly populous area of the state, while Colorado does not experience competition from its bordering states.

New York. Figure I-3 presents the overall excise tax collections for New York between 1999 and 2008. When New York repealed the Sunday ban on alcohol sales in 2003, overall excise tax collections increased 6.5 percent in the initial year and then leveled off at about 1 percent per year thereafter until 2008.



However, the increase in excise tax revenue was comprised of increases in spirit and wine sales only; beer sales actually decreased in the years subsequent to allowing Sunday sales (see Figure I-4). Also of note is the 5 percent increase in excise tax collections from 2007 to 2008, four years after the repeal of the Sunday ban, and the three percent decrease between 1999 and 2000.



In the period analyzed, beer sales have been steadily declining while spirit sales have been increasing with notable increases in 2004 and 2008 respectively. Both the increases and decreases suggest alcohol sales are influenced by factors other than repeal of Sunday bans, such as economic conditions.

Colorado. In July 2008, Colorado lifted its Sunday alcohol sale ban. In the 12 months after the ban, alcohol sales volume increased most notably in liquor and wine. However, as Table I-8 shows, gallons of all types of alcohol sold in Colorado also increased between July 2005 and July 2006 when compared to the previous 12 months, and the annual percentage increase was even greater than when Sunday sales were allowed.

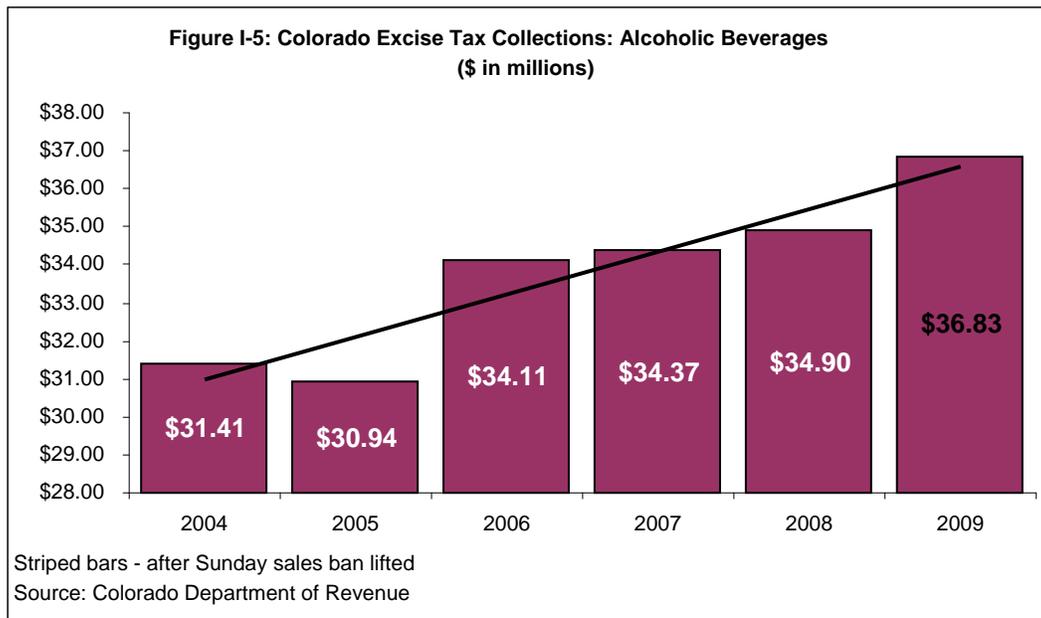
	Liquor	% change from previous 12 months	Wine	% change from previous 12 months	Beer	% change from previous 12 months
July 2004 – June 2005	8,336,845		11,667,272		105,891,845	
July 2005 - June 2006	9,432,347	13%	12,873,379	10%	110,269,523	4%
July 2006 – June 2007	9,496,025	1%	13,753,428	7%	109,112,723	(1%)
July 2007 – June 2008	9,638,434	1%	13,881,431	1%	110,755,376	2%
July 2008 – June 2009	10,276,930	7%	14,793,954	7%	114,367,629	3%
Quarter	Liquor	% change	Wine	% change	Beer	% change
July 2008 – Sept 2008	2,788,163		3,937,343		33,744,668	
July 2009 – Sept 2009	2,487,779	(11%)	3,536,224	(10%)	30,478,765	(10%)

Source: Colorado Department of Revenue Services

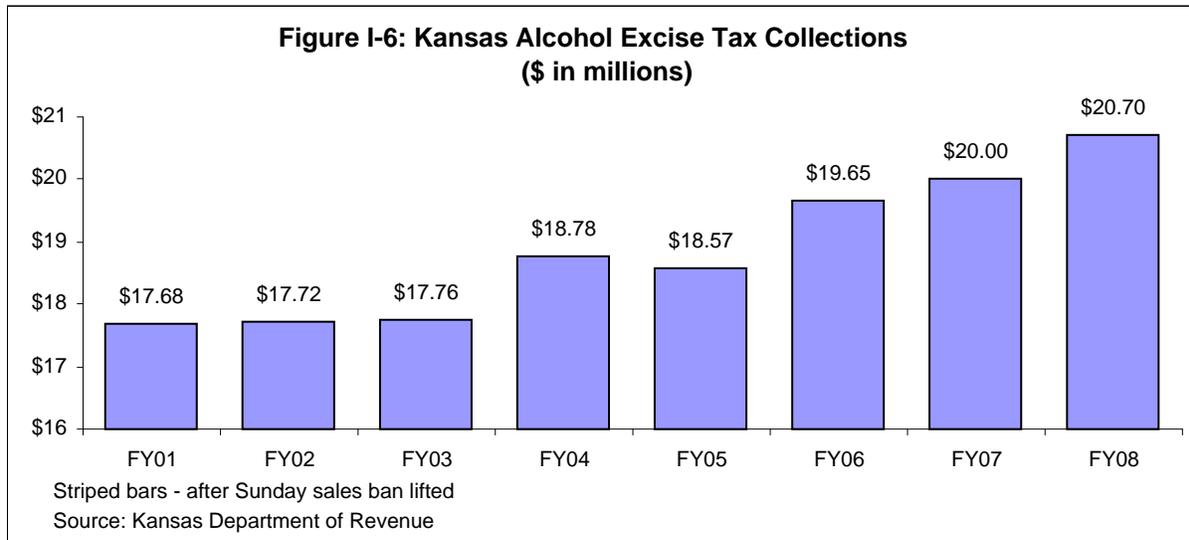
However, this increase in 2008 and 2009 may not be sustained. In comparing the most recent three months of sales in Colorado (July 2009 – September 2009) to the same quarter in 2008 (July 2008 – September 2008), gallons sold for all three beverage types are down 10-11

percent. It is difficult to predict a trend from only one calendar quarter of sales data, but it suggests that an initial increase in sales occurred immediately following the passage of Sunday sales and then is being followed by a leveling off or even a decrease in sales. However, this trend could also be indicative of the economic recession as well.

As shown in Figure I-5, Colorado also saw an overall increase of 6 percent in excise tax collections the year after the state lifted the Sunday sales ban. The largest increases came from wine and spirits, 7 percent and 6 percent respectively, with beer tax collections increasing only 3 percent. However, sales increased by 10 percent between 2004 and 2006 when Sunday sales were not allowed. This suggests other factors contribute to increased sales, such as during good economic times people spend money more freely on alcohol, and cut back during recessions.



Kansas. The experience in Kansas also makes it difficult to predict a definite pattern following permitting Sunday alcohol sales. The state legislature allowed counties to open on Sunday in November 2005, halfway through fiscal year 2006. Between 2005 and 2006 sales increased 5.8 percent but in the first full year of allowing Sunday sales, the increase was only 1.8 percent, as shown in Figure I-6.



These findings suggest that there is typically a bump in sales following the repeal of Sunday sales ban but the percentages of increase vary. The experience in the states analyzed indicates there are other factors, such as the economy, influencing the sale of alcohol and contributing to increases and decreases.

Since all three states examined have experienced a bump in excise tax collections after lifting a Sunday ban, PRI calculated a potential increase for Connecticut in the initial year after repealing the ban. The high and low increases for volume of alcohol sold in New York and Colorado were used to calculate a range. (Kansas volume data was unavailable. PRI staff also tried to obtain data from Rhode Island but that state was unable to fulfill the request).

The figures for New York and Colorado in Table I-9, show increases between 7-11 percent for wine and between 7-8 percent for spirits. Beer sales in both states were not impacted by the repeal of Sunday sales ban. In fact in New York, excise tax collections for beer decreased the two years following the ban and in Colorado the 3 percent increase was not substantially different than the average two percent increase in the years prior to the Sunday sales ban.

Using those ranges, Connecticut could anticipate an additional \$2.5 - \$3.1 million annually in excise tax revenues from the sale of wine and spirits if Sunday sales were allowed.⁵ Increases in the amount of alcohol sold would also raise more sales tax revenue. In the year following the repeal of the ban, program review estimates that Connecticut could expect an approximate increase of \$5 million in sales tax revenue from beer, wine and liquor store sales, for a total revenue gain of \$7-8 million.⁶

⁵ Calculation based on the percent increases in wine and spirits sold in Colorado and New York multiplied by the 2008 gallons sold in Connecticut multiplied by Connecticut's excise tax rates.

⁶ Calculation based on 2008 sales at beer, wine, and liquor stores, assuming an 8 percent increase in sales and a sales tax rate of 6 percent.

Table I-9: Volume Increases After Sunday Sales Ban Lifted		
	% increase in volume	
State	Wine	Spirits
New York	11%	8%
Colorado	7%	7%
Source: PRI data analysis		

Cross-Border Shopping

As part of the narrower scope, PRI also reviewed Department of Revenue Services' (DRS) sales tax data to examine whether there is evidence of Connecticut shoppers crossing the border into Massachusetts to shop.

States must balance the need to raise revenue versus remaining competitive with border states when establishing the rate for a sales tax. If rates vary significantly from state to state, it creates an incentive for consumers to cross state borders to shop in lower-tax jurisdictions. However, when deciding where to shop, consumers face a tradeoff between the cost savings due to the lower tax versus the costs and inconvenience incurred from the distance traveled.

The Connecticut Department of Revenue Services collects sales tax receipts directly from retailers. However, for retailers with multiple locations in the state, many compile all their store data and submit sales tax collections originating from one retail location to DRS. This means that for large chain-store retailers, they will often report the total of their Connecticut sales from one store. Due to this method of reporting, PRI was unable to analyze overall sales tax receipt collections by Connecticut town, thereby making it impossible to analyze cross-border shopping generally.

However, PRI was able to review alcohol sales data from stand-alone beer, wine, and liquor stores (i.e., not grocery stores) in Connecticut. Since legislative permitting laws limit the number of "package" stores one person can own, reporting problems do not arise for these particular retail outlets. The Department of Revenue Services grouped the alcohol sales data by location of the town to the state's borders for years 2004 through 2008. For confidentiality reasons, DRS does not release sales data if there are fewer than 10 retailers in the town, which is why the data are grouped together by town category in Table I-11.

PRI assumes that an incentive existed for Connecticut residents to cross the Massachusetts border to shop -- prior to August 1, 2009 -- based on the lower sales tax rate, lower excise tax rates, and also the fact that no sales tax was imposed on alcoholic beverages prior to that date. PRI also assumes that New York residents have the opposite incentive -- to cross the border and shop in Connecticut due to a lower sales tax rate in Connecticut. However, with Sunday being the second busiest shopping day and package stores not open on Sunday in Connecticut, fewer New York residents may cross the border to shop. As for the Rhode Island border, little incentive exists for Connecticut residents to cross-border shop because of the higher sales tax, as shown in Table VIII-10. Due to lower population levels in the Rhode Island and Connecticut towns on the Rhode Island/Connecticut border, PRI believes the small variation in sales tax has minimal impact on overall sales tax collections in the state.

State	State Tax Rate	Local Tax Rate	Total Sales Tax
Connecticut	6%	-	6%
Massachusetts	6.25%	-	6.25%
New York	4%	4.125-4.375%	8.125 – 8.375%
Rhode Island	7%	-	7%
Source: Tax Foundation			

PRI first analyzed the per capita alcohol sales data by town category. Table I-11 shows the per capita (residents over the age of 21) alcohol sales at Connecticut beer, wine and liquor stores (this data excludes beer sales occurring at grocery stores). Based on the per capita sales data, towns that border Massachusetts have lower sales than the other town groupings in the state. In fact, sales in towns bordering Massachusetts are anywhere from 35 percent to 43 percent lower than alcohol sales in Connecticut non-border towns.

	2004	2005	2006	2007	2008
MA Border Towns	\$197	\$213	\$234	\$249	\$271
NY Border Towns	\$372	\$381	\$384	\$392	\$406
RI Border Towns	\$295	\$289	\$306	\$322	\$312
Non-Border Towns	\$340	\$357	\$375	\$402	\$417
Total for CT	\$333	\$349	\$365	\$390	\$404
Source: Sales data – DRS; Town Population – State Data Center					

Multiple factors could be influencing the sale of alcohol, including price, availability, and income of the consumer. As incomes rise, consumers might either purchase more alcohol or buy higher-priced alcohol, resulting in higher sales and tax collections. However, when considering the average median household income for each of the town groupings, as shown in Table I-12, Connecticut towns on the Massachusetts border household median income is only 11 percent lower than non-border towns while Rhode Island border towns are 19 percent lower. However, Rhode Island towns have a higher per-capita consumption of alcohol than Massachusetts border towns, suggesting factors other than income are influencing lower sales in the latter group. In addition, although New York border towns have a high median household income, per-capita sales are lower than in the non-border towns. However, sales on the New York border are still higher than Rhode Island and Massachusetts border towns. It is difficult to separate the different factors influencing sales but it appears more than just income is driving the differences.

MA Border Towns	\$71,741
NY Border Towns	\$108,658
RI Border Towns	\$64,480
Non-Border Towns	\$79,446
Total for CT	\$80,178
Source: CERC Town Profiles	

The study previously cited by Stehr examined the impact cross-border shopping has on state alcohol sales. However, the data were from 2001, and in the analysis, the impact of cross-border shopping to individual states was based on the assumption that no other state had repealed its Sunday sales ban. Since all the states that border Connecticut now allow Sunday sales, that study does not provide a fruitful estimation of the impact cross-border shopping has in Connecticut.

Based on the income and alcohol sales data for Connecticut, further analysis is needed to fully explain the reasons contributing to the lower sales per capita in towns along the Massachusetts border. However, looking at just the sales data from beer, wine, and liquor stores, it appears package stores bordering Massachusetts are losing sales. This may be due to a variety of factors: price; increased availability of where alcohol is sold in Massachusetts; the greater accessibility of the extra day (Sunday) to purchase alcohol; or the fact that until recently Massachusetts had no sales tax on alcohol.

For a variety of reasons, program review believes that the Sunday sales ban in Connecticut should be repealed. Therefore the program review committee recommends,

Connecticut liquor and grocery stores should be permitted, but not required, to sell alcohol on Sunday under their current licensing provisions.

Rationale. Sunday sales ban of alcohol is a policy that has been repealed in 36 states. All states in the Northeast have repealed it, considering it to be anti-competitive and limiting consumer preferences.

In Connecticut's case, since the state is small, with cross-border alcohol availability on Sunday appearing to impact sales along the Massachusetts border, the repeal of the ban may lessen the accompanying revenue loss to the state. In fact, if all stores decide to open on Sunday, this recommendation should result in increased revenue to the state of \$7.5 to \$8 million in the year immediately following the lift of the ban. Given the economic conditions of the state it seems prudent for the state to allow Sunday alcohol sales and offer package stores on the borders to more effectively compete.

Appendix I: Alcohol Consumption Data

Connecticut per capita ethanol consumption, 2002-2006					
	Beer	Wine	Spirits	Total	National Rank
2002	0.95	0.5	0.74	2.20	6
2003	0.93	0.52	0.77	2.22	6
2004	0.92	0.53	0.79	2.24	6
2005	0.9	0.54	0.79	2.23	6
2006	0.93	0.55	0.84	2.32	6
Source: National Institute on Alcohol Abuse and Alcoholism Division of the National Institute of Health					

Massachusetts per capita ethanol consumption, 2002-2006					
	Beer	Wine	Spirits	Total	National Rank
2002	1.13	0.54	0.8	2.46	3
2003	1.1	0.56	0.82	2.48	3
2004	1.1	0.58	0.84	2.52	3
2005	1.07	0.59	0.85	2.50	3
2006	1.1	0.61	0.84	2.55	3
Source: National Institute on Alcohol Abuse and Alcoholism Division of the National Institute of Health					

Rhode Island per capita ethanol consumption, 2002-2006					
	Beer	Wine	Spirits	Total	National Rank
2002	1.17	0.48	0.73	2.38	4
2003	1.12	0.51	0.79	2.42	3
2004	1.12	0.49	0.79	2.4	5
2005	1.13	0.51	0.81	2.45	4
2006	1.13	0.53	0.86	2.52	4
Source: National Institute on Alcohol Abuse and Alcoholism Division of the National Institute of Health					

New York per capita ethanol consumption, 2002-2006					
	Beer	Wine	Spirits	Total	National Rank
2002	0.95	0.38	0.59	1.91	9
2003	0.93	0.4	0.61	1.93	9
2004	0.91	0.41	0.62	1.95	9
2005	0.9	0.43	0.64	1.97	8
2006	0.88	0.45	0.65	1.99	9
Source: National Institute on Alcohol Abuse and Alcoholism Division of the National Institute of Health					