

Liquor and Spirits Taxation: RTDs/Fortified Wine

Senate Finance Committee

Graham Campbell, JFO

May 5, 2022



How does the State get money liquor?

- Under current law, the State receives money from the sale of these products in three ways:
 - 5% tax on the gross sales of liquor (Liquor Tax)
 - Spirit is defined in statute based upon ABV, but the tax is applied to the entire sale price
 - All tax revenue goes to the General Fund
 - “Profit” from the Department of Liquor and Lottery
 - Every year there is a direct app from DLL Enterprise Fund to the General Fund
 - This profit is closely related to this direct app:
 - Sometimes the direct app exceeds DLL’s profits for a year. In other years it does not, so there are some retained earnings
 - The size of the direct app is a function of profits, but also DLL needs in a given year
 - Sales Tax, which goes to the Education Fund



How much do we receive from Liquor?

State Tax Revenues from Liquor					
	FY2018	FY2019	FY2020	FY2021	FY2022
Liquor Tax	\$19.8	\$21.4	\$3.6	\$4.8	\$5.0
Direct App	\$1.0	\$1.8	\$23.0	\$22.7	\$22.7
Sales Tax (estimated)	\$5.9	\$6.4	\$4.3	\$5.8	\$6.0
Total	\$26.7	\$29.6	\$30.9	\$33.3	\$33.7

Grey indicates Act 73 of 2019 changes

- **Note: Act 73 of 2019:**
 - Liquor tax used to be 25% (for DLL) and direct app was much smaller
 - Act 73 of 2019 changed the tax to a flat 5%, and DLL was required to send a certain amount to the General Fund as a direct app based upon the forecast:
 - \$18.37 million in FY20
 - \$18.74 million in FY21



Revenue/Tax Consequences H.730

- Proposal in this committee is the following:
 - Ready-to-Drink (RTD) beverages with less than 12% and less than 24 fl oz packaging would be eligible for distribution/retail model.
 - Fortified wines would be eligible for retail distribution model.
- Tax consequences:
 - Both would change from the 5% liquor tax to a \$1.10 per gallon tax
 - Similar to the vinous beverage tax (55 cent per gallon) paid at the wholesale level.
 - The profit on these categories would go to retailers, not DLL.
 - Sales tax stays the same



Liquor Tax vs Gallonage Tax

- In general, the liquor tax is a higher tax rate than the gallonage tax.
- Example:
 - RTD cocktail with 4 cans, 335ml each. Retails for \$11.99.
 - 4/335ml is 0.375 gallons of beverage.
 - We would collect approximately \$0.57 on this sale for the liquor tax.
 - We would collect \$0.41 for the \$1.10 gallon tax.
- Takeaway: Decrease in revenues from these categories by switching taxes.
- How much from these categories? **JFO estimates:**
 - -\$32,000 in FY2023
 - -\$16,000 in FY2024



The Loss in DLL Profit

- By moving to retail model, DLL no longer earns the 45-50% profits on these categories.
 - In terms of State revenue, one could think of this profit as a “45-50% tax”
- On these categories of beverage, JFO estimates combined losses of:
 - -\$1.1 million in FY2023
 - -\$1.7 million in FY2024
- This estimate is subject to some uncertainty.
 - The growth of the two categories, especially RTD, is unpredictable.
 - JFO’s model assumes rapid growth in RTD market, even without changing to a retail model.
 - If moving to retail model boosts FF wine sales growth significantly, the revenue loss could be less.
- DLL could replace RTD and FF wine sales with higher margin products, but JFO cannot “book” this as a revenue offset.



How does the House-passed H.730 address this?

- H.730 as passed the House mandates that DLL's direct app be at least the following:
 - \$20.4 million in FY2023
 - \$21.4 million in FY2024
- States the intention that the direct app for DLL reflect the growth of liquor tax revenues in the Consensus Revenue Forecast
- JFO estimates that these direct app level closely reflect growth in liquor tax revenues and therefore, offsets potential for revenue loss to the General Fund from a lower direct app.



Sales and Use Tax

- JFO estimates that this bill will boost sales tax revenue, benefitting the Education Fund.
- The move to the retail model is expected to boost sales.
- JFO preliminary estimates:
 - +\$40,000 in FY2023
 - +\$136,000 in FY2024



Total Fiscal Impact: SED Recommended H.730

Table 1: Fiscal Impacts of H.730 (in millions of dollars)		
Fund	FY2023	FY2024
Overall	\$0.06	\$0.18
General Fund	-\$0.03	-\$0.02
Enterprise Fund	\$0.05	\$0.05
Education Fund	\$0.04	\$0.14

