

Multiple Agency Fiscal Note Summary

Bill Number: 5375 SB	Title: Low-proof beverages/tax
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(20,099,000)	(20,099,000)	(22,194,000)	(24,346,000)	(24,346,000)	(27,038,000)	(26,412,000)	(26,412,000)	(29,701,000)
Liquor and Cannabis Board	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total \$	(20,099,000)	(20,099,000)	(22,194,000)	(24,346,000)	(24,346,000)	(27,038,000)	(26,412,000)	(26,412,000)	(29,701,000)

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.1	28,300	28,300	28,300	.0	0	0	0	.0	0	0	0
Liquor and Cannabis Board	.5	0	0	448,678	.0	0	0	0	.0	0	0	0
Total \$	0.6	28,300	28,300	476,978	0.0	0	0	0	0.0	0	0	0

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Liquor and Cannabis Board	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

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Prepared by: Amy Hatfield, OFM	Phone: (360) 280-7584	Date Published: Revised 3/ 4/2023
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Department of Revenue Fiscal Note

Bill Number: 5375 SB	Title: Low-proof beverages/tax	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	1,300,000	1,800,000	3,100,000	4,900,000	7,300,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	33,000	68,000	101,000	254,000	488,000
GF-STATE-State 01 - Taxes 18 - Liter Tax-Liquor	(7,600,000)	(9,700,000)	(17,300,000)	(21,600,000)	(24,800,000)
GF-STATE-State 01 - Taxes 20 - Liquor Sales Tax	(2,600,000)	(3,400,000)	(6,000,000)	(7,900,000)	(9,400,000)
Liquor Excise Tax Account-State 01 - Taxes 19 - Liquor Sales Tx-Sur	(900,000)	(1,200,000)	(2,100,000)	(2,700,000)	(3,300,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	2,000	3,000	5,000	8,000	11,000
Total \$	(9,765,000)	(12,429,000)	(22,194,000)	(27,038,000)	(29,701,000)

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3		0.1		
GF-STATE-State 001-1	28,300		28,300		
Total \$	28,300		28,300		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Matthew Shepard-Koningsor	Phone: 60-786-7627	Date: 01/17/2023
Agency Preparation:	Anna Yamada	Phone: 60-534-1519	Date: 03/03/2023
Agency Approval:	Valerie Torres	Phone: 60-534-1521	Date: 03/03/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 03/03/2023

Request # 5375-3-2

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Note: This fiscal note reflects a revision to the bill description and revenue impact. This fiscal note replaces fiscal note number 5375-1.

This fiscal note only addresses sections 1 and 5 of the bill, which impact the Department of Revenue (department).

CURRENT LAW:

"Spirits" means any beverage containing alcohol obtained by distillation, including wines with more than 24% alcohol by volume.

Retail sales tax does not apply to sales of spirits in an unopened original container. However, retail sales tax applies to drinks containing spirits sold by restaurants, bars, or other establishments with an on-premises license.

Washington has two types of spirits taxes: a spirits liter tax and a spirits sales tax.

The spirits liter tax is a tax on the sales of spirits in the original container and is based on the volume sold. Consumers pay taxes of \$3.7708 per liter. On-premises retailers such as restaurants and bars pay taxes of \$2.4408 per liter.

The spirits sales tax is a tax on the selling price of spirits in their original container. Consumers pay a tax of 20.5%. On-premises retailers pay a tax of 13.7%.

PROPOSAL:

This bill:

- Creates a new category of alcoholic beverages, a "low-proof beverage," defined as any beverage 16 ounces or less, containing more than 0.5% and less than 7% alcohol by volume, excluding wine, malt beverages, or malt liquor.
- Exempts low proof beverages from the spirits taxes.
- Creates a new tax on low proof beverages at a rate of \$2.50 per gallon, and the new tax is administered by the Liquor and Cannabis Board (LCB).

Low proof beverages will continue to be subject to:

- Business & occupation taxes which apply to the manufacturing and/or selling of low-proof beverages.
- Retail sales tax for all retail sales of low-proof beverages.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

Retail and Wholesale Pricing

- A markup of 30% exists between the wholesale price for off-premises and on-premises sales and the retail price.
- For on-premises sales, the retail price at bars and restaurants have an additional markup of 21% for the pour cost.
- This proposal imposes a new excise tax, administered by LCB, on a distributor at a rate of \$2.50 per gallon. The tax will

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be passed onto the wholesaler, increasing the wholesale price by \$2.50 per gallon, or \$0.66 per liter. Distributor's wholesale price for off-premises and on-premises establishments will be the same.

- On-premises retailers, such as bars and restaurants, pay spirits taxes to distributors on the wholesale price of the products; however, the taxes are passed onto their consumers via higher retail prices.

- When the bill becomes effective, both the spirits liter and spirits sales taxes will go away. On-premises retailers will keep the existing pricing and the amount of the spirits taxes' savings will result in higher profit margins.

Demand for Spirits and Low Proof Beverages

- In fiscal year 2022, low proof beverages accounted for 4% of the total spirits off-premises sales in Washington. The 4% volume share would also apply to the on-premises sales.

- When low proof beverages become a new category, as proposed by the bill, the existing demand for the remaining 96% of the products with higher alcohol-by-volume will not change.

- Average price of low proof beverages grows annually by the change in the consumer price index (CPI).

Growth of Low Proof Beverages

- Low proof beverage sales volume will grow at the average growth rate of ready-to-drink (RTD) cocktails, RTD long drinks, non-alcoholic spirits, and other RTD products, forecasted by International Wine & Spirits Research (IWSR).

- Price elasticity of demand (lower price effect) for spirits products in Washington is negative 0.49.

- When the bill becomes effective in fiscal year 2023, the average price per liter of low proof beverages (including applicable taxes) paid by a consumer at off-premises locations will decrease by 26.9%. Due to the lower price effect, the sales volume at off-premises locations will increase by an additional 13% above the IWSR forecasted growth rate since the U.S. growth rate would mostly account for the components due the cultural preference trend toward the products with lower alcohol-by-volume.

- The projected growth due to the lower price is 13% from fiscal year 2023 through fiscal year 2027, and 12% thereafter.

- The department implements this proposal by August 1, 2023, impacting ten months of collections in fiscal year 2024.

DATA SOURCES:

- Liquor and Cannabis Board

- International Wine and Spirits Research

- Economic and Revenue Forecast Council, Consumer Price Index, November 2022 Forecast

- Department of Revenue, Excise Tax Return Data

- Overproof.com, margin vs. Markup: Calculating both for your alcohol brand

<https://overproof.com/2021/08/30/margin-vs-markup-calculating-both-for-your-alcohol-brand/#:~:text=ABC%20or%20State%20Stores,markup%20is%2025%2D45%25>.

- On the Line, "What is the average bar profit margin?"

<https://pos.toasttab.com/blog/on-the-line/bar-profit-margin#:~:text=Bar%20Profit%20Margin%3F-,The%20average%20pour%20cost%20varies%20by%20bar%20type%2C%20drinks%20served,is%20therefore%2078%2D80%20percent>.

- Total Wine and More

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$9.8 million in the five months of impacted collections in fiscal year 2024, and by \$12.4 million in fiscal year 2025, the first full year of impacted collections.

This bill also increases local revenues by an estimated \$600,000 in the five months of impacted collections in fiscal year 2024, and by \$800,000 in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 - \$ (9,675)
 FY 2025 - \$ (12,429)
 FY 2026 - \$ (13,192)
 FY 2027 - \$ (13,846)
 FY 2028 - \$ (14,587)
 FY 2029 - \$ (15,114)

Local Government, if applicable (cash basis, \$000):

FY 2024 - \$ 600
 FY 2025 - \$ 800
 FY 2026 - \$ 1,000
 FY 2027 - \$ 1,200
 FY 2028 - \$ 1,500
 FY 2029 - \$ 1,800

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This estimate affects 200 taxpayers.

FIRST YEAR COSTS:

The department will incur total costs of \$28,300 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.26 FTE.

- Create special notice and update relevant information on the department’s website.
- Amend one administrative rule.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3		0.1		
A-Salaries and Wages	17,400		17,400		
B-Employee Benefits	5,700		5,700		
E-Goods and Other Services	3,600		3,600		
J-Capital Outlays	1,600		1,600		
Total \$	\$28,300		\$28,300		

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
MGMT ANALYST4	73,260	0.0		0.0		
TAX POLICY SP 2	75,120	0.2		0.1		
TAX POLICY SP 3	85,020	0.0		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.3		0.2		

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited process to amend WAC 458-20-195, titled: "Taxes, deductibility." Persons affected by this rulemaking would include licensed distilleries and craft distilleries making and selling "low proof beverages."

Individual State Agency Fiscal Note

Revised

Bill Number: 5375 SB	Title: Low-proof beverages/tax	Agency: 195-Liquor and Cannabis Board
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.9	0.0	0.5	0.0	0.0
Account					
Liquor Revolving Account-State 501-1	448,678	0	448,678	0	0
Total \$	448,678	0	448,678	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Matthew Shepard-Koningsor	Phone: 360-786-7627	Date: 01/17/2023
Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 02/01/2023
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 02/01/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/01/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1(26) defines “low-proof beverage” as any beverage that is 16oz or less and that contains more than 0.5% alcohol by volume and less than 7% alcohol by volume, but does not include wine, malt beverages, or malt liquor.

Section 2(5) would exempt sales of “low-proof beverage” from the 17% spirits retailer license issuance fee.

Section 3 adds a tax on the sale of low-proof beverages equal to \$2.50/gallon, payable by a spirits distributor, distillery, craft distillery, and spirits COA with direct ship endorsement.

Section 4(3e): Sales of “low-proof beverage” are also exempt from the spirits distributor license issuance fee.

Section 5(10d): The term “spirits” does not include “low-proof beverages.”

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

This bill defines “low-proof beverage” as any beverage that is 16oz or less and that contains more than 0.5% alcohol by volume and less than 7% alcohol by volume, but does not include wine, malt beverages, or malt liquor. Sales of “low-proof beverage” would be exempt from the 17% spirits retailer license issuance fee. A new tax is added on the sale of low-proof beverages equal to \$2.50/gallon, payable by a spirits distributor, distillery, craft distillery, and spirits COA with direct ship endorsement. Sales of “low-proof beverage” are also exempt from the spirits distributor license issuance fee.

The effect of these changes is indeterminate as the agency does not know the volume of sales of beverages that would be considered "low-proof" and thus the loss of revenue from the exemptions to the spirits retailer license issuance fee and spirits distributor license issuance fee can not be assumed.

Likewise, since the volume of sales of these beverages is unknown, it is unknown what the increase in revenue from the \$2.50/gallon tax would be.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

INFORMATION TECHNOLOGY DIVISION:

The division will have onetime staff costs to implement this bill, due to needing to modify the agency's internal spirits reporting system, and oversight by OCIO quality assurance.

0.9 FTE IT App Development - Senior/Specialist - \$139,753 (\$138,790 salary/benefits, \$963 in associated costs, \$1,725 for equipment purchases).

IT Investments – Approval and Oversight. The Office of the Chief Information Officer (OCIO) defines a major technology investment as one having a total cost that includes a combined level of effort of more than \$500,000 OR has a duration longer than 4-months.

If the agency fiscal note analysis anticipates one or both of these criteria being met, the agency is required under OCIO Policy #121 to submit an online self-assessment via OCIO’s Information Technology Assessment Tool (ITPA) speaking to effort size, risk and expected impact on citizens and state operations. If the agency assumes that OCIO’s formal decision is to place the project/effort under formal OCIO oversight, the agency would be required under OCIO Policy #132 to have external Quality Assurance (QA) services present at all stages of the project, from feasibility through implementation.

The agency currently estimates that cost at \$160/hr over the estimated lifetime of the project/effort.

OCIO QA Oversight: 1,920 hours x \$160/hr = \$307,200.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
501-1	Liquor Revolving Account	State	448,678	0	448,678	0	0
Total \$			448,678	0	448,678	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.9		0.5		
A-Salaries and Wages	106,845		106,845		
B-Employee Benefits	31,945		31,945		
C-Professional Service Contracts	307,200		307,200		
E-Goods and Other Services	988		988		
G-Travel					
J-Capital Outlays	1,700		1,700		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	448,678	0	448,678	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
IT App Development - Senior/Specialist	118,716	0.9		0.5		
Total FTEs		0.9		0.5		0.0

III. D - Expenditures By Program (optional)

Program	FY 2024	FY 2025	2023-25	2025-27	2027-29
INFORMATION TECHNOLOGY DIVISION (070)	448,678		448,678		
Total \$	448,678		448,678		

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.