



Alcoholic Beverage Tax HB248

Presentation to House Labor & Commerce Committee
February 10, 2016

Alcoholic Beverage Tax Increase

“An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the excise tax on alcoholic beverages; and providing for an effective date.”

Alcohol Tax History

- Began in 1933; basic structure same since 1937
- Charged and collected monthly
 - Taxed at wholesale level
- Tax rate has increased with inflation, public need, other states

Alcohol Tax History (Continued)

- Last major changes in 2002:
 - Tax raised to 10 cents per drink
 - Created Alcohol and Other Drug Abuse Treatment and Prevention Fund
 - 50% of alcohol tax deposited here
 - Used for mental health budget (fund code 1180)
- Revenue currently \$40 million per year
 - \$20 million to Treatment and Prevention Fund

Current Alcohol Tax Rates

- One drink portion is considered
 - 1 oz of distilled spirits (alcohol content > 21%)
 - 5 oz of wine
 - 12 oz of beer
- Tax is about 10 cents per drink
- EXCEPT: small craft brewery beer is about 3.3 cents per drink
 - (first 60,000 barrels of beer per year from breweries that meet a federal definition)

Alcohol Tax Proposal

- Doubles the tax rates to 20 cents per drink

Type of beverage	Before (per gallon)	After (per gallon)
Distilled spirits	\$12.80	\$25.60
Wine	\$2.50	\$5.00
Beer, cider, malt	\$1.07	\$2.14
Small-brewery beer (first 60,000 bbls)	\$0.35	\$0.70

- Requires electronic filing
 - Provides exemption process
- Changes bonding requirement from \$25,000 to an amount determined by DOR

Relative Alcohol Tax Rate

- Alaska's alcohol taxes are among highest in U.S.¹
 - Wine: highest
 - Spirits: second behind Washington
 - Beer (except craft beer): second behind Tennessee
- This bill would make Alaska the highest in all three categories

¹As of January 1, 2015

Revenue Impact

- Dept. of Revenue estimates doubling the tax rate will nearly double tax collections
- Additional revenue about \$40 million per year
 - \$20 million to unrestricted general fund
 - \$20 million to Alcohol and Other Drug abuse Treatment and Prevention Fund
- Estimates based on fall 2015 revenue forecast
- Do not account for changes in alcohol demand or stockpiling

Implementation Cost

- Dept. of Revenue must update:
 - Tax Revenue Management System (TRMS)
 - Revenue Online (ROL) which allows a taxpayer to file a return and apply for a tax license online
 - Tax return and license application forms
- One-time implementation cost of \$50,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- No additional costs to administer the tax program

Closing the Budget Gap

	(Millions)
FY16 Budget	\$ 5,200

FY17 Baseline Revenue (after proposed legislation)

AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	\$ 4,285

FY17 Spending Reductions

Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	\$ 500

Closing the Budget Gap (Continued)

<u>New Revenue Components (estimated)</u>	(Millions)
Mining (starting in FY 2018)	\$ 6
Fishing	\$ 18
Tourism	\$ 15
Motor Fuel	\$ 49
<i>Alcohol</i>	<i>\$ 40</i>
Tobacco	\$ 29
Oil and Gas (strengthening minimum tax)	\$ 100
Income Tax (half in FY17; first full year is FY18)	<u>\$ 200</u>
	\$ 457
 Total with reductions and new revenue	 \$ 5,242

Impacts of Alcohol Tax Proposal

- More expensive to buy alcohol
- Slight decrease in consumption due to higher prices
- Possible stockpiling of alcohol before tax increase

Sectional Analysis

- Sec. 1.** Adds a \$25 or 1% tax penalty for failure to file electronically unless an exemption is received by the taxpayer
- Sec. 2.** Requires electronic submission of tax returns, license applications, and other documents submitted to the Department of Revenue. This changes the general tax statutes, AS 43.05, and will apply to all tax types administered by the department. Provides a process to request an exemption if a taxpayer does not have the technological capability to do so.
- Sec. 3.** Changes the per-gallon tax rates for the three major categories of alcoholic beverages: malt beverages and ciders from \$1.07 to \$2.14; wine and other beverages with less than 21% alcohol content from \$2.50 to \$5.00; and beverages with greater than 21% alcohol content (generally distilled spirits) from \$12.80 to \$25.60.
- Sec. 4.** Changes the per-gallon tax rate for the first 60,000 barrels sold in the state from small craft breweries that meet the federal definition of a small brewer, from \$0.35 to \$0.70.

Sectional Analysis (Continued)

- Sec. 5.** Changes the statutes describing tax filing so that taxpayer must “submit” rather than “send” their statement and that it must be submitted “electronically in a format prescribed by the department.”
- Sec. 6.** Changes the surety bond requirement from \$25,000 to an amount determined by the department
- Sec. 7.** Clarifies that the tax increases apply to beverages sold after the effective date.
- Sec. 8.** Transitional language allowing for regulations
- Sec. 9.** Immediate effective date for the transitional regulatory language in Sec. 8
- Sec. 10.** Effective date of 7/1/16 for the rest of the bill including the tax rate changes.



Thank You!

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