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HOUSE COMMITTEE REPORT

(7)

Date Referred: March 23, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 4/7/89

The HEALTH, EDUCATION, & SOCIAL SERVICES Committee considered: HB 246

HOUSE BILL NO. 246 [INCREASING TAX ON BEER, WINE, & LIQUOR]
"An Act increasing the tax on alcoholic beverages."

RECOMMENDATIONS:

- be replaced with _____ the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact Revenue fiscal note(s) _____
- zero fiscal note _____ zero fiscal note(s) _____
- zero with analysis _____ zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

	Do Not Pass	No Rec	Amend
<i>Peter J. ... Requires AMENDMENTS</i>			X
<i>Mark Ballou Needs amendment</i>			X
<i>...</i>			X

J. Ellis
Chairman's Signature



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

700 West State Capitol
Juneau, Alaska 99801-1100
Mail Stop 1100
(907) 586-1000

March 21, 1989

MEMORANDUM

TO: House Finance Fiscal Policy Subcommittee

FROM: Theresa Tanoury *Theresa Tanoury*
Legislative Analyst

RE: Revenue from Sales of Alcoholic Beverages in Alaska
Research Request 89.257

You requested a report on the revenue from the sale of alcoholic beverages in Alaska. This memorandum provides information on the history of the tax, the current tax structure, other states' alcohol tax rates, revenues from alcohol taxes since 1983, license fee structures and various policy alternatives.

HISTORY OF THE ALCOHOL TAX

Alcoholic beverages have been taxed in Alaska since Prohibition was repealed in 1933. The original tax rate was \$0.05 per gallon of beer and wine sold. No tax was levied on hard liquor until 1937, when a tax of \$0.50 per gallon was established. Prior to statehood, the tax rates were changed several times. By statehood, annual revenues from the tax were about \$2 million.¹

Tax rates on alcoholic beverages have been changed twice since statehood. In 1961, the legislature raised almost all taxes, including the liquor excise tax, to provide the funds necessary to run the newly founded state government. At that time, the tax rate of \$4.00 per gallon of spirits was one of the highest in the nation.

In 1981, the legislature acknowledged that alcoholism was a major problem in Alaska. In 1983, the legislature increased alcohol tax rates with the intent that proceeds support treatment and prevention programs related to alcohol problems. Bill sponsors Representatives Al Adams and John Liska argued that the increased tax rate would help reduce consumption of alcohol and that alcohol users should pay for the costs of treatment and prevention of alcohol abuse.

¹For further information on the history of the tax, see House Research Memorandum 87.212.

Tax increases were proposed in 1986. House Bill 609 would have increased the taxes to \$0.64 per gallon of beer, \$1.56 per gallon of wine, and \$6.00 per gallon of hard liquor. The bill was opposed by the liquor industry but supported by those concerned with alcohol abuse. The bill was considered by the House State Affairs and Finance Committees, but never advanced to the floor.

PRESENT STRUCTURE OF THE ALCOHOL TAX

Except for changes in rates, the law requiring the payment of excise taxes on alcoholic beverages has changed little since 1933. The current law, Alaska Statute 43.60.010 - .040, requires that every brewer, distiller, bottler, jobber, retailer, wholesaler, or manufacturer who sells alcoholic beverages in Alaska or who consigns shipments of alcoholic beverages into the state

- 1) pay an excise tax on every gallon of beer, wine and hard liquors sold or consigned,
- 2) submit a monthly report and excise tax payment to the Department of Revenue on all gallons sold or consigned, and
- 3) furnish a surety bond of \$25,000.

ALCOHOL TAXES IN OTHER STATES

Tables 1 through 3 demonstrate how Alaska's excise tax rates on alcoholic beverages compare with rates in other states. The tables refer to "license states" and "control states." In control states, alcohol is sold through state-owned facilities; in license states, an independent person or business applies for a license to sell alcohol. Alaska's ranking relative to alcohol taxes in other states is shown below.

	<u>ALASKA'S RANK</u>	<u>ALASKA'S PRESENT RATE</u>	<u>U.S. HIGH</u>	<u>U.S. LOW</u>
Beer	9/10	\$0.35/gal	\$1.05/gal	\$0.03/gal
Wine	23	0.85	3.52	0.04
Spirits	4	5.60	12.50	0.94

TABLE 1
STATE ALCOHOL BEVERAGE EXCISE TAX RATES - BEER

RANK	TYPE OF STATE		STATE	BEER
	CONTROL	LICENSE		
1	X		ALABAMA	\$1.05 per gallon
2		X	HAWAII	0.81
3		X	SOUTH CAROLINA	0.77
4	X		NORTH CAROLINA	0.53
5		X	FLORIDA	0.48
6	X		MISSISSIPPI	0.47
7	X		UTAH	0.36
8		X	OKLAHOMA	0.36
9	X		MAINE	0.35
10		X	**ALASKA**	0.35
11		X	GEORGIA	0.32
12		X	LOUISIANA	0.32
13	X		NEW HAMPSHIRE	0.30
14	X		VERMONT	0.27
15		X	SOUTH DAKOTA	0.27
16	X		VIRGINIA	0.26
17		X	ARKANSAS	0.24
18		X	NEBRASKA	0.23
19	X		MICHIGAN	0.20
20		X	TEXAS	0.20
21	X		IOWA	0.19
22	X		WYOMING	0.19
23		X	KANSAS	0.18
24		X	NEW MEXICO	0.18
25	X		WEST VIRGINIA	0.18
26		X	ARIZONA	0.16
27		X	NORTH DAKOTA	0.16
28		X	MINNESOTA	0.15
29	X		IDAHO	0.15
30	X		MONTANA	0.14
31		X	TENNESSEE	0.13
32		X	INDIANA	0.12
33		X	MASSACHUSETTS	0.11
34		X	CONNECTICUT	0.10
35		X	MARYLAND	0.09
36	X		OREGON	0.09
37	X		WASHINGTON	0.09
38		X	NEVADA	0.09
39		X	DISTRICT OF COLUMBIA	0.08
40	X		PENNSYLVANIA	0.08
41		X	COLORADO	0.08
42		X	KENTUCKY	0.08
43	X		OHIO	0.08
44		X	ILLINOIS	0.07
45		X	RHODE ISLAND	0.06
46		X	NEW YORK	0.06
47		X	MISSOURI	0.06
48		X	WISCONSIN	0.06
49		X	DELAWARE	0.06
50		X	CALIFORNIA	0.06
51		X	NEW JERSEY	0.03

NOTES:

Where multi-rates were given, the highest rate was used.

Prepared by the House Research Agency, March 1989 (89.257A).

TABLE 2
STATE ALCOHOL BEVERAGE EXCISE TAX RATES - WINE

RANK	TYPE OF STATE		STATE	WINE
	CONTROL	LICENSE		
1		X	MINNESOTA	\$3.52 per gallon
2		X	FLORIDA	3.50
3		X	NEVADA	2.95
4		X	INDIANA	2.68
5		X	GEORGIA	2.54
6	X		UTAH	2.25
7		X	OKLAHOMA	2.08
8		X	SOUTH DAKOTA	2.07
9		X	HAWAII	2.00
10	X		IOWA	1.75
11		X	LOUISIANA	1.58
12	X		VIRGINIA	1.52
13		X	NEBRASKA	1.35
14	X		OHIO	1.27
15	X		MAINE	1.24
16		X	TENNESSEE	1.10
17		X	SOUTH CAROLINA	1.08
18	X		MONTANA	1.02
19	X		MISSISSIPPI	1.00
20	X		WEST VIRGINIA	1.00
21		X	NEW MEXICO	0.95
22	X		NORTH CAROLINA	0.91
23		X	**ALASKA**	0.85
24		X	ARIZONA	0.84
25	X		WASHINGTON	0.83
26	X		OREGON	0.77
27	X		MICHIGAN	0.76
28		X	ARKANSAS	0.75
29		X	KANSAS	0.75
30		X	CONNECTICUT	0.75
31		X	MASSACHUSETTS	0.70
32		X	NEW YORK	0.66
33		X	ILLINOIS	0.60
34		X	NORTH DAKOTA	0.60
35	X		VERMONT	0.55
36		X	TEXAS	0.52
37		X	KENTUCKY	0.50
38		X	WISCONSIN	0.45
39	X		IDAHO	0.45
40		X	DISTRICT OF COLUMBIA	0.45
41	X		ALABAMA	0.45
42		X	MARYLAND	0.40
43		X	DELAWARE	0.40
44		X	MISSOURI	0.34
45	X		NEW HAMPSHIRE	0.30
46		X	NEW JERSEY	0.30
47		X	CALIFORNIA	0.30
48		X	COLORADO	0.28
49		X	RHODE ISLAND	0.04
50	X		WYOMING	
51	X		PENNSYLVANIA	

NOTES:

Where multi-rates were given, the highest rate was used.

Control states using a percentage markup system are omitted.

Prepared by the House Research Agency, March 1989 (89-2578).

TABLE 3
STATE ALCOHOL BEVERAGE EXCISE TAX RATES - SPIRITS

RANK	TYPE OF STATE		STATE	SPIRITS
	CONTROL	LICENSE		
1	X		UTAH	\$12.50 per gallon
2		X	FLORIDA	9.53
3	X		WASHINGTON	7.42
4		X	**ALASKA**	5.60
5		X	OKLAHOMA	5.56
6		X	HAWAII	5.20
7		X	MINNESOTA	5.03
8		X	NEW YORK	4.09
9		X	MASSACHUSETTS	4.05
10		X	TENNESSEE	4.00
11		X	CALIFORNIA	4.00
12		X	NEW MEXICO	3.94
13		X	SOUTH DAKOTA	3.93
14		X	GEORGIA	3.79
15		X	WISCONSIN	3.25
16		X	ARIZONA	3.00
17		X	CONNECTICUT	3.00
18		X	NEBRASKA	3.00
19		X	NEW JERSEY	2.80
20		X	SOUTH CAROLINA	2.72
21		X	INDIANA	2.68
22		X	NORTH DAKOTA	2.50
23		X	LOUISIANA	2.50
24		X	KANSAS	2.50
25		X	ARKANSAS	2.50
26		X	RHODE ISLAND	2.50
27	X		MISSISSIPPI	2.50
28		X	TEXAS	2.40
29		X	COLORADO	2.28
30	X		OHIO	2.25
31		X	DELAWARE	2.25
32		X	NEVADA	2.05
33		X	ILLINOIS	2.00
34		X	MISSOURI	2.00
35		X	KENTUCKY	1.92
36		X	MARYLAND	1.50
37		X	DISTRICT OF COLUMBIA	1.50
38	X		WYOMING	0.94
39	X		VERMONT	
40	X		WEST VIRGINIA	
41	X		PENNSYLVANIA	
42	X		VIRGINIA	
43	X		MONTANA	
44	X		NORTH CAROLINA	
45	X		MAINE	
46	X		OREGON	
47	X		NEW HAMPSHIRE	
48	X		ALABAMA	
49	X		IDAHO	
50	X		IOWA	
51	X		MICHIGAN	

NOTES:

Where multi-rates were given, the highest rate was used.

Control states using a percentage markup system are omitted.

Prepared by the House Research Agency, March 1989 (89-2570)

REVENUE FROM ALCOHOL SALES

Table 4 shows the tax revenues raised from the sale of alcohol since 1983. Consumption of alcohol steadily decreased after 1984, the year in which the excise tax was most recently raised. Several factors may have contributed to the decrease, including population characteristics, stricter driving-while-intoxicated laws, educational campaigns, etc. The increased consumption during 1984 may indicate that higher taxation did not deter sales.

* * * * *

TABLE 4
 TAX REVENUES FROM ALCOHOL SOLD IN ALASKA: FY 83 - FY 88
 (In Millions of Dollars)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Beer	\$3.3	\$4.7	\$4.9	\$4.9	\$4.7	\$4.5
Wine	.8	1.3	1.4	1.3	1.3	1.2
Liquor	5.4	7.4	7.5	7.0	6.6	6.2
Total	\$9.5	\$13.4	\$13.8	\$13.2	\$12.6	\$11.9

Source: Alaska Department of Revenue, Research Section.

* * * * *

In addition to excise taxes, alcoholic beverage distributors pay an annual license fee and application fee. Table 5 provides the license fee schedule and revenue for FY 88. Application fees are \$100 for a new license, license renewal, or a license transfer. Application fees collected in FY 88 totaled approximately \$240,000.

TABLE 5
 ALCOHOLIC BEVERAGE LICENSE FEE SCHEDULE: FY 88 REVENUE

TYPE OF LICENSE	NUMBER OF LICENSES ISSUED	ANNUAL FEE SCHEDULE	FY 88 REVENUE
Brewery	2	\$500	\$ 1,000
Distiller	1	500	500
Beverage Dispensary	689	1,250	854,643
Club	87	600	52,866
Common Carrier	158	350	50,000
Restaurant & Eating	319	300	96,566
Retail Liquor	474	750	356,041
General Wholesale	16	1,000	126,100
Maltbeverage Wholesale	7	200	7,300
Public Liquor	1	400	400
Miscellaneous Revenue*	1,250	variable	66,984
Total	3,026		\$1,612,400

*Revenue from one-time permits and other services from the Alcoholic Beverage Control Board. Permits include Caterers, 636 issued during FY 88; Special Events, 97 issued during FY 88; Restaurant Designation, 503 issued during FY 88; and Restaurant Caterers, 14 issued during FY 88.

Source: Alaska Alcoholic Beverage Control Board

* * * * *

POLICY ALTERNATIVES

Recent research from the State Office of Alcoholism and Drug Abuse indicates that "the state spends \$13.42 in services for each \$1.00 of revenue collected for alcoholic beverages."² Policy alternatives aimed at increasing revenues are discussed below.

²The Economic Cost of Alcohol and Other Drug Abuse in Alaska, State Office of Alcoholism and Drug Abuse, Volume 1, February 1989.

State Control of Alcohol Sales

Five states control the wholesale distribution of alcoholic beverages within their boundaries.³ These states buy alcoholic beverages from manufacturers and sell to privately owned, licensed retail outlets. Other states control both wholesale and retail sales.

A state's revenue potential in a control system depends upon the degree of control and the rate of markup. Of the five wholesale control states, all five states control spirits and two states control both spirits and wine.⁴ Markup is often in addition to excise tax, so the revenue potential in Alaska could be the net gain from the markup process. The markup rates in the wholesale control states range from 17.6 percent to 51 percent of the value of the product.

Wyoming (whose sparse population and vast area are similar to Alaska) reported 1988 sales of 1,387,517 gallons of wine and spirits at a markup of 17.6 percent of value; gross revenue from markup was \$3.73 million, or approximately \$2.69 per gallon. Based on similar wholesale value and sales of 2.5 million gallons of wine and spirits annually, a 17.6 percent markup would net about \$6.8 million per year in Alaska. Additional revenue could be collected by controlling distribution of beer and/or applying a larger markup. Additional markup could be captured by the state if retail sales were also controlled. Costs of operations could be recovered through shipping and handling fees. In Wyoming, such fees are approximately \$3.00 per case.

No state has converted from a private sector system to a control system. Ted Harris, a public relations consultant for the National Alcoholic Beverage Control Association, stated that it would be politically difficult for a license state to become a control state because it would transfer private sector jobs and profits to the state. Alaska has 16 general wholesale distributors and seven malt beverage and wine wholesale distributors.

³The five states are Iowa, Michigan, Mississippi, Ohio and Wyoming. Michigan owns retail outlets but is considered a wholesale control state by the Bureau of Alcohol, Tobacco, and Firearms because state sales equal less than five percent of total retail sales. Tables 1 through 3 list those states that control both wholesale and retail sales.

⁴Most control states do not operate as wholesalers for beer.

Increase License Fees

A liquor license has no official monetary value. However, by limiting the number of alcoholic beverage licenses issued, the state makes the licenses valuable assets. The market value of a liquor license corresponds to the present value of the expected revenue stream (net of costs) from liquor sales. The actual market value of a license is unknown since transfer applications do not include price of purchase. Collection of this information would give the state access to the market value of liquor licenses and the ability to tax this government-created wealth. Although license fees are intended to recover the cost of administering the laws and regulations, they do capture some of the value of the licenses. The license fee schedule could be easily modified to capture a larger share of the wealth. License fees were last set in 1980.

Application fees were last increased in 1987, from \$50 to \$100. Over 3,000 applications were processed by the Alcoholic Beverage Control Board during FY 88.

Increase Alcohol Excise Tax Rates

There has been discussion of taxing alcoholic beverages according to alcohol content rather than beverage type. Table 6 shows that taxing beer and wine at a rate based on the equivalent alcohol content (relative to spirits) would generate \$4.4 million annually. Once equalized, rates should be raised by equal percentage amounts if equalization is to be maintained. Total revenue under any tax increase will depend not only on the tax rate, but on the volume sold. Generally, a tax increase can be expected to reduce sales, so projections based on current sales will tend to overstate actual income.

TABLE 6
EQUALIZATION TO PRESENT TAX RATE OF SPIRITS
(In Millions of Dollars)

	<u>Present Rate (\$/gal)</u>	<u>New Rate (\$/gal)</u>	<u>Projected Revenue</u>	<u>Revenue Change</u>
Beer	0.35	0.59	\$7.5	\$3.0
Wine	0.85	1.82	2.6	1.4
Spirits	5.60	5.60	6.2	0.0
Total			\$16.3	\$4.4

* * * * *

I hope this information is helpful. Please contact our office if the committee members have further questions.

ATTN: Jan Trettner

Fax: 465-3700

4 April 89

Dear Jan,

Thank you for your phone calls yesterday.

Enclosed are:

1) A chart comparing and contrasting the present tax rate with H.R. 246 and my proposal; and

2) A very brief outline of ^{what} my remarks on Fri. will cover.

I will be less than 10 minutes.

Again thank you for notifying me of the hearing.

Sincerely,

James D. Cray

H. 248-2629

W. 343-4240

Outline of Comments

- ① Responsibility
- ② \$200,000,000
- ③ \$94,000,000
- ④ \$11,862,342
- ⑤ \$1⁵⁰ / 5.9¢
- ⑥ ADN "People in Peril"
 - a) No. 1. story in 88
- ⑦ Ask a cop
- ⑧ laws vs. enforcement
- ⑨ SIN tax vs. "user" tax
- ⑩ 74% - 15%
- ⑪ Who affected
- ⑫ Equity
- ⑬ Chart
- ⑭ Cut budget
- ⑮ ↑ alcohol & tobacco tax
- ⑯ "Letter"
- ⑰ "Spirit"
- ⑱ Cream
- ⑲ = ize tax rates
- ⑳ ↑ won't deprive
- ㉑ Source of the problem made more of the source of the solution.
- ㉒ Malt - \$1.05
Wine - \$2.15
> 21% - \$12.75

	TAX RATE	246	CRIMY PROPOSAL
MALT	12,839,436 gallons @ \$.35	\$.75/gal.	\$1.05/gallon
WINE	1,432,635 gallons @ \$.85	\$2.34/gal.	\$2.15/gallon
Other beverages with > 21% alcohol by volume	1,098,357 gallons @ \$5.60	\$7.20/gal.	\$12.75/gallon
Revenue raised based on F.Y. 88 Gallons	\$11,862,342	\$20,890,113 (↑ of \$9,027,771)	\$30,565,623 (↑ of \$18,703,281)
twelve (12) ounce Bottle of BEER *	3,3¢	7¢ (an ↑ of 3.7¢ from the present tax)	10¢ (an ↑ of 6.7¢ from the present tax)
Six (6) ounce Glass of Wine *	4¢	10.96¢ (an ↑ of 6.96¢ from the present tax)	10¢ (an ↑ of 6¢ from the present tax)
One (1) ounce Shot of Whiskey *	4,4¢	5.6¢ (an ↑ of 1.2¢ from the present tax)	10¢ (an ↑ of 5.6¢ from the present tax)
State Cost / Alcohol tax revenue	\$1.00 / 5.9¢	\$1.00 / 10.4¢	\$1.00 / 15.2¢

* A 12 oz. bottle of beer, a 6oz. glass of wine and a 1oz. shot of whiskey all contain equivalent amounts of alcohol

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

THE ECONOMIC COST OF ALCOHOL AND OTHER DRUG ABUSE IN ALASKA

MYRA M. MUNSON, COMMISSIONER, DHSS

MATT FELIX, COORDINATOR



STATE OFFICE OF ALCOHOLISM AND DRUG ABUSE
BOX H05F, JUNEAU, ALASKA 99811-0607
AK/DHSS/SCADA/89-1

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