

SB

82

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 3/31/03

FURTHER:

RECEIVED
FEB 20 2004
SENATE FINANCE
COMMITTEE

DATE TURNED IN TO OFFICE: 20 Feb 2004

Finance Committee considered

SENATE BILL NO. 82

SB 82 ALCOHOLIC BEVERAGE TAX FOR WINE & OTHERS

"An Act relating to the state alcoholic beverage tax for certain wine and other beverages."

and recommends:

be replaced with _____ CS _____ (_____)

adopt previous _____ CS SB 82 _____ (L+C)

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to _____ Committee

Senate Bill:

same title

new title

House Bill:

same title

technical title

new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
Revenue	2/17/04		✓	#2

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	No REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

FEB 20 2004

SENATE FINANCE COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSSB 82
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Alcoholic Beverage Tax for Wine RDU Revenue Programs & Services
& Others _____ Component Tax Division
Sponsor Senator Gary Stevens
Requester Senate Finance Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	(18.4)	(18.4)	(18.4)	(18.4)	(18.4)	(18.4)
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See page 2 for analysis.

Prepared by: Chuck Harlamert
Division: Tax Division
Approved by: Steve Porter, Deputy Commissioner
Agency: Department of Revenue

Phone 465-2320
Date/Time 2/17/04 9:27 AM
Date 2/17/2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. CSSB 82

ANALYSIS CONTINUATION

This legislation is intended to reduce the tax burden for small Alaska wine producers. Wine is taxed at the rate of \$2.50 per gallon at the time it is sold in the state or consigned to the state. Section 1 of the bill would exempt from taxation the first 100 gallons of wine each month per taxpayer. The maximum benefit is \$3,000 per taxpayer per year. Section 2 limits the exclusion to 100 gallons per month per business.

This tax break accrues to all taxpayers including in-state producers and importers, ten of which reported tax on wine during FY03. By contrast, a tax break specifically for small producers would necessarily have to include small in-state and out-of-state producers. Any limits on the benefit for a single producer would require coordination of each producer's tax benefit, potentially between multiple distributors. We do not have the information necessary to measure the impact of this 100 gallon exemption, or variations, were the tax break targeted at producers instead of the taxpayer. We believe that the impact on revenues would exceed that of the bill as drafted if producers were specifically targeted.

Operating costs are unaffected by the bill. The department will add two lines to our existing tax return to calculate taxable gallons after the exclusion and compute the tax. We believe that our costs, and the costs of distributors, would be significant were the tax benefit awarded directly to small producers.

We estimate the annual revenue loss from the bill at \$18,400 based on returns filed for FY03. Approximately \$3,400 (18%) of this benefit accrues to small in-state producers.

SESSION ADDRESS:
Alaska State Capitol
Juneau, Alaska 99801-1182
(907) 465-4925
Fax: (907) 465-3517
Toll Free: 1-800-821-4925

Senator Gary Stevens

Alaska State Legislature

INTERIM ADDRESS:
112 Mill Bay Road
Kodiak, Alaska 99615
(907) 486-4925
Fax: (907) 486-5264

SPONSOR STATEMENT-SB 82

(Updated 4/23/03)

SB 82, "An Act relating to the state alcoholic beverage tax for certain wine and other beverages." This bill will aid Alaska's four small wineries; two of which are located on Kodiak Island, a third is in Haines, the fourth is in Anchorage.

When the 22nd Alaska Legislature passed into law House Bill 225, breweries were allowed to keep the former tax rate of \$.35 per gallon on sales of the first 60,000 barrels of beer sold in the state. Wineries were not given similar consideration; as a result, the tax on wine rose from \$.85 per gallon to \$2.50 per gallon. This important revenue measure, while helping breweries, has, unfortunately, put Alaska's small, emerging wineries at a competitive disadvantage in the marketplace.

Recognizing that a revision to current state statute to allow wineries an exemption similar to breweries would lead to a substantial revenue loss, SB 82 attempts to level the playing field for our small wineries by offering a tax exemption of 100 gallons per month. This figure was derived after much consultation with winery operators and the Department of Revenue. The 100 gallon per month figure is also an attempt to minimize revenue loss from unintended beneficiaries, while keeping within the constrictions of interstate commerce law.

The bill also includes language that will further reduce unintended revenue loss by treating as a single taxpayer, two or more taxpayers who have a relationship, as defined in 26 U.S.C. 267(b) (Internal Revenue Code).

By supporting SB 82, you will help this developing Alaska industry produce a competitively-priced product, allowing them to continue to contribute new revenue to the state's changing economy.

GREAT LAND WINES, LTD.

May 1, 2003

Senator Gary Wilkins, Finance Committee
State Capitol Building,
Room 518
Juneau, AK 99801

RE: SB 82

Dear Legislators:

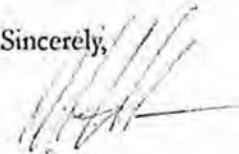
Our governor tells the people that he wants to develop Alaskan businesses so that those businesses can lead us out of the financial disaster in which we find ourselves. So far the steps taken by the Legislature and the steps recommended by the new Governor Murkowski have only increased our costs for permits, licenses and our excise taxes have gone up 300%. We do not understand how to grow our business when we are burdened with excessive fees while receiving fewer services from the state. But what seriously concerns us is the discrepancy between the excise taxes paid by Alaskan wineries that breweries do not have to pay.

According to figures from the Dept. of Revenue, breweries are exempted up to 60,000 barrels a year, while Alaska's four small wineries have no exemption from the tax at all. 60,000 barrels of beer is equal to 2,820,000 gallons. I have testified in front of your committee twice this session, but I believe the committee does not yet understand just how small an operation we are. Our total output of wine for a year is less than 300 gallons, of that we might sell 150 gallons. We pay the full excise tax as per the alcohol tax increase passed last session which means that instead of paying \$.85 a gallon we are now paying \$2.50 a gallon. The total amount that we pay will be no more than \$375. a year, if we sell all of that at the winery. If we sell our wine wholesale, the retail seller pays the tax. Still the amount of money coming into State coffers is minuscule.

Breweries on the other hand are exempted for huge amounts and companies that are not Alaskan businesses are paying nothing. I am sure that it was not the Legislature's intention to exempt major breweries from paying the higher tax. Still that is the outcome. SB 82 attempts to make the tax laws on alcohol more equal and fair. We do not object to paying a tax to the State, but we do find it difficult to do when our small local business is unfairly burdened.

We support SB 82 and ask you to give our small business a chance to succeed by passing this bill.

Sincerely,



David B. Meunaker, Owner Operator
Great Land Wines, Ltd.

P. O. BOX 1093 • HAINES, AK • 99827
PHONE: 907.766.2096 • FAX: 907.766.2094

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PO Box 3574
Kodiak, AK 99615
907-486-1420
alaskawildwine@gci.net

April 11, 2003

Dear whom it may concern:

I wish to give support to SB 82 sponsored by Senator Gary Stevens. As a small Alaskan winery owner I have followed this bill with great interest. The passage of HB 225 last fall raised my excise taxes to the highest in the nation; from \$0.85 to \$2.50 per gallon sold in Alaska. This tax increase has impacted my winery substantially.

Researching HB 225 I have encountered some disturbing information. Subsection C of HB 225 gave breweries a substantial discount in excise taxes. Fiscal notes from the Department of Revenue state that " the impact on the revenue could be significant" And " For example, a brewer approaching the 2-million-barrel threshold that sells 60,000 barrels in Alaska would pay \$651,000 compared to an unqualified brewer paying \$2,641,200 on its barrels " The Department of Revenue also states that 13,979,490 gallons of beer, 1,380,535 gallons of wine, and 1,087,720 gallons of spirits were sold in Alaska in 1999. The Kodiak legislative office has not data for more recent years. Therefore, the impact on state revenue from a brewery reduction is much greater than the impact would be from a similar winery reduction.

The 60,000-barrel beer reduction given to breweries in HB 225 originated from federal statutes (26 U.S.C. 5051 (a)) reducing federal excise taxes on beer sold in the USA during a calendar year. Similarly, the federal statutes (26 U.S.C. 5041 (c)) give wineries a full reduction at 100,000 gallons of wine sold in a year. HB 225 gave the full federal reduction to breweries for sales in Alaska. Federal reductions should only apply to a sales volume within all 50 states.

The current bill asks for only 1.2% of the federal reduction or 100 gallons a month as a compromise with the Department of Revenue and members of the Labor and Commerce Committee. The maximum revenue lost each year per winery from this bill is \$3,000.00 as compared to 2 million per brewery in HB 225. In my case, at 300 gallons a year, it would be \$750.00. This bill also includes a provision treating taxpayers with relationships as a single taxpayer to further reduce the impact on the state revenues. HB 225 lacks this provision.

For further information on the effects and circumstances surrounding this bill I ask you to please request the following: 1) that the Revenue Department produce a fiscal note on lost state revenue from HB 225 C - the brewery discount and 2) testimony from the Alaskan Manufacturing Association, the Kodiak Chamber of Commerce, the Made In Alaska Program, and the Department of Community and Economic Development to get important views on this bill.

In summary, SB 82 attempts to equalize taxation in the alcohol industry while decreasing the impact on state revenues and supporting small Alaskan wineries. This burgeoning Alaska industry needs your support to prosper and contribute to the states changing economy. Please support this Alaskan business and pass SB 82.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven Thomson".

Steven Thomson
Alaskan Wilderness Winos
Vice President

PRESS RELEASE *For Immediate Release*

Contact: Bill Webb, 907-272-5634; bill@anchoragemarkets.com



February 11, 2004, Anchorage, Alaska

Kodiak Island Winery Selected As Manufacturer of Year By Made In Alaska Program

Salmonberry and rhubarb wines are the favorites of Kodiak Island Winery's many customers and devotees that have developed over the winery's five successful years in business. This small winery, located in a scenic setting at mile 36.25 on the Chiniak Highway on Kodiak Island, now produces about 10,000 bottles of high quality wines and champagnes. Their wines are sold in many locations in Kodiak as well as in Anchorage, Juneau, Fairbanks, Homer, Sitka and other Alaska cities. The company's goal is to supply wine to all of Alaska's cities. All wines are hand crafted and bottled by owners John and Judy Lucas.

The winery produces seven types of wine and four flavors of champagne, Salmonberry, Blueberry, Strawberry and Rhubarb. The Lucas grows their own organic rhubarb and local youth pick the berries needed for wine production. Inadequate supplies of strawberries and blackberries require their purchase from an organic farmer in Oregon. "Production is now sufficient enough to allow one to two year aging of some wines that will result in an even higher quality product", reports John Lucas. "We have always recommended that our customers let it age for a year or two before drinking, but we know that aging has often not been the case."

The winery is a popular spot for Kodiak weddings. Larger weddings require the use of a tent on the spacious grounds, but the tasting room is sufficient in size to accommodate smaller gatherings. When not in use for weddings the room is a tasting room, art gallery and gift shop that displays and sells many Made In Alaska products, including, jams and jellies, quilts, paintings and sculptures. Judy Lucas loves flowers and her fresh flower arrangements add color and pleasing fragrances to the setting.

Working with Threshold Recycling, the Lucas' winery has been able to use many recycled wine bottles. Area taverns owners know the types of bottles needed and save these types for reuse by the winery.

Kodiak Island Winery has combined ingenuity and hard work with their concern for the environment and for their community while producing a quality product. Their wines are already of economic importance and represent a new opportunity for Alaska's economic growth. All affiliated with the Made In Alaska Program join in congratulating John and Judy Lucas on their success and their selection as the 2003 Made In Alaska Manufacturer of Year.

Kodiak Island Winery has been selected as the 13th Annual Manufacturer of Year (2003) by the Made In Alaska Program. Previous recipients of this prestigious award have been:

- 2002 Alaska Sausage and Seafood of Anchorage
- 2001 Alaska Black Diamond of Princess Island (Ward Cove)
- 2000 Fenton Woods of Wasilla
- 1999 Alaska Mint of Anchorage
- 1998 Cameron Birch Syrups & Confections, Inc. of Wasilla
- 1997 Alaska Canine Cookies, Inc. of Anchorage
- 1996 Interstate Brands Corporation/Sunrise Bakery of Anchorage
- 1995 The Great Alaska Bowl Company of Fairbanks
- 1994 Alaska Wild Berry Products of Homer & Anchorage
- 1993 Marian Boat Works of Anchorage
- 1992 Alaskan Brewing & Bottling Co. of Juneau
- 1991 Tesoro Alaska Petroleum of Anchorage

For more information regarding this press release or the Made In Alaska Program contact:

William "Bill" F. Webb, Program Manager/Agent
Made In Alaska

741 East 13th Avenue, Anchorage, AK 99501-4621

Phone 272-5634; Fax 272-5634; Email bill@anchoragemarkets.com

Contact information for Kodiak Island Winery:

John or Judy Lucas, Owners

Post Office Box 5630, Chiniak, AK 99615-5630

Phone 486 4848; Fax 486-4848; Email jjlucas@ptialaska.net

SESSION ADDRESS:
Alaska State Capitol
Juneau, Alaska 99801-1182
(907) 465-4925
Fax: (907) 465-3517
Toll Free: 1-800-821-4925

Senator Gary Stevens
Alaska State Legislature

INTERIM ADDRESS:
112 Mill Bay Road
Kodiak, Alaska 99615
(907) 486-4925
Fax: (907) 486-5264

SPONSOR STATEMENT-SB 82
(Updated 4/1/03)

SB 82, "An Act relating to the state alcoholic beverage tax for certain wine and other beverages."

SB 82 replaces the Federal yearly sales eligibility excise tax limit of 100,000 gallons a year (basis used in HB 225 passed by the 22nd Alaska Legislature) with 100 gallons per year. This reduction decreases the impact on state revenues while stimulating and supporting small Alaskan wineries. This burgeoning Alaska industry needs support to prosper and contribute to the state's changing economy; SB 82 is one means of assisting them. I urge your support for this measure.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mall Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 1, 2003

SUBJECT: Alcoholic Beverage Tax; Sectional Summary (CSSB 82(L&C))

TO: Senator Gary Stevens
Attn: Doug Letch

FROM: Tamara Brandt Cook
Director *TBC*

Sec. 1. Exempts from the state tax on alcoholic beverages, wine or other beverages of 21 percent alcohol by volume or less, other than malt beverages and cider, on amounts sold in or consigned for shipment into the state that do not exceed 100 gallons a month.

Sec. 2. Two or more taxpayers who have a relationship as defined in the Internal Revenue Code are treated as a single taxpayer for purposes of applying the exemption in sec. 1 of the bill.

TBC:lmb
03-121.lmb

Back up Material
Provided by Sen. Gary Stevens

My wife and I are part of a seriously beleaguered group of Alaskans, the small business person struggling to make a living in a world that has become increasingly unfriendly to the entrepreneur. We are trying to establish a business that will use wholly renewable resources to product a uniquely Alaskan product that leaves such a small foot print on the environment of Alaska as to not even be noticed. Great Land Wines, Ltd. of Haines is beginning its 4th year of operation. We are gaining recognition and interest in our State as well as in the lower 48. We were awarded a medal in the Indy International Wine competition last summer.

However, when the legislature passed the new liquor tax law last year it seriously impacted our ability to be successful. The law is aimed at hard liquor sales in the state. Microbreweries were exempted from the new tax, while the four fledgling wineries in the state were not.

Most likely this was an oversight on the part of the legislature since not many lawmakers knew there were any wineries in the state.

A tax increase of nearly three hundred percent is some impact! Since we are operating on very slim margins, this increased tax burden might be the difference between continuing this year and shutting our winery down for good.

Our winery and the other wineries in the state do not see a reason for the state to reward the breweries and punish the wineries. To correct this discrepancy we request that you revisit the law passed last year and insert a sentence that would give the wineries the same exemption that the breweries get. This is only fair. If the change can be made in a way that does not include a new law, all the better, but we invoke our right under the constitution of the State of Alaska and the Constitution of the United States for redress of grievances. Please treat us in the same way that you treat like businesses, the breweries. The power to tax is the power to destroy. This tax could destroy any success we might have hoped for.

If you require additional information, please contact me.

David B. Menaker
Great Land Wines, Ltd.
907.766.2698
907.766.2096
FAX 907.766.2094

SENATE FINANCE COMMITTEE

SIGN-IN

SB 82-ALCOHOLIC BEVERAGE TAX FOR WINE & OTHERS

NAME: Doug Letch Subject/Bill No: SB-82

Co./Dept./Title: Chief of Staff - Sen. Stevens Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: Chuck Harlamert Subject/Bill No: SB 82

Co./Dept./Title: Dept. of Revenue Phone: 4773

Address: 11th Fl. SOB Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 2/26/03

FURTHER: Finance

Date of 5-Day Notice: 3/5/03
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 3/31/03

Labor and Commerce Committee considered SENATE BILL NO. 82

SB 82 ALCOHOLIC BEVERAGE TAX FOR WINE & OTHERS

"An Act relating to the state alcoholic beverage tax for certain wine and other beverages."

and recommends:

- be replaced with CS SB 82 (LEC)
- adopt previous CS ()
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
REV	3/24/03	✓		1

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:

	Do PASS	Do NOT PASS	No REC	AMEND
Davis <i>Betty Davis</i>	✓			
French <i>[Signature]</i>			✓	
Seekins <i>Karen Seekins</i>			✓	
G. Stevens <i>[Signature]</i>	✓			
Bunde CHAIR: <i>O. Bunde</i>	✓			