
Finance Committee

HB 1734

Brief Description: Concerning taxation of low-proof beverages.

Sponsors: Representatives Sullivan, Vick, Boehnke, Gilday and Goodman.

Brief Summary of Bill

- Establishes a tax of \$1.19 per gallon on sales and distribution of low-proof beverages.
- Establishes that retail license fees, license issuance fees, spirits sales taxes, and spirits liter taxes do not apply to sales of low-proof beverages.
- Defines a low-proof beverage as any beverage that is 16 ounces or less that contains more than 0.5 percent alcohol by volume but less than 7 percent alcohol by volume.

Hearing Date: 2/3/22

Staff: Rachelle Harris (786-7137).

Background:

State law regulates the manufacture, distribution, and retail sale of liquor including spirits, wine, and malt liquor. The Liquor and Cannabis Board (LCB) oversees issuance of spirits retail licenses and related matters. The Department of Revenue collects taxes related to sales of spirits in the state.

"Spirits" are defined as any beverage which contains alcohol obtained by distillation, except flavored malt beverages, but including wines exceeding 24 percent alcohol by volume (ABV).

"Wine" is defined as any alcoholic beverage obtained by fermentation of fruits or other

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agricultural product containing sugar, to which any saccharine substances may have been added before, during or after fermentation, including sweet wines fortified with wine spirits, such as port, sherry, muscatel, and angelica. Wine does not exceed 24 percent ABV and is not less than 0.5 percent ABV.

"Malt liquor" is defined as any beverage such as beer, ale, lager beer, stout, and porter obtained by the alcoholic fermentation of an infusion or decoction of pure hops, or pure extract of hops and pure barley malt or other wholesome grain or cereal in pure water containing not more than 8 percent alcohol by weight, and not less than 0.5 percent alcohol by volume.

Licenses and Fees.

A spirits retail license allows a licensee to:

- sell spirits in original containers for consumption off the licensed premises and to permit holders;
- sell spirits in original containers to licensed retailers for consumption on the premises or for resale at their licensed premises; and
- export spirits.

Each spirits retail licensee must pay a 17 percent spirits retail license issuance fee on all spirits sales. This fee does not apply to craft distilleries selling their own product. Fees are collected by the LCB and deposited into the liquor revolving fund.

A spirits distributor license allows a licensee to sell spirits purchased from certain spirits manufacturers, distillers, or suppliers to spirits retail licensees, other specified licensees, other spirits distributors, and to export the same from the state. Each spirits distributor licensee must pay a statutorily calculated license issuance fee to be deposited into the liquor revolving fund.

Spirits Taxes.

There are two types of spirits taxes. A spirits sales tax is based on the selling price of spirits in their original package. The spirits sales tax is applied as follows:

- For sales to consumers, the spirits sales tax rate is 20.5 percent.
- For on-premises retailers, the spirits sales tax rate is 13.7 percent.

A spirits liter tax (liter tax) is based on the volume of spirits being sold in the original package. The liter tax is applied as follows:

- For sales to consumers, the liter tax is \$3.7708 per liter.
- For on-premises retailers, the liter tax is \$2.4408 per liter.

Business and occupation taxes also apply to the manufacture and sale of spirits. The general retail sales tax of 6.5 percent does not apply to sales of spirits in the original package, but it does apply to sales of spirits by the glass.

Summary of Bill:

A low-proof beverage is defined as any beverage that is 16 ounces or less that contains more than 0.5 percent ABV but less than 7 percent ABV. It does not include wine, malt beverages, or malt liquor.

A tax of \$1.19 per gallon is levied on sales and distribution of low-proof beverages. The tax is paid dependent on the origin as follows:

- Spirits distributors pay the tax on sales to spirits retailers.
- Distilleries that self-distribute pay the tax on sales to spirits retailers.
- Distilleries that sell directly to consumers shall pay the tax on sales to consumers.
- Out of state spirits license holders pay on sales to spirits retailers.

The spirits retail license fee of 17 percent does not apply to sales of low-proof beverages. License issuance fees, spirits sales taxes, and liter taxes do not apply to sales of low-proof beverages.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.