

SENATE BILL REPORT

SB 5368

As of February 25, 2025

Title: An act relating to studying taxes and fees related to alcohol.

Brief Description: Studying taxes and fees related to alcohol.

Sponsors: Senator Chapman.

Brief History:

Committee Activity: Labor & Commerce: 2/10/25, 2/14/25 [DPS-WM].

Ways & Means: 2/25/25.

Brief Summary of First Substitute Bill

- Requires the Washington State Institute for Public Policy to conduct a study regarding alcohol taxation and fees.
- Requires the Department of Revenue and Liquor and Cannabis Board to provide data for the study.

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: That Substitute Senate Bill No. 5368 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Saldaña, Chair; Conway, Vice Chair; King, Ranking Member; Alvarado, MacEwen, Ramos, Schoesler and Stanford.

Staff: Marlon Llanes (786-7423)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Tianyi Lan (786-7432)

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Background: State law regulates the manufacture, distribution, and retail sale of liquor including spirits, wine, and beer. The Liquor and Cannabis Board (LCB) issues various types of liquor licenses, including retail licenses for taverns and hotels. The Department of Revenue (DOR) collects taxes on the sale of liquor in the state.

The tax rates on the sale of liquor may vary depending on the type of liquor, sales price, sales volume, and alcohol content of the product. For example, the sale of spirits is taxed at a different rate than the sale of wine, and the sales and liter taxes for spirits are based on sales price and volume, respectively. The rates for sales and liter taxes on spirits also vary depending on whether the purchaser is a member of the general public or an on-premises retailer such as a bar.

Summary of Bill (First Substitute): The Washington State Institute for Public Policy (WSIPP) must conduct a study regarding alcohol taxation and fees in Washington and other states where the tax or fee is based on the sales price, sales volume, or alcohol content of the product. WSIPP must produce and submit a final report to the relevant committees of the Legislature by December 31, 2025, that includes the following information:

- the specific types of state taxes and fees applicable to spirits, beer, and wine, by product category, and including general taxes such as sales and business and occupation taxes;
- current and historical tax and fee rates by tax or fee type;
- annual sales in Washington State of spirits, wine, and beer in total and per capita over the past five years;
- annual spirits, wine, and beer tax and fee revenues generated in the state over the past five years in total and by tax or fee type;
- annual spirits, wine, and beer tax and fee revenues per capita generated in the state over the past five years in total and by tax or fee type;
- to the extent practicable, an analysis of total and per capita spirits sales and related tax and fee revenues in other states, differentiated by whether the sale of off-premises spirits is controlled by the state or allowed by licensed private entities;
- to the extent practicable, an analysis of total and per capita spirits sales and related tax and fee revenues in other states and counties differentiated by whether spirits taxation is based on volume, price, or alcohol content; and
- to the extent practicable, an analysis of total and per capita spirits, beer, and wine sales and tax and fee revenues in this state and other states by each applicable unit of measurement of alcohol content and volume, differentiated by product category.

LCB and DOR must cooperate with WSIPP to provide data relevant to this study.

An expiration date of January 1, 2026, is provided.

EFFECT OF CHANGES MADE BY LABOR & COMMERCE COMMITTEE (First Substitute):

- Requires the Washington State Institute for Public Policy to conduct a study regarding Washington State's current system of alcohol taxation and produce a final report, rather than the Department of Revenue.
- Requires the report to include annual sales in the state of spirits, wine, and beer over the past five years, rather than the past 25 years.
- Requires the report to include annual spirits, wine, and beer tax and fee revenues generated in the state over the past five years, rather than the past 25 years.
- Requires the report to include annual spirits, wine, and beer tax and fee revenues per capita generated in the state over the past five years, rather than the past 25 years.
- Requires the Department of Revenue to cooperate with the institute to provide data relevant to the study, in addition to the Liquor and Cannabis Board.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Labor & Commerce): *The committee recommended a different version of the bill than what was heard.* PRO: The alcohol market has changed dramatically in the last decade, but the tax system has not. There are new products on the market, such as low proof spirits-based cocktails. Spirits continue to be taxed at a much higher rate than beer. Businesses under a certain square footage are not allowed to sell spirits-based cocktails. The Legislature should consider if taxes should be based on ingredients or the amount of alcohol in the product. The study is needed for the Legislature to make informed decisions about the tax system for alcohol in Washington.

CON: There is no need to change the tax structure. Alcohol is taxed differently for beer, wine, and spirits, and this structure is used in almost every state. There are no competitive advantages or disadvantages in the current system. The Legislature should consider the cost and administrative challenges of changing the system.

OTHER: The Department of Revenue does not have the amount of data required in the bill and may not be the proper entity to handle this study. Wine is also being taxed at a high rate. The Legislature should consider how changes in taxation impact small business viability and how to support the wine industry.

Persons Testifying (Labor & Commerce): PRO: Charlie Brown, Diageo; John Gainza, Southern Glazers Wine and Spirits; Lisa Cole, Southern Glazers Wine and Spirits; Vicki Christophersen, Association of Washington Spirits and Wine Distributors; Carrie Tellefson, Republic National Distributing Company (RNDC); Katie Beeson, Washington Food

Industry Association (WFIA).

CON: Scott Hazlegrove, WA Beer & Wine Distributors Association.

OTHER: Steve Ewing, Dept. of Revenue; Josh McDonald, Washington Wine Institute; Daniel Olson, Washington Brewers Guild.

Persons Signed In To Testify But Not Testifying (Labor & Commerce): No one.

Staff Summary of Public Testimony on First Substitute (Ways & Means): PRO: Taxes on alcohol vary greatly here in Washington State. The alcohol market has changed and shifted as customer preferences have changed as so many new products have come online in the last several years. Given the evolving marketplace and the absence of current deliberate policy on alcohol taxation, the state should reassess and modernize its alcohol tax strategy to maximize the revenue to the state. It's time for the Legislature to get more information on the market and the different types of products and potentially look at taxation based on the amount of alcohol rather than the ingredients.

CON: The bill is not just a study. It lays the groundwork for liquor companies to push for massive tax rate changes to higher tax rates for small independent breweries who are still recovering from the COVID shutdowns. Washington's alcohol tax rates are nationally competitive. There is no need to spend taxpayer money on a study designed to favor out-of-state corporations over local businesses. The bill does not mention the cost to transition the system to a new system based on taxation by volume and does not evaluate the economic impacts of the transition.

Persons Testifying (Ways & Means): PRO: Vicki Christophersen, Assoc. of WA Spirits and Wine Distributors; Katie Beeson, Washington Food Industry Association; Charlie Brown, Diageo; Lisa Cole, Southern Glazers Wine and Spirits.

CON: Josh McDonald, Washington Wine Institute; Daniel Olson, Washington Brewers Guild; Scott Hazlegrove, WA Beer & Wine Distributors Association.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.