
LIQUOR TAXES

SECTION 6

OBPP Staff:

Amy Carlson	444-4893
Eric Dale	444-3191
Ryan Evans	444-3163
Ralph Franklin	444-1337
Stephanie Morrison	444-5542

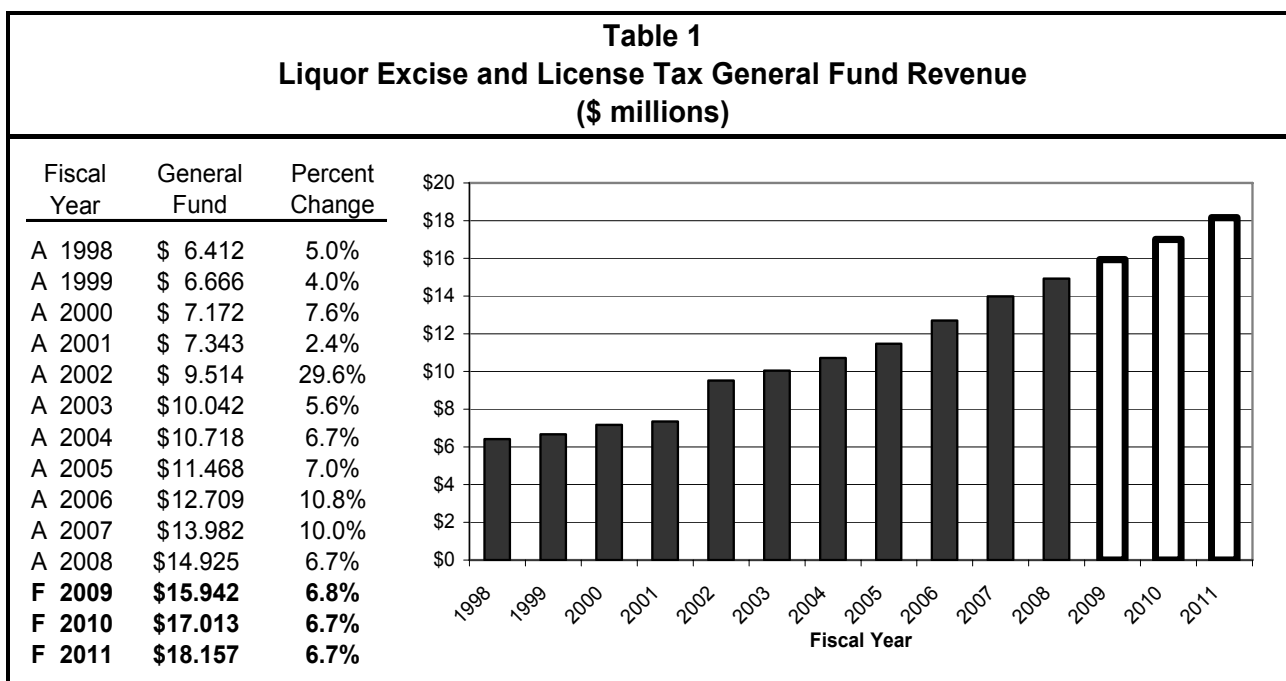


GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Revenue Description

According to 16-1-401, MCA, and 16-1-404, MCA, the Department of Revenue is directed to collect an **excise** tax of 16% and a **license** tax of 10% of the retail selling price on all liquor sold and delivered in the state and manufactured by distillers producing 200,000 or more proof gallons of alcohol annually. Both the excise and license tax rates are smaller for distillers that produce less than 200,000 proof gallons of alcohol. Currently, all Montana liquor is supplied by distillers that produce at least 200,000 proof gallons of alcohol annually.

Section 16-4-01, MCA states that 65.5% of the liquor **license** tax is deposited to the Department of Public Health and Human Services (DPHHS) to fund alcohol and chemical dependency programs. Three Indian tribes have an agreement with the state, and a portion of the remaining revenue from both the excise and license tax is shared with tribes that have a revenue sharing agreement with the state. The remaining revenue is deposited to the general fund.



HB 124 (2001 Session) changed the distribution of the liquor license tax. Prior to FY 2002, 30% of the liquor license tax was distributed to local governments. Beginning in FY 2002, 65.5% of liquor license tax revenue goes to DPHHS and 34.5% goes to the state general fund. This change explains the 29.6% growth in state general fund revenue in FY 2002 from this source.

Forecast Methodology

The general fund share of the liquor excise and license tax is prepared in four steps:

Step 1: Calculate gross sales. Liquor units sold experienced an average annual increase of 4.26% between 2000 and 2008.

Step 2: Calculate retail selling value. Cost per liquor unit sold experienced an average annual increase of 2.69% between 2000 and 2008.

Step 3: Calculate gross liquor excise and license tax collections.

- Liquor excise tax receipts for FY 2009 through FY 2011 are estimated by multiplying the pre-tax value of liquor sales by the liquor excise tax rate of 16%.
- Liquor license tax receipts for FY 2009 through FY 2011 are estimated by multiplying the pre-tax value of liquor sales by the liquor license tax rate of 10%.

Step 4: Calculate tribal portion of revenue.

- The Fort Peck, Fort Belknap, and Blackfeet Indian Reservations have a revenue sharing agreement with the state. The revenue sharing agreement distributes revenues to the tribes based on the per capita general fund revenue multiplied by the number of enrolled tribal members. Tribal revenue is estimated to be 1.86% of the non DPHHS liquor revenue for FY 2009 through FY 2011.

Step 5: Calculate liquor excise and license tax general fund revenue.

Distributions

As shown in Table 2, liquor license tax is first distributed to DPHHS, then revenue from the liquor excise tax is added. Finally, tribal revenues are taken out to obtain general fund revenue.

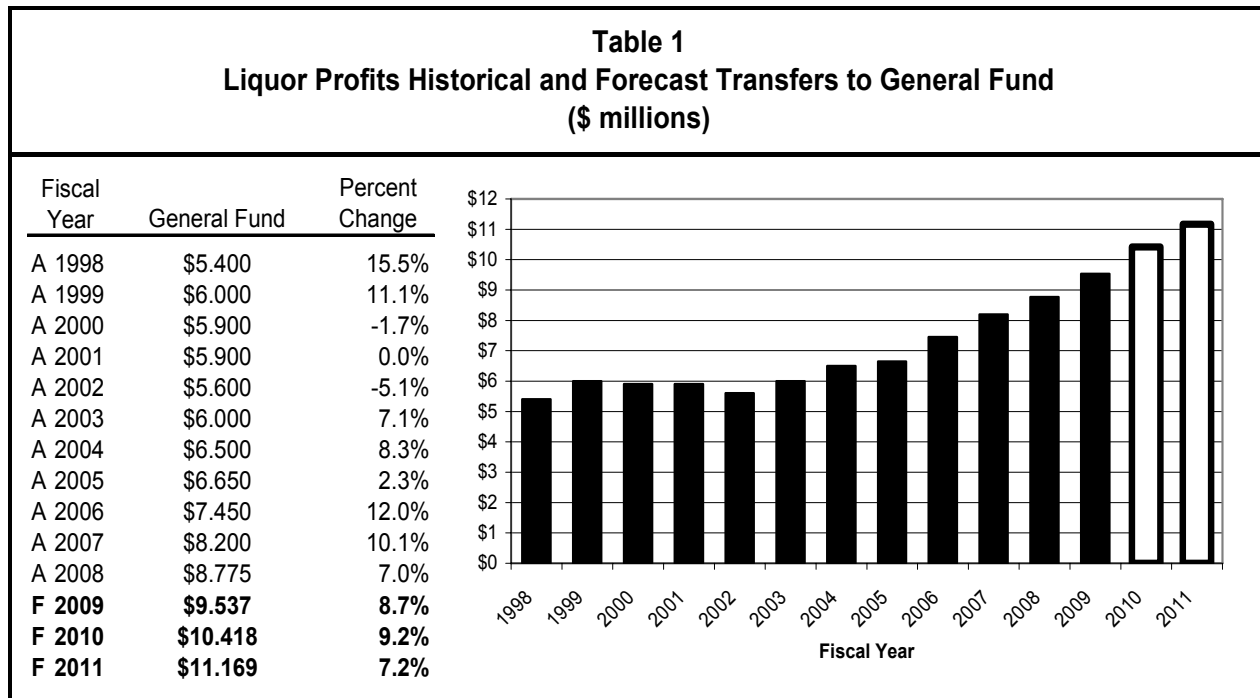
Table 2			
Calculation and Distribution of Liquor Excise and License Tax Revenue			
<u>Description</u>	<u>Projected FY 2009</u>	<u>Projected FY 2010</u>	<u>Projected FY 2011</u>
Liquor License Tax	\$8,351,125	\$8,912,656	\$9,511,944
Less DPHHS Share(65.5%)	<u>(\$5,469,987)</u>	<u>(\$5,837,789)</u>	<u>(\$6,230,323)</u>
	\$2,881,138	\$3,074,866	\$3,281,621
Liquor Excise Tax	<u>\$13,361,800</u>	<u>\$14,260,249</u>	<u>\$15,219,110</u>
Non DPHHS Liquor Tax Revenue	\$16,242,938	\$17,335,115	\$18,500,731
Less Tribal Share(1.86%)	<u>(\$301,403)</u>	<u>(\$321,669)</u>	<u>(\$343,298)</u>
General Fund Revenue	<u>\$15,941,535</u>	<u>\$17,013,446</u>	<u>\$18,157,432</u>

Data Sources

Data is from the Department of Revenue monthly cost of sales report, the Department of Revenue Liquor Distribution annual financial schedules, and SABHRS.

Revenue Description

The Department of Revenue administers liquor laws relating to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers (Title 16, Chapters 1 through 6, MCA). Agency franchisees purchase liquor products from the state liquor warehouse. A 40% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. All liquor profit net revenue is transferred to the general fund at fiscal year end.



The relatively small increase of less than 5% in FY 2008 and FY 2011 is due to the renegotiation of liquor store owner's commission rates in 2008 and FY 2011. Increasing the commission rates will reduce the state liquor profits revenue transferred to the general fund.

Forecast Methodology

Net income from liquor operations is calculated as gross liquor sales less the cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), commissions, discounts, and liquor operating expenses. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are ascertained through the process of forecasting *Liquor Excise and License Tax General Fund Revenue*. Table 2 summarizes the calculations of commissions, discounts, operating expenses, and profits.

Sales commissions are paid to liquor store owners by the State of Montana. The commission rate was negotiated with liquor store owners when privatization occurred, and varies among store owners. In compliance with the law, the commission rates are negotiated between the Department of Revenue and the store owners every three years. SB 348 (2001 Session) increased the commission rates over a three-year period based on the annual sales volume by agency liquor stores. The new SB 348 rates and new negotiated commission rates increase went into effect in FY 2008. In FY 2008, the commission rate increased to 9.40% (from 9.15%) for FY 2008 through FY 2010. Commission rates will be negotiated again in FY 2011.

Distributions

Table 2 shows liquor profit calculations for FY 2009 through FY 2011. Gross sales are added to a small amount of other revenue which is forecast to remain constant at \$0.583 million, the actual level for FY 2008. The profits are then adjusted for the changes to the net assets of the liquor control division, and the remainder is transferred to the general fund. The change in net assets is forecasted to be \$0.042 million for FY 2009 through FY 2011. This represents the average change in net assets from FY 2005 through FY 2008. The smaller increase from FY 2010 to FY 2011 is due to the expected increase in the liquor store operator's commission rates, which will reduce liquor profit revenue.

Table 2
Distribution of Forecast Liquor Profits
(\$ millions)

Fiscal Year	Gross Sales	Other Revenue	Comissions	Discounts	Cost of Goods Sold	Liquor Taxes	Operating Expenses	Profit	Changes in Net Assets	Transfer to Genral Fund
A 2005	\$75.687	+ \$0.552	- \$6.913	- \$2.249	- \$42.693	- \$15.616	- \$2.105	▶ \$6.662	- \$0.012	= \$6.650
A 2006	\$83.916	+ \$0.475	- \$7.683	- \$2.464	- \$47.307	- \$17.310	- \$2.167	▶ \$7.461	- \$0.011	= \$7.450
A 2007	\$92.301	+ \$0.487	- \$8.450	- \$2.681	- \$52.142	- \$19.039	- \$2.143	▶ \$8.333	- \$0.133	= \$8.200
A 2008	\$98.595	+ \$0.583	- \$9.266	- \$2.848	- \$55.688	- \$20.333	- \$2.256	▶ \$8.786	- \$0.011	= \$8.775
F 2009	\$106.882	+ \$0.583	- \$10.047	- \$3.127	- \$60.368	- \$22.042	- \$2.302	▶ \$9.578	- \$0.042	= \$9.537
F 2010	\$115.662	+ \$0.583	- \$10.872	- \$3.384	- \$65.328	- \$23.853	- \$2.349	▶ \$10.460	- \$0.042	= \$10.418
F 2011	\$123.222	+ \$0.583	- \$11.583	- \$3.605	- \$69.598	- \$25.412	- \$2.397	▶ \$11.211	- \$0.042	= \$11.169

Data Sources

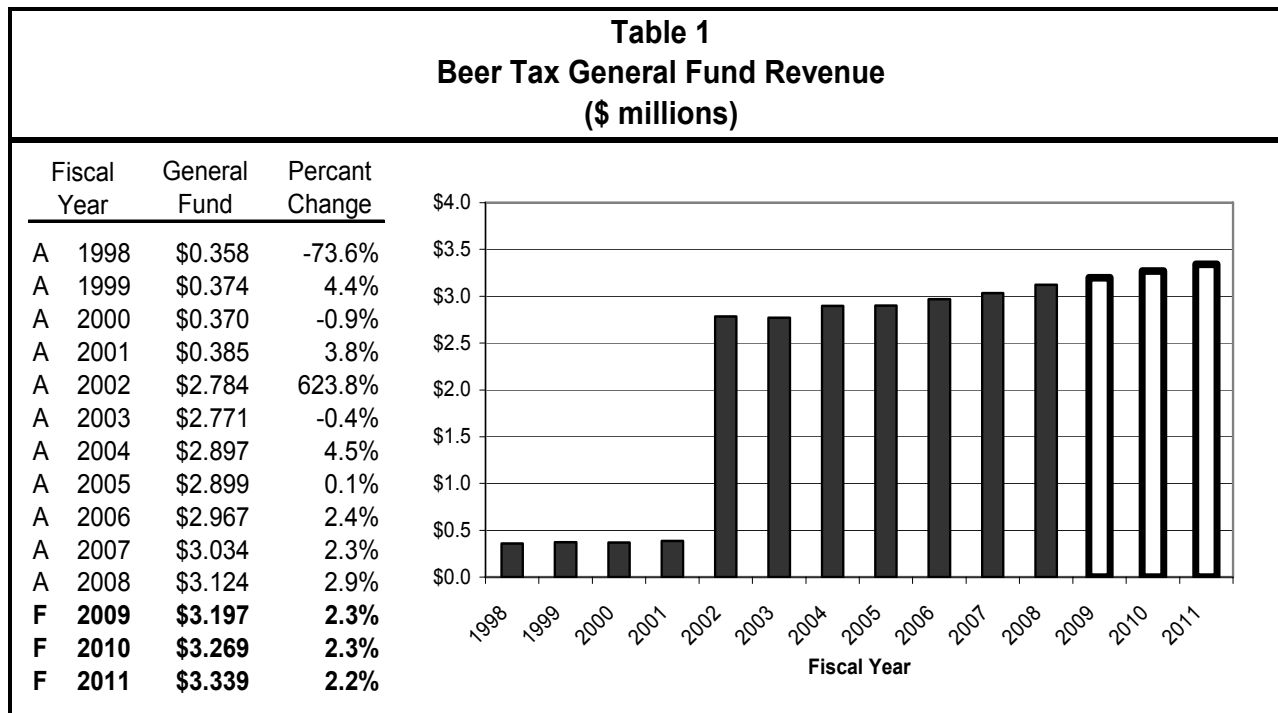
Gross liquor sales data and other related data for FY 2009 through FY 2011 comes from the Liquor Excise and License Tax write-up and the Department of Revenue Liquor Services Division Annual Financial Report. Other data is from SABHRS.

Revenue Description

According to 16-1-406, MCA, the Department of Revenue is directed to collect a tax on each barrel (31 gallons) of beer sold in Montana by a wholesaler at the following rate:

<u>Barrels Produced by a Brewer</u>	<u>Tax Rate Per Barrel</u>
Less than or equal to 5,000	\$1.30
5,001 to 10,000	\$2.30
10,001 to 20,000	\$3.30
Greater than 20,000	\$4.30

From total beer tax revenue, 76.74% is distributed to the state general fund and 23.26% is distributed to the Department of Public Health and Human Services (DPHHS) to fund alcohol treatment programs. A small portion of the beer tax revenue allocated to the general fund (approximately 2%) is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.



HB 166 (1997 Special Session) decreased the general fund share of beer tax revenue from 41.86% to 11.63%, which caused a large drop in general fund revenue for FY 1998 through FY 2001. The significant increase in general fund beer tax revenue in FY 2002 is due to HB 124 (2001 Session), which raised the general fund share of beer tax revenue from 11.63% to 76.74%.

Forecast Methodology

The general fund share of the beer tax is prepared in three steps:

Step 1: The per capita consumption of beer is calculated. Per capita beer consumption experienced an average annual increase of 0.91% between 2000 and 2008.

- Step 2:** Total revenue is projected by multiplying per capita consumption by the total Montana population.
- Montana population over age 20 experience an average annual increase of 1.36% between 2000 and 2008.
 - Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total beer consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.
- Step 3:** Total revenue is allocated to the general fund, DPHHS, and the tribes, per the revenue sharing agreements. Tribal payments averaged 1.95% of the non-DPHHS tax allocation from FY 2003 through FY 2008 and are estimated to remain constant at 1.95% of the non-DPHHS allocation for FY 2009 through FY 2011.

Distributions

Table 2 shows the projected allocation of beer tax revenue to the general fund, DPHHS, and the tribes. DPHHS revenue allocation is subtracted from total beer tax revenue to obtain total general fund and tribe share. Tribe share is then subtracted to obtain estimated total beer tax revenue for the general fund.

Table 2			
Calculation and Distribution of Beer Tax Revenue			
(\$ millions)			
Description	FY 2009	FY 2010	FY 2011
Total Revenue	\$4.248	\$4.344	\$4.437
Less DPHHS Share(23.26%)	(\$0.988)	(\$1.010)	(\$1.032)
General Fund and Tribes' Share	\$3.260	\$3.333	\$3.405
Less Tribes' Share (1.95%)	(\$0.063)	(\$0.065)	(\$0.066)
General Fund	\$3.197	\$3.269	\$3.339

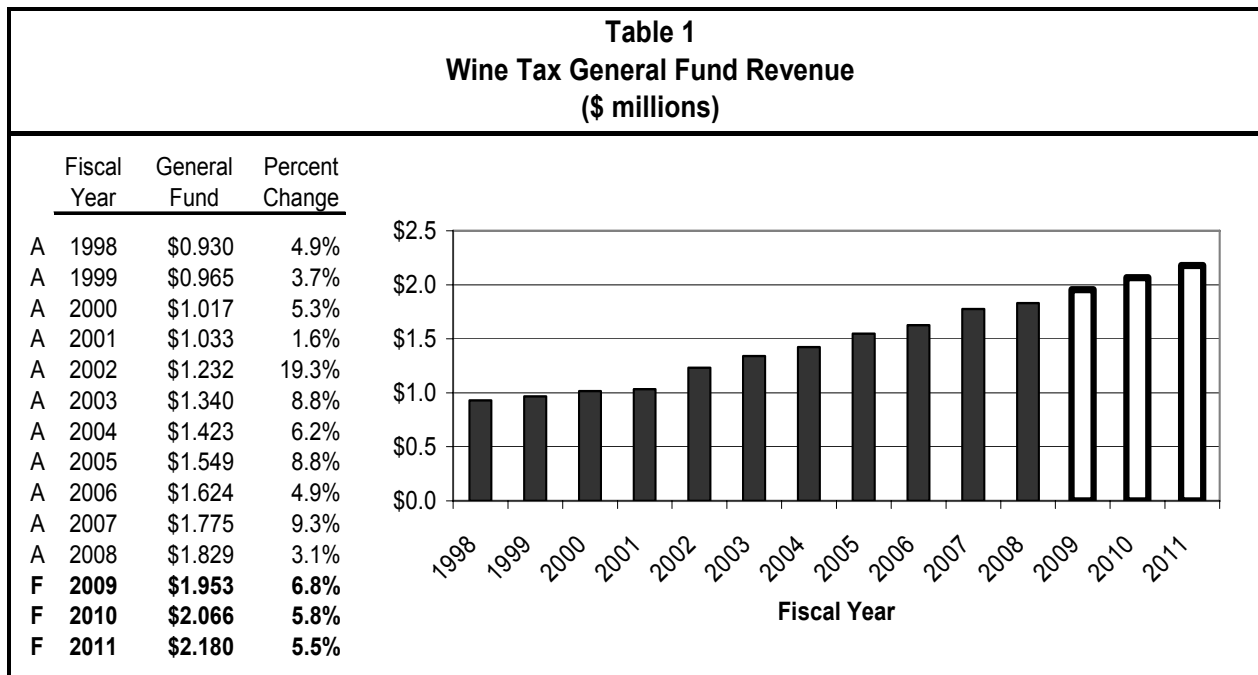
Data Sources

SABHRS Date Mine provided historical beer tax revenue and allocation information. *Global Insight* Research Service provided historical and projected Montana population data, July 2008.

Revenue Description

According to 16-1-411, MCA, the Department of Revenue is directed to collect a tax of 27 cents on each liter of table wine and 3.7 cents on each liter of hard cider imported by a distributor or the department. Additionally, a tax of 1 cent per liter of wine is levied on table wine sold by a table wine dealer to an agent, pursuant to Section 16-2-301, MCA.

Wine tax revenues are distributed 69% to the state general fund and 31% to the Department of Public Health and Human Services (DPHHS). Approximately 2% of the wine tax revenue allocated to the general fund is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.



FY 2002 wine tax revenue increased 19.27% due to HB 124 (2001 Session), which increased the general fund share of wine tax revenue from 59% to 69%. This forecast projects the per capita consumption of wine in Montana will grow at a rate of 0.664 liters per person between FY 2009 and FY 2011. This growth is the result of a statistical regression analyzing the growth in per capita wine consumption from FY 2002 through FY 2007.

Forecast Methodology and Significant Factors

The general fund share of the wine tax is prepared in three steps:

Step 1: Estimate liters of per capita wine consumption for FY 2009 through FY 2011 using per capita consumption from FY 2002 through FY 2008.

- Per capita consumption (average annual increase of 4.57% between 2002 and 2008)

Step 2: Multiply the estimates of per capita consumption by population and the tax rate (\$0.27/liter) to obtain estimates of total tax revenue through FY 2011.

- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total wine consumption over time better than changes in other age demographics such as total population or the population between 30 and 60 years old.
- Montana population over age 20 (average annual increase of 1.23% between 2002 and 2008)

Step 3: Determine the wine tax allocation to the general fund.

Distributions

Table 2 shows the estimated revenue distribution for FY 2008 through FY 2011. Of the total revenue, 31% is first distributed to the DPHHS. The tribe revenue allocation payment (1.87%) is then extracted from the remaining revenue for FY 2009 through FY 2011. All revenue which remains after DPHHS and tribe payments have been subtracted is deposited to the general fund.

Table 2			
Wine Tax Revenue Allocation			
FY 2009 through FY 2011			
(\$ millions)			
Description	FY 2009	FY 2010	FY 2011
Total Revenue	\$2.885	\$3.052	\$3.219
Less DPHHS Share (31%)	-\$0.894	-\$0.946	-\$0.998
General Fund and Tribes' Share	\$1.991	\$2.106	\$2.221
Less Tribes' Share (1.87%)	-\$0.037	-\$0.039	-\$0.042
General Fund	\$1.953	\$2.066	\$2.180

Data Sources

SABHRS Date Mine provided historical wine tax revenue and allocation information. *Global Insight* Research Service provided historical and projected Montana population data, July 2008.