



**STATE BOARD OF EQUALIZATION  
STAFF LEGISLATIVE BILL ANALYSIS**

Date Amended:	<b>08/12/02</b>	Bill No:	<b>AB 2744</b>
Tax:	<b>Alcoholic Beverage</b>	Author:	<b>Thomson and Chan</b>
Board Position:	<b>Neutral</b>	Related Bills:	<b>SB 248 (Romero) SB 928 (Romero)</b>

**BILL SUMMARY**

This bill would increase the surtax imposed on beer, wine, sparkling cider, and distilled spirits, and would impose a surtax on sparkling wines.

**ANALYSIS**

**Current Law**

Under current law, Sections 32151, 32201, and 32220 of the Alcoholic Beverage Tax Law imposes the following taxes and surcharges on beer, wine, and distilled spirits:

	<u>Tax</u>	<u>Per Gallon Surcharge</u>	<u>Total</u>
Beer	\$0.04	\$0.16	\$0.20
Wine (not more than 14 percent alcohol)	\$0.01	\$0.19	\$0.20
Wine (more than 14 percent alcohol)	\$0.02	\$0.18	\$0.20
Sparkling wine	\$0.30	\$0.00	\$0.30
Hard cider	\$0.02	\$0.18	\$0.20
Distilled spirits (100 proof)	\$2.00	\$1.30	\$3.30
Distilled spirits (100+ proof)	\$4.00	\$2.60	\$6.60

The proceeds from these taxes and surcharges are deposited in the General Fund.

**Proposed Law**

This bill would amend Section 32220 of the Alcoholic Beverages Tax Law to provide an increase in the surtax imposed on beer, wine, sparkling cider, and distilled spirits, and would impose a surtax on sparkling wines. The proposed surtax rate would become effective October 1, 2002, at 2:01 a.m. The tax and proposed surtax rate would be as follows:

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	<u>Tax</u>	<u>Per Gallon Surcharge</u>	<u>Total</u>
Beer	\$0.04	\$0.41	\$ 0.45
Wine (not more than 14 percent alcohol)	\$0.01	\$0.44	\$ 0.45
Wine (more than 14 percent alcohol)	\$0.02	\$0.43	\$ 0.45
Sparkling wine	\$0.30	\$0.30	\$ 0.60
Hard cider	\$0.02	\$0.43	\$ 0.45
Distilled spirits (100 proof)	\$2.00	\$6.70	\$ 8.70
Distilled spirits (100+ proof)	\$4.00	\$8.60	\$12.60

This bill would also impose a floor stock tax on beer, wine, sparkling cider and distilled spirits in inventory as of July 15, 2002, at 2:01 a.m.

This bill would also add Part 3.75 (commencing with Section 104899.1) to the Health and Safety Code to create the Alcoholic Beverage Surtax (ABS) Fund within the State Treasury. The total amount of net revenues derived from the proposed increase in the surtax on alcoholic beverages that would go into effect October 1, 2002 would be deposited into the ABS fund. Revenue deposited into the ABS fund would be appropriated exclusively for health-related purposes.

### **Background**

In order to bridge the gap between revenues and expenses in the 1991-92 state budget, a surtax was added to the existing excise tax on alcoholic beverages. Assembly Bill 30 (Chapter 86, 1991) added the alcoholic beverage surtax under current Section 32220, effective July 15, 1991. Before the tax increase, excise taxes on most alcoholic beverages had remained the same since the 1950's, with the exception of an increase in the excise tax on distilled spirits in 1967.

### **COMMENTS**

- 1. Sponsor and purpose.** This bill is sponsored by the authors to provide necessary funding for health care programs in this state.
- 2. Summary of August 12<sup>th</sup> amendments.** Amendments to this bill modified the amount of the surtax increase for beer and distilled spirits, changed the operative date of the surtax increase to October 1, 2002, and created the Alcoholic Beverage Surtax fund.
- 3. Summary of prior amendments.** Prior versions of this bill contained provisions outside the scope of the Board. The July 2 amendments to this bill deleted all previous provisions and added the alcoholic beverage surtax increase and floor stock tax provisions.

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4. **Effective date of the surtax increase.** The surtax increase proposed in this bill would become operative on October 1, 2002, at 2:01 a.m. Alcoholic beverages in inventory as of the operative date of the tax increase would be subject to a floor stock tax provision at the same rate as the proposed surtax increase. The floor stock tax return would be due on or before October 31, 2002.
5. **Funds would be deposited in the Alcoholic Beverage Surtax Fund.** The proposed tax increase would be deposited into the Alcoholic Beverage Surtax (ABS) fund. Revenue deposited into the ABS fund would be appropriated exclusively for health-related purposes.
6. **This bill does not contain an appropriation to cover administrative costs.** The Board has estimated current year costs to administer the provisions of the proposed surtax rate increase and the floor stock tax returns to be \$1.3 million. These costs would not be absorbable within the Board's current budget. It is recommended that the bill be amended to include an appropriation to cover the Board's administrative costs associated with the provisions in this bill.
7. **Related legislation.** Both Senate Bill 248 (Romero) and Senate Bill 928 (Romero) would impose a five-cent per drink fee on any wholesaler located within the state who distributes alcoholic beverages to retailers for consumption in the state. The fee would be based on 1.5 ounces of distilled spirits and 12 ounces of beer. As currently written, neither bill would impact the Board as the Department of Alcoholic Beverage Control would be responsible for the administration and collection of the fee.

**COST ESTIMATE**

Enactment of this bill would have an impact on the Board's administrative costs incurred for programming, modification of returns to reflect the new tax rates, notification of all affected taxpayers registered with the Board prior to the rate change, processing of the floor stock tax returns, increased workload in the return processing area due to errors on returns, and increased workload for the audit and compliance staff administering the tax program. The estimated costs associated with administering the proposed surtax rate increase are as follows:

	2002-03	2003-04	2004-05	2005-06
Personal Services	\$ 865,800	\$ 836,800	\$ 320,600	\$ 271,100
Operating Expense & Equipment	\$ 408,300	\$ 127,800	\$ 127,800	\$ 95,700
Total	\$1,274,100	\$ 964,600	\$ 448,000	\$ 366,800

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**REVENUE ESTIMATE**

The revenue impact from increasing the alcoholic beverages surtax and imposing a corresponding floor stock tax would be as follows:

**Alcoholic Beverage Increase**

Type	Increased Rate	2000-01 Gallons	Increased Revenue
			(000s)
Beer	\$ 0.25	643,124	160,781
Still Wine <14%	\$ 0.25	86,987	21,747
Still Wine >14% *	\$ 0.25	8,020	2,005
Champagne	\$ 0.30	5,340	1,602
Distilled Spirits <100	\$ 5.40	41,541	224,321
Distilled Spirits >100	\$ 6.00	161	966
<b>Total</b>		<b>785,173</b>	<b>411,422</b>

**Floor Stock**

Type	Tax Rate	2000-01 Gallons	Floor Gallons	Floor Stock Revenue
		(000s)	(000s)	(000s)
Beer	\$ 0.25	643,124	51,450	12,862
Still Wine <14%	\$ 0.25	86,987	13,048	3,262
Still Wine >14% *	\$ 0.25	8,020	1,203	301
Champagne	\$ 0.30	5,340	801	240
Distilled Spirits <100	\$ 5.40	41,541	6,231	33,648
Distilled Spirits >100	\$ 6.00	161	6	37
<b>Total</b>			<b>72,739</b>	<b>50,351</b>

\* Includes sparkling hard cider.

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The total increase in alcoholic beverage surtax revenues would be \$411.4 million annually. If all of these taxes are passed on to the ultimate consumer, there would be an increase in state and local sales and use tax revenue as follows:

	<u>Increased Revenue</u>
State (5 %)	\$ 20.6 million
Local (2.25 %)	9.3 million
Transit (0.67 %)	<u>2.8 million</u>
Total	<u>\$ 32.7 million</u>

**Revenue Summary**

Increasing the alcoholic beverage surtax would result in the following revenue increase:

Alcoholic Beverage Surtax Increase	\$ 411.4 million
Floor Stock Tax	\$ 50.3 million
State Sales and Use Tax (5%)	<u>\$ 20.6 million</u>
Total State	<u>\$ 482.3 million</u>
Local Sales and Use Tax (2.25%)	\$ 9.3 million
Transit Tax (0.67%)	<u>\$ 2.8 million</u>
TOTAL	<u>\$ 494.4 million</u>

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