

Multiple Agency Fiscal Note Summary

Bill Number: 5375 SB	Title: Low-proof beverages/tax
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Liquor and Cannabis Board	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total \$	0	0	0	0	0	0	0	0	0

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.1	28,300	28,300	28,300	.0	0	0	0	.0	0	0	0
Liquor and Cannabis Board	.5	0	0	448,678	.0	0	0	0	.0	0	0	0
Total \$	0.6	28,300	28,300	476,978	0.0	0	0	0	0.0	0	0	0

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Liquor and Cannabis Board	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

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Prepared by: Amy Hatfield, OFM	Phone: (360) 280-7584	Date Published: Revised 2/15/2023
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Department of Revenue Fiscal Note

Bill Number: 5375 SB	Title: Low-proof beverages/tax	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3		0.1		
Account					
GF-STATE-State 001-1	28,300		28,300		
Total \$	28,300		28,300		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Matthew Shepard-Koningsor	Phone: 60-786-7627	Date: 01/17/2023
Agency Preparation: Anna Yamada	Phone: 60-534-1519	Date: 02/15/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 02/15/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/15/2023

Request # 5375-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

"Spirits" means any beverage containing alcohol obtained by distillation, including wines with more than 24% alcohol by volume.

Retail sales tax does not apply to sales of spirits in an unopened original container. However, retail sales tax applies to drinks containing spirits sold by restaurants, bars, or other establishments with an on-premises license.

Washington has two types of spirits taxes: a spirits liter tax and a spirits sales tax.

The spirits liter tax is a tax on the sales of spirits in the original container and is based on the volume sold. Consumers pay taxes of \$3.7708 per liter. On-premises retailers such as restaurants and bars pay taxes of \$2.4408 per liter.

The spirits sales tax is a tax on the selling price of spirits in their original container. Consumers pay a tax of 20.5%. On-premises retailers pay a tax of 13.7%.

PROPOSAL:

This bill creates a new category of alcoholic beverages, a "low-proof beverage," defined as any beverage 16 ounces or less, containing more than 0.5% and less than 7% alcohol by volume, excluding wine, malt beverages, or malt liquor.

This bill:

- Exempts low proof beverages from the spirit license issuance fee administered by the Liquor and Cannabis Board (LCB).
- Exempts low proof beverages from spirits taxes. Retail sales and use taxes will apply to low-proof beverages.
- Creates a new tax on low proof beverages at a rate of \$2.50 per gallon. The new tax is administered by LCB.

The tax is imposed on:

- A spirits distributor on sales to spirits retailers.
- A distillery or craft distillery self-distributing low proof beverages to retailers or directly to consumers.
- A holder of a spirits out-of-state certificate with a direct shipment endorsement self-distributing to spirits retailers.

Low proof beverages will continue to be subject to:

- Business & occupation taxes which apply to the manufacturing and/or selling of low-proof beverages.
- Retail sales tax for all retail sales of low-proof beverages.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session in which it is enacted.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- The market share of low-proof beverages in Washington is unknown.

DATA SOURCES:

- Liquor and Cannabis Board

REVENUE ESTIMATES:

The revenue impact of this bill is indeterminate because the volume of sales of low-proof beverages is unknown.

Based on research and limited information currently available to the department, there are several spirits-based products currently being marketed in Washington that would qualify under the proposal. Examples of the known products:

- Joia Spirits Sparkling Gimlet (6% alcohol by volume, ABV)
- Cutwater Vodka Soda (5% ABV)
- Gin & Tonic Pre-mixed Cocktails (6.2% ABV)
- Ketel One Botanical Vodka Spirits Peach (3.6% ABV)
- High Noon Hard Seltzer Vodka Pineapple (4.5% ABV)

Under this proposal, these products will no longer be taxed as spirits. They become subject to retail sales and use tax. There is no information on these products' market share in Washington; therefore, the loss of spirits tax revenue and the increase in retail sales and use tax revenue is unknown.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This estimate affects 200 taxpayers.

FIRST YEAR COSTS:

The department will incur total costs of \$28,300 in fiscal year 2024. These costs include:

- Labor Costs – Time and effort equate to 0.26 FTE.
- Create special notice and update relevant information on the department’s website.
- Amend one administrative rule.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3		0.1		
A-Salaries and Wages	17,400		17,400		
B-Employee Benefits	5,700		5,700		
E-Goods and Other Services	3,600		3,600		
J-Capital Outlays	1,600		1,600		
Total \$	\$28,300		\$28,300		

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
MGMT ANALYST4	73,260	0.0		0.0		
TAX POLICY SP 2	75,120	0.2		0.1		
TAX POLICY SP 3	85,020	0.0		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.3		0.2		

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited process to amend WAC 458-20-195, titled: "Taxes, deductibility." Persons affected by this rulemaking would include licensed distilleries and craft distilleries making and selling "low proof beverages."

Individual State Agency Fiscal Note

Revised

Bill Number: 5375 SB	Title: Low-proof beverages/tax	Agency: 195-Liquor and Cannabis Board
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.9	0.0	0.5	0.0	0.0
Account					
Liquor Revolving Account-State 501-1	448,678	0	448,678	0	0
Total \$	448,678	0	448,678	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Matthew Shepard-Koningsor	Phone: 360-786-7627	Date: 01/17/2023
Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 02/01/2023
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 02/01/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/01/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1(26) defines “low-proof beverage” as any beverage that is 16oz or less and that contains more than 0.5% alcohol by volume and less than 7% alcohol by volume, but does not include wine, malt beverages, or malt liquor.

Section 2(5) would exempt sales of “low-proof beverage” from the 17% spirits retailer license issuance fee.

Section 3 adds a tax on the sale of low-proof beverages equal to \$2.50/gallon, payable by a spirits distributor, distillery, craft distillery, and spirits COA with direct ship endorsement.

Section 4(3e): Sales of “low-proof beverage” are also exempt from the spirits distributor license issuance fee.

Section 5(10d): The term “spirits” does not include “low-proof beverages.”

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

This bill defines “low-proof beverage” as any beverage that is 16oz or less and that contains more than 0.5% alcohol by volume and less than 7% alcohol by volume, but does not include wine, malt beverages, or malt liquor. Sales of “low-proof beverage” would be exempt from the 17% spirits retailer license issuance fee. A new tax is added on the sale of low-proof beverages equal to \$2.50/gallon, payable by a spirits distributor, distillery, craft distillery, and spirits COA with direct ship endorsement. Sales of “low-proof beverage” are also exempt from the spirits distributor license issuance fee.

The effect of these changes is indeterminate as the agency does not know the volume of sales of beverages that would be considered "low-proof" and thus the loss of revenue from the exemptions to the spirits retailer license issuance fee and spirits distributor license issuance fee can not be assumed.

Likewise, since the volume of sales of these beverages is unknown, it is unknown what the increase in revenue from the \$2.50/gallon tax would be.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

INFORMATION TECHNOLOGY DIVISION:

The division will have onetime staff costs to implement this bill, due to needing to modify the agency's internal spirits reporting system, and oversight by OCIO quality assurance.

0.9 FTE IT App Development - Senior/Specialist - \$139,753 (\$138,790 salary/benefits, \$963 in associated costs, \$1,725 for equipment purchases).

IT Investments – Approval and Oversight. The Office of the Chief Information Officer (OCIO) defines a major technology investment as one having a total cost that includes a combined level of effort of more than \$500,000 OR has a duration longer than 4-months.

If the agency fiscal note analysis anticipates one or both of these criteria being met, the agency is required under OCIO Policy #121 to submit an online self-assessment via OCIO's Information Technology Assessment Tool (ITPA) speaking to effort size, risk and expected impact on citizens and state operations. If the agency assumes that OCIO's formal decision is to place the project/effort under formal OCIO oversight, the agency would be required under OCIO Policy #132 to have external Quality Assurance (QA) services present at all stages of the project, from feasibility through implementation.

The agency currently estimates that cost at \$160/hr over the estimated lifetime of the project/effort.

OCIO QA Oversight: 1,920 hours x \$160/hr = \$307,200.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
501-1	Liquor Revolving Account	State	448,678	0	448,678	0	0
Total \$			448,678	0	448,678	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.9		0.5		
A-Salaries and Wages	106,845		106,845		
B-Employee Benefits	31,945		31,945		
C-Professional Service Contracts	307,200		307,200		
E-Goods and Other Services	988		988		
G-Travel					
J-Capital Outlays	1,700		1,700		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	448,678	0	448,678	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
IT App Development - Senior/Specialist	118,716	0.9		0.5		
Total FTEs		0.9		0.5		0.0

III. D - Expenditures By Program (optional)

Program	FY 2024	FY 2025	2023-25	2025-27	2027-29
INFORMATION TECHNOLOGY DIVISION (070)	448,678		448,678		
Total \$	448,678		448,678		

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.



Multiple Agency Ten-Year Analysis Summary

Bill Number 5375 SB	Title Low-proof beverages/tax
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This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

Estimated Cash Receipts

Department of Revenue Indeterminate Impact	0	0	0	0	0	0	0	0	0	0	0
Liquor and Cannabis Board Indeterminate Impact	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0	0



Ten-Year Analysis

Bill Number 5375 SB	Title Low-proof beverages/tax	Agency 140 Department of Revenue
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

No Cash Receipts

 Partially Indeterminate Cash Receipts

 Indeterminate Cash Receipts

Estimated Cash Receipts

Name of Tax or Fee	Acct Code											
Total												

Biennial Totals

Narrative Explanation (Required for Indeterminate Cash Receipts)

CURRENT LAW:
 "Spirits" means any beverage containing alcohol obtained by distillation, including wines with more than 24% alcohol by volume.

Retail sales tax does not apply to sales of spirits in an unopened original container. However, retail sales tax applies to drinks containing spirits sold by restaurants, bars, other establishments with an on-premises license.

Washington has two types of spirits taxes: a spirits liter tax and a spirits sales tax.

The spirits liter tax is a tax on the sales of spirits in the original container and is based on the volume sold. Consumers pay taxes of \$3.7708 per liter. On-premises retailers such as restaurants and bars pay taxes of \$2.4408 per liter.

The spirits sales tax is a tax on the selling price of spirits in their original container. Consumers pay a tax of 20.5%. On-premises retailers pay a tax of 13.7%.

PROPOSAL:
 This bill creates a new category of alcoholic beverages, a "low-proof beverage," defined as any beverage 16 ounces or less, containing more than 0.5% and less than 7% alcohol by volume, excluding wine, malt beverages, or malt liquor.



Ten-Year Analysis

Bill Number	Title	Agency
5375 SB	Low-proof beverages/tax	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

- This bill:
- Exempts low proof beverages from the spirit license issuance fee administered by the Liquor and Cannabis Board (LCB).
 - Exempts low proof beverages from spirits taxes. Retail sales and use taxes will apply to low-proof beverages.
 - Creates a new tax on low proof beverages at a rate of \$2.50 per gallon. The new tax is administered by LCB.

- The tax is imposed on:
- A spirits distributor on sales to spirits retailers.
 - A distillery or craft distillery self-distributing low proof beverages to retailers or directly to consumers.
 - A holder of a spirits out-of-state certificate with a direct shipment endorsement self-distributing to spirits retailers.

- Low proof beverages will continue to be subject to:
- Business & occupation taxes which apply to the manufacturing and/or selling of low-proof beverages.
 - Retail sales tax for all retail sales of low-proof beverages.

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session in which it is enacted.

ASSUMPTIONS:
- The market share of low-proof beverages in Washington is unknown.

DATA SOURCES:
- Liquor and Cannabis Board

REVENUE ESTIMATES:
The revenue impact of this bill is indeterminate because the volume of sales of low-proof beverages is unknown.

Based on research and limited information currently available to the department, there are several spirits-based products currently being marketed in Washington that would qualify under the proposal. Examples of the known products:

- Joia Spirits Sparkling Gimlet (6% alcohol by volume, ABV)



Ten-Year Analysis

Bill Number 5375 SB	Title Low-proof beverages/tax	Agency 140 Department of Revenue
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp> .

Narrative Explanation (Required for Indeterminate Cash Receipts)

- Cutwater Vodka Soda (5% ABV)
- Gin & Tonic Pre-mixed Cocktails (6.2% ABV)
- Ketel One Botanical Vodka Spirits Peach (3.6% ABV)
- High Noon Hard Seltzer Vodka Pineapple (4.5% ABV)

Under this proposal, these products will no longer be taxed as spirits. They become subject to retail sales and use tax. There is no information on these products' market share in Washington; therefore, the loss of spirits tax revenue and the increase in retail sales and use tax revenue is unknown.

Agency Preparation: Anna Yamada	Phone: 360-534-1519	Date: 2/15/2023 2:21:19 pm
Agency Approval: Valerie Torres	Phone: 360-534-1521	Date: 2/15/2023 2:21:19 pm
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 2/1/2023 9:19:11 am



Ten-Year Analysis

Bill Number 5375 SB	Title Low-proof beverages/tax	Agency 195 Liquor and Cannabis Board
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

No Cash Receipts

 Partially Indeterminate Cash Receipts

 Indeterminate Cash Receipts

Estimated Cash Receipts

Name of Tax or Fee	Acct Code											
Total												

Biennial Totals

Narrative Explanation (Required for Indeterminate Cash Receipts)

This bill defines “low-proof beverage” as any beverage that is 16oz or less and that contains more than 0.5% alcohol by volume and less than 7% alcohol by volume, but does not include wine, malt beverages, or malt liquor. Sales of “low-proof beverage” would be exempt from the 17% spirits retailer license issuance fee. A new tax is added on the sale of low-proof beverages equal to \$2.50/gallon, payable by a spirits distributor, distillery, craft distillery, and spirits COA with direct ship endorsement. Sales of “low-proof beverage” are also exempt from the spirits distributor license issuance fee.

The effect of these changes is indeterminate as the agency does not know the volume of sales of beverages that would be considered "low-proof" and thus the loss of revenue from the exemptions to the spirits retailer license issuance fee and spirits distributor license issuance fee can not be assumed.

Likewise, since the volume of sales of these beverages is unknown, it is unknown what the increase in revenue from the \$2.50/gallon tax would be.

Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 2/1/2023 9:35:57 am
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 2/1/2023 9:35:57 am
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 2/1/2023 9:19:11 am