

Multiple Agency Fiscal Note Summary

Bill Number: 2493 HB	Title: Ready-to-serve alcoholic bev
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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	440,071,000	440,071,000	475,734,000	1,582,788,000	1,582,788,000	1,710,955,000	1,934,513,000	1,934,513,000	2,091,151,000
Liquor and Cannabis Board	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total \$	440,071,000	440,071,000	475,734,000	1,582,788,000	1,582,788,000	1,710,955,000	1,934,513,000	1,934,513,000	2,091,151,000

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	1.9	577,000	577,000	577,000	2.7	530,500	530,500	530,500	2.0	371,900	371,900	371,900
Liquor and Cannabis Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total \$	1.9	577,000	577,000	577,000	2.7	530,500	530,500	530,500	2.0	371,900	371,900	371,900

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: Val Terre, OFM	Phone: (360) 280-3973	Date Published: Final 2/21/2024
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Department of Revenue Fiscal Note

Bill Number: 2493 HB	Title: Ready-to-serve alcoholic bev	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		(23,100,000)	(23,100,000)	(82,700,000)	(101,000,000)
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax		271,000	271,000	988,000	1,213,000
GF-STATE-State 01 - Taxes 18 - Liter Tax-Liquor		359,000,000	359,000,000	1,291,300,000	1,578,200,000
GF-STATE-State 01 - Taxes 20 - Liquor Sales Tax		103,900,000	103,900,000	373,200,000	456,100,000
Liquor Excise Tax Account-State 01 - Taxes 20 - Liquor Sales Tax		35,700,000	35,700,000	128,300,000	156,800,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax		(37,000)	(37,000)	(133,000)	(162,000)
Total \$		475,734,000	475,734,000	1,710,955,000	2,091,151,000

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		3.8	1.9	2.7	2.0
GF-STATE-State 001-1		577,000	577,000	530,500	371,900
Total \$		577,000	577,000	530,500	371,900

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: Peter Clodfelter	Phone: 60-786-7127	Date: 02/01/2024
Agency Preparation: Anna Yamada	Phone: 60-534-1519	Date: 02/13/2024
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 02/13/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/13/2024

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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.

Note: This fiscal note reflects a revision to the revenue impact, and replaces fiscal note number 2493-1.

CURRENT LAW:

WINE TAX

Wineries pay the wine tax, an excise tax on wine and cider sold:

- To distributors
- To consumers on the winery premises
- Through direct shipments to consumers and retailers

For table wine, the tax rate includes a base rate of 20.25 cents per liter and additional taxes of 2.67 cents per liter (a total of 22.92 cents per liter); for fortified wine, a base rate of 20.25 cents per liter and additional taxes of 25.11 cents per liter (a total of 45.36 cents per liter), and for cider, a base rate of 3.59 cents per liter and additional taxes of 4.55 cents per liter (a total of 8.14 cents per liter).

BEER TAX

Beer tax is imposed on each 31-gallon barrel of beer or its equivalent in cans and bottles sold in Washington by breweries or distributors. Each brewery's tax is \$4.782 per barrel on the first 60,000 barrels sold in a year. Once the 60,000 barrels threshold is reached, the tax is \$8.080 per barrel for the rest of the year.

The Liquor and Cannabis Board (LCB) administers wine and beer taxes.

The Department of Revenue (department) administers spirits taxes and retail sales tax.

RETAIL SALES OF WINE AND BEER

At a store, consumers pay sales tax on wines and beer they purchase in the original packages. Consumers pay sales tax on wines and beers (drinks) served at restaurants and bars. Stores, restaurants, and bars collect sales tax from consumers and send these taxes to the department.

SPIRIT TAXES

Two types of spirits (liquor) taxes exist a spirits sales tax and a spirits liter tax.

The location of the sale determines the tax rates for spirits sales and liter taxes and who pays the taxes.

An off-premises sale occurs when a consumer purchases at a retail store.

An on-premises sale occurs when restaurants or bars purchase from distributors or distillers to serve consumers.

Spirits sales tax is based on the selling price of spirits in the original package.

Spirits liter tax is based on the volume of spirits sold in the original package.

For off-premises sales, a consumer pays 20.5% of the original package for spirits sales tax and \$3.7708 per liter for spirits liter tax.

For on-premises sales, a restaurant or a bar pays 13.7% of the original package for spirits sales tax and \$2.4408 per liter to distributors and distillers for spirits liter tax. Restaurants and bars also collect retail sales tax on the drinks they serve

customers.

PROPOSAL:

This bill makes ready-to-serve alcoholic beverages subject to existing spirits sales tax and spirits liter tax.

Ready-to-serve alcoholic beverages contain greater than 0.5% alcohol by volume (ABV) with qualified additives, regardless of the type of liquor manufacturing license, packaged types, and the raw ingredient source from which the ethanol was derived. Ready-to-serve alcoholic beverages exclude traditional beer, wine, cider, mead, spirits, and food products, without any qualified additives, even if ABV is greater than 0.5%.

A qualified additive means any real color, artificial color, real flavoring, artificial flavoring, juice, extract, mix, soda, tea, tonic, carbonation, or other alcoholic or nonalcoholic addition added to the ethanol altering the color, taste, flavor, consistency, carbonation, texture, mouth feel, type, class, or designation of the product.

Examples of ready-to-serve alcoholic beverages include but are not limited to, canned cocktails, ready-to-drink (RTD) beverages, premixed cocktails, hard seltzers, hard teas, hard coffees, hard kombuchas, adult sodas, hard sodas, spiked juices, hard sparkling water, ranch water, flavored malted beverages, wine cocktails, spiked cider, and cider-based cocktails.

EFFECTIVE DATE:

The bill takes effect 90 days after the final adjournment of the session. However, due to the time it will take to program this bill's changes, the department cannot implement the bill until October 1, 2024.

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 LCB's fiscal note will reflect the impact on beer and wine taxes.
- Approximately 90% of the RTD beverage category in Washington applies to this bill's ready-to-serve alcoholic beverages.
- Of this bill's ready-to-serve alcoholic beverages, 7% are already sold as spirits and thus have no revenue impact with this bill. This bill will tax the remaining beverages sold as either beer-based (90%) or wine-based (3%) at the current spirits tax rates.
- Consumers purchase approximately 81% of this bill's ready-to-serve alcoholic beverages at retail stores (off-premises) and purchase 19% at restaurants and bars (on-premises).
- The median retail price of this bill's ready-to-serve beverages is \$5.00 per liter at retail stores (off-premises), which includes a 27.5% markup from the distributor's wholesale price (\$3.92 per liter). The same products are sold for \$9.59 per liter at restaurants and bars (on-premises), which includes an on-premises markup.
- Under the proposed bill, at retail stores (off-premises), consumers pay \$9.80 per liter this bill's ready-to-serve beverages that are priced at \$5.00 per liter after spirits taxes. At restaurants and bars (on-premises), the same product is sold for \$12.57 per liter on a menu, which includes an on-premises markup and the spirits taxes. Consumers pay retail sales tax on this menu price.
- The consumption growth of this bill's ready-to-serve alcoholic beverages is a linear projection of the average growth of annual RTD consumption for Washington (2019-2021).
- This proposal takes effect October 1, 2024, and impacts eight months of state collections in fiscal year 2025.
- The department receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses

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collect. This leads to a one-month delay in revenues for the state and a two-month delay in revenues for local jurisdictions.

- Local revenue estimates use the statewide average local sales and use taxes rate of 2.95%.

DATA SOURCES:

- Economic and Revenue Forecast Council, On-premise and off-premise liter and price forecast
- International Wine and Spirits Record (IWSR), Department summary data, 2022

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$475.7 million in the eight months of impacted collections in fiscal year 2025, and by \$808.1 million in fiscal year 2026, the first full year of impacted collections.

This bill decreases local revenues by an estimated \$9.2 million in the seven months of impacted collections in fiscal year 2025, and by \$17.8 million in fiscal year 2026, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ 475,734
FY 2026 -	\$ 808,102
FY 2027 -	\$ 902,853
FY 2028 -	\$ 998,002
FY 2029 -	\$ 1,093,149

Local Government, if applicable (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ (9,200)
FY 2026 -	\$ (17,800)
FY 2027 -	\$ (19,800)
FY 2028 -	\$ (21,900)
FY 2029 -	\$ (24,000)

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 approximately 20,000 taxpayers.

FIRST YEAR COSTS:

The department will not incur costs in fiscal year 2024.

SECOND YEAR COSTS:

The department will incur total costs of \$577,000 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 3.78 FTEs.

- Set up, program and test computer system changes.
- Set up and test new accounts in the system for new line codes for the spirit and litter tax.
 - Accounting activities for the new tax; compiling receivable information for statewide financial statements and stakeholders.

- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email and web message and paper correspondence.
- Attend implementation meetings; work complex accounts, conduct audit case reviews, and monitor reports.
- Answer phone calls and counter inquiries on tax questions and tax return preparation from businesses, individuals, and accountants/CPAs.
- Create Special Notices and identify publications and information the department may need to create or update on the department's website.

Object Costs - \$118,400.

- Computer system changes, including contract programming.
- Print and mail taxpayer education and related correspondences for paper filing taxpayers.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$530,500 and include similar activities described in the second-year costs. Time and effort equate to 2.7 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		3.8	1.9	2.7	2.0
A-Salaries and Wages		281,700	281,700	336,700	238,400
B-Employee Benefits		92,900	92,900	111,100	78,700
C-Professional Service Contracts		117,500	117,500		
E-Goods and Other Services		58,500	58,500	62,500	42,700
J-Capital Outlays		26,400	26,400	20,200	12,100
Total \$		\$577,000	\$577,000	\$530,500	\$371,900

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	131,684		0.0	0.0		
EXCISE TAX EX 2	58,104		1.1	0.6	1.3	1.0
EXCISE TAX EX 3	64,092		0.6	0.3	0.7	0.5
FORMS AND RECORDS ANALYS 1	42,444				0.2	0.2
IT B A-JOURNEY	91,968		0.7	0.4	0.1	
IT SYS ADM-JOURNEY	96,552		0.3	0.2		
MGMT ANALYST4	76,188		0.4	0.2	0.5	0.4
TAX INFO SPEC 1	46,596		0.1	0.1		
TAX POLICY SP 2	78,120		0.2	0.1		
TAX POLICY SP 3	88,416		0.1	0.1		
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456		0.2	0.1		
WMS BAND 3	111,992		0.0	0.0		
Total FTEs			3.8	1.9	2.7	2.0

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 458-20-124, titled: "Restaurants, cocktail bars, taverns and similar businesses"
- WAC 458-20-217, titled: "Lien for taxes," WAC 458-20-243, titled: "Litter tax"
- WAC 458-20-282, titled: "Marketplace tax collection and reporting"

Persons affected by this rulemaking would include licensees who can sell ready-to-serve alcoholic beverages.

Individual State Agency Fiscal Note

Bill Number: 2493 HB	Title: Ready-to-serve alcoholic bev	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:

NONE

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: Peter Clodfelter	Phone: 360-786-7127	Date: 02/01/2024
Agency Preparation: Colin O Neill	Phone: (360) 664-4552	Date: 02/14/2024
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 02/14/2024
OFM Review: Val Terre	Phone: (360) 280-3973	Date: 02/17/2024

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 (RCW 66.04.010): creates new definitions for “qualified additive” and “Ready-to-serve alcoholic beverage”

(53) "Qualified additive" means any type of real color, artificial color, real flavoring, artificial flavoring, juice, extract, mix, soda, tea, tonic, carbonation, or other alcoholic or nonalcoholic addition has been added to the ethanol that alters the color, taste, flavor, consistency, carbonation, texture, mouth feel, type, class, or designation of the product.

(54) "Ready-to-serve alcoholic beverage" means any alcoholic beverage that contains greater than 0.5 percent alcohol by volume to which a qualified additive is added. In determining whether a beverage is a ready-to-serve alcoholic beverage, the following factors may not be considered: The raw ingredient source from which the ethanol was derived; the type of liquor manufacturing license the ethanol was produced or packaged under; the beverage category the product is manufactured under; the type of liquor wholesale or distribution license the product is distributed under; and the type of retail liquor license the product is sold under.

(a) "Ready-to-serve alcoholic beverages" includes, but is not limited to, product categories known under their popular category names, including canned cocktails, ready-to-drink beverages, ready-to-serve beverages, premixed cocktails, seltzers, hard seltzers, hard teas, hard coffees, hard kombuchas, adult sodas, hard sodas, spiked juices, hard sparkling water, ranch water, flavored malted beverages, wine cocktails, spiked cider, cider-based cocktails, and any other type of category of beverage alcohol that otherwise meets the definition of ready-to-serve alcoholic beverages in this section.

(b) "Ready-to-serve alcoholic beverages" does not include traditional beer, wine, cider, mead, spirits, food products containing greater than 0.5 percent alcohol by volume that are not classified as beverage alcohol products, or other alcoholic beverages packaged without any qualified additives.

Section 2 (RCW 82.08.150) taxes “ready-to-serve alcoholic beverages” at the same rate as spirits.

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.

Section 1(54) defines "Ready-to-serve alcoholic beverage," and also gives some examples such as canned cocktails, premixed cocktails, hard kombuchas, and flavored malted beverages. Section 2 intends that these ready-to-serve beverages are to be taxed the the same rate as spirits.

However, Section 1(54) creates some conflicts, for example with the existing definition of beer ("any malt beverage, flavored malt beverage, or malt liquor") in Section 1(3).

So "flavored malt beverage" is defined as both beer and ready-to-serve alcoholic beverage. With this conflict, it is uncertain how some products would ultimately be taxed - as beer or wine (current process) or as ready-to-serve (spirits tax rate). If this bill passes, the Board may need to engage in rulemaking to clarify how certain products are to be taxed.

Since the Board's actions are unknown, the cash receipt impact is INDETERMINATE.

However, if it is assumed that all beer-based and wine-based "ready to serve" products would be taxed at the spirits tax rate and no longer as beer or wine, then the revenue losses below could be anticipated. DOR shows the spirit tax impact on their fiscal note.

BEER TAX lost revenue (assuming the \$8.08/barrel rate, 117.347765 liters/barrel, 8 months of revenue loss in FY25)

FY25; (\$6,799,000)

FY26; (\$11,560,000)

FY27: (\$12,922,000)
FY28: (\$14,284,000)
FY29: (\$15,645,000)

WINE TAX lost revenue (assuming the table wine rate of \$.2292/liter, 8 months of revenue loss in FY25)

FY25; (\$747,000)
FY26; (\$1,270,000)
FY27: (\$1,420,000)
FY28: (\$1,569,000)
FY29: (\$1,719,000)

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.

No fiscal impact. There may be an increase in distributors but the workload would be minimal.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

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

NONE

III. D - 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

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.

The Board may need to engage in rulemaking to resolve potential conflicts in how certain products are categorized as beer, wine, or ready-to-serve products.



Multiple Agency Ten-Year Analysis Summary

Bill Number 2493 HB	Title Ready-to-serve alcoholic bev
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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

	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	2024-33 TOTAL
Department of Revenue	0	475,734,000	808,102,000	902,853,000	998,002,000	1,093,149,000	1,188,297,000	1,283,345,000	1,378,692,000	1,473,740,000	9,601,914,000
Liquor and Cannabis Board Indeterminate Impact	0	0	0	0	0	0	0	0	0	0	0
Total	0	475,734,000	808,102,000	902,853,000	998,002,000	1,093,149,000	1,188,297,000	1,283,345,000	1,378,692,000	1,473,740,000	9,601,914,000



Ten-Year Analysis

Bill Number 2493 HB	Title Ready-to-serve alcoholic bev	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	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	2024-33 TOTAL
Business and occupation tax	001		271,000	465,000	523,000	579,000	634,000	689,000	744,000	799,000	854,000	5,558,000
Liquor sales tax	001		103,900,000	176,300,000	196,900,000	217,700,000	238,400,000	259,200,000	279,900,000	300,700,000	321,400,000	2,094,400,000
Liquor sales tax	107		35,700,000	60,600,000	67,700,000	74,800,000	82,000,000	89,100,000	96,200,000	103,400,000	110,500,000	720,000,000
Total Liquor sales tax			139,600,000	236,900,000	264,600,000	292,500,000	320,400,000	348,300,000	376,100,000	404,100,000	431,900,000	2,814,400,000
Liter tax - Liquor	001		359,000,000	609,900,000	681,400,000	753,200,000	825,000,000	896,800,000	968,600,000	1,040,400,000	1,112,200,000	7,246,500,000
Retail sales tax	001		(23,100,000)	(39,100,000)	(43,600,000)	(48,200,000)	(52,800,000)	(57,400,000)	(62,000,000)	(66,500,000)	(71,100,000)	(463,800,000)
Retail sales tax	553		(37,000)	(63,000)	(70,000)	(77,000)	(85,000)	(92,000)	(99,000)	(107,000)	(114,000)	(744,000)
Total Retail sales tax			(23,137,000)	(39,163,000)	(43,670,000)	(48,277,000)	(52,885,000)	(57,492,000)	(62,099,000)	(66,607,000)	(71,214,000)	(464,544,000)
Total			475,734,000	808,102,000	902,853,000	998,002,000	1,093,149,000	1,188,297,000	1,283,345,000	1,378,692,000	1,473,740,000	9,601,914,000
Biennial Totals			475,734,000	1,710,955,000	2,091,151,000	2,471,642,000	2,852,432,000	9,601,914,000				

Narrative Explanation (Required for Indeterminate Cash Receipts)

Note: This fiscal note reflects a revision to the revenue impact, and replaces fiscal note number 2493-1.

CURRENT LAW:

WINE TAX

Wineries pay the wine tax, an excise tax on wine and cider sold:



Ten-Year Analysis

Bill Number	Title	Agency
2493 HB	Ready-to-serve alcoholic bev	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)

- To distributors
- To consumers on the winery premises
- Through direct shipments to consumers and retailers

For table wine, the tax rate includes a base rate of 20.25 cents per liter and additional taxes of 2.67 cents per liter (a total of 22.92 cents per liter); for fortified wine, a base rate of 20.25 cents per liter and additional taxes of 25.11 cents per liter (a total of 45.36 cents per liter), and for cider, a base rate of 3.59 cents per liter and additional taxes of 4.55 cents per liter (a total of 8.14 cents per liter).

BEER TAX

Beer tax is imposed on each 31-gallon barrel of beer or its equivalent in cans and bottles sold in Washington by breweries or distributors. Each brewery's tax is \$4.782 per barrel on the first 60,000 barrels sold in a year. Once the 60,000 barrels threshold is reached, the tax is \$8.080 per barrel for the rest of the year.

The Liquor and Cannabis Board (LCB) administers wine and beer taxes.

The Department of Revenue (department) administers spirits taxes and retail sales tax.

RETAIL SALES OF WINE AND BEER

At a store, consumers pay sales tax on wines and beer they purchase in the original packages. Consumers pay sales tax on wines and beers (drinks) served at restaurants and bars. Stores, restaurants, and bars collect sales tax from consumers and send these taxes to the department.

SPIRIT TAXES

Two types of spirits (liquor) taxes exist a spirits sales tax and a spirits liter tax.

The location of the sale determines the tax rates for spirits sales and liter taxes and who pays the taxes.

An off-premises sale occurs when a consumer purchases at a retail store.

An on-premises sale occurs when restaurants or bars purchase from distributors or distillers to serve consumers.

Spirits sales tax is based on the selling price of spirits in the original package.

Spirits liter tax is based on the volume of spirits sold in the original package.



Ten-Year Analysis

Bill Number 2493 HB	Title Ready-to-serve alcoholic bev	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)

For off-premises sales, a consumer pays 20.5% of the original package for spirits sales tax and \$3.7708 per liter for spirits liter tax. For on-premises sales, a restaurant or a bar pays 13.7% of the original package for spirits sales tax and \$2.4408 per liter to distributors and distillers for spirits liter tax. Restaurants and bars also collect retail sales tax on the drinks they serve customers.

PROPOSAL:

This bill makes ready-to-serve alcoholic beverages subject to existing spirits sales tax and spirits liter tax.

Ready-to-serve alcoholic beverages contain greater than 0.5% alcohol by volume (ABV) with qualified additives, regardless of the type of liquor manufacturing license, packaged types, and the raw ingredient source from which the ethanol was derived. Ready-to-serve alcoholic beverages exclude traditional beer, wine, cider, mead, spirits and food products, without any qualified additives, even if ABV is greater than 0.5%.

A qualified additive means any real color, artificial color, real flavoring, artificial flavoring, juice, extract, mix, soda, tea, tonic, carbonation, or other alcoholic or nonalcoholic addition added to the ethanol altering the color, taste, flavor, consistency, carbonation, texture, mouth feel, type, class, or designation of the product.

Examples of ready-to-serve alcoholic beverages include but are not limited to, canned cocktails, ready-to-drink (RTD) beverages, premixed cocktails, hard seltzers, hard teas, hard coffees, hard kombuchas, adult sodas, hard sodas, spiked juices, hard sparkling water, ranch water, flavored malted beverages, wine cocktails, spiked cider, a cider-based cocktails.

EFFECTIVE DATE:

The bill takes effect 90 days after the final adjournment of the session. However, due to the time it will take to program this bill's changes, the department cannot implement the bill until October 1, 2024.

ASSUMPTIONS:

- The LCB's fiscal note will reflect the impact on beer and wine taxes.
- Approximately 90% of the RTD beverage category in Washington applies to this bill's ready-to-serve alcoholic beverages.



Ten-Year Analysis

Bill Number	Title	Agency
2493 HB	Ready-to-serve alcoholic bev	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)

- Of this bill's ready-to-serve alcoholic beverages, 7% are already sold as spirits and thus have no revenue impact with this bill. This bill will tax the remaining beverages as either beer-based (90%) or wine-based (3%) at the current spirits tax rates.
- Consumers purchase approximately 81% of this bill's ready-to-serve alcoholic beverages at retail stores (off-premises) and purchase 19% at restaurants and bars (on-premises).
- The median retail price of this bill's ready-to-serve beverages is \$5.00 per liter at retail stores (off-premises), which includes a 27.5% markup from the distributor's whole price (\$3.92 per liter). The same products are sold for \$9.59 per liter at restaurants and bars (on-premises), which includes an on-premises markup.
- Under the proposed bill, at retail stores (off-premises), consumers pay \$9.80 per liter this bill's ready-to-serve beverages that are priced at \$5.00 per liter after spirits tax. At restaurants and bars (on-premises), the same product is sold for \$12.57 per liter on a menu, which includes an on-premises markup and the spirits taxes. Consumers pay retail sales tax on this menu price.
- The consumption growth of this bill's ready-to-serve alcoholic beverages is a linear projection of the average growth of annual RTD consumption for Washington (2019-2024).
- This proposal takes effect October 1, 2024, and impacts eight months of state collections in fiscal year 2025.
- The department receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenues for the state and a two-month delay in revenues for local jurisdictions.
- Local revenue estimates use the statewide average local sales and use taxes rate of 2.95%.

DATA SOURCES:

- Economic and Revenue Forecast Council, On-premise and off-premise liter and price forecast
- International Wine and Spirits Record (IWSR), Department summary data, 2022

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$475.7 million in the eight months of impacted collections in fiscal year 2025, and by \$808.1 million in fiscal year 2026, the first full year of impacted collections.

This bill decreases local revenues by an estimated \$9.2 million in the seven months of impacted collections in fiscal year 2025, and by \$17.8 million in fiscal year 2026, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):



Ten-Year Analysis

Bill Number	Title	Agency
2493 HB	Ready-to-serve alcoholic bev	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)

FY 2024 -	\$ 0
FY 2025 -	\$ 475,734
FY 2026 -	\$ 808,102
FY 2027 -	\$ 902,853
FY 2028 -	\$ 998,002
FY 2029 -	\$1,093,149
Local Government, if applicable (cash basis, \$000):	
FY 2024 -	\$ 0
FY 2025 -	\$ (9,200)
FY 2026 -	\$ (17,800)
FY 2027 -	\$ (19,800)
FY 2028 -	\$ (21,900)
FY 2029 -	\$ (24,000)

Agency Preparation: Anna Yamada	Phone: 360-534-1519	Date: 2/13/2024 10:39:43 am
Agency Approval: Valerie Torres	Phone: 360-534-1521	Date: 2/13/2024 10:39:42 am
OFM Review: Val Terre	Phone: (360) 280-3973	Date: 2/17/2024 1:36:43 pm



Ten-Year Analysis

Bill Number 2493 HB	Title Ready-to-serve alcoholic bev	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)

Section 1(54) defines "Ready-to-serve alcoholic beverage," and also gives some examples such as canned cocktails, premixed cocktails, hard kombuchas, and flavored malted beverages. Section 2 intends that these ready-to-serve beverages are to be taxed the the same rate as spirits.

However, Section 1(54) creates some conflicts, for example with the existing definition of beer ("any malt beverage, flavored malt beverage, or malt liquor") in Section 1(3

So "flavored malt beverage" is defined as both beer and ready-to-serve alcoholic beverage. With this conflict, it is uncertain how some products would ultimately be taxed as beer or wine (current process) or as ready-to-serve (spirits tax rate). If this bill passes, the Board may need to engage in rulemaking to clarify how certain products are be taxed.

Since the Board's actions are unknown, the cash receipt impact is INDETERMINATE.

However, if it is assumed that all beer-based and wine-based "ready to serve" products would be taxed at the spirits tax rate and no longer as beer or wine, then the reve losses below could be anticipated. DOR shows the spirit tax impact on their fiscal note.

BEER TAX lost revenue (assuming the \$8.08/barrel rate, 117.347765 liters/barrel, 8 months of revenue loss in FY25)

FY25; (\$6,799,000)



Ten-Year Analysis

Bill Number	Title	Agency
2493 HB	Ready-to-serve alcoholic bev	195 Liquor and Cannabis Board

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)

FY26; (\$11,560,000)
FY27; (\$12,922,000)
FY28; (\$14,284,000)
FY29; (\$15,645,000)
WINE TAX lost revenue (assuming the table wine rate of \$.2292/liter, 8 months of revenue loss in FY25)
FY25; (\$747,000)
FY26; (\$1,270,000)
FY27; (\$1,420,000)
FY28; (\$1,569,000)
FY29; (\$1,719,000)

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