Fiscal Note

BILL # HB 2627

TITLE: ready-to-drink spirits products; tax

SPONSOR: Weninger

STATUS: As amended by House COM

PREPARED BY: Nate Belcher

Description

The bill creates a new statutory category of alcoholic beverages called "ready-to-drink spirits" and sets the luxury tax rate for this new category at $0.84 per gallon. This new category consists of distilled spirits mixed with other beverages which do not exceed 12% alcohol by volume and which are sold in the manufacturer's original packaging.

Estimated Impact

We estimate that HB 2627 would reduce luxury tax revenues by $(4.4) million in FY 2023. Given the luxury tax distribution formula, this reduction would be allocated as follows: $(3.8) million for the General Fund, $(0.4) million for the Corrections Fund, $(0.1) million for the Drug Treatment and Education Fund, and $(0.1) million for the Corrections Revolving Fund.

Analysis

According to the Department of Revenue, beverages which are commonly referred to as "canned cocktails" or "ready-to-drink cocktails" are currently taxed at the spirituous liquor luxury tax rate of $3 per gallon because they fall under the current definition of spirituous liquor. Under HB 2627, these products would instead fall under a new category called "ready-to-drink spirits" with a luxury tax rate of $0.84 per gallon. The bill would not impact other similar products such as "hard seltzers", as those are classified in a separate category of malt-based products due to being created through the fermentation process.

Based on data from the Department of Revenue, we estimate that 184.3 million total gallons of alcoholic beverages were sold in the state during FY 2021. That estimate is based on the FY 2021 luxury tax revenues and tax rates for the following categories:

- Spirituous Liquor – Collections of $46.4 million, at a tax rate of $3 per gallon, equals 15.5 million gallons of product sold
- Vinous Liquor with Low Alcohol Content (such as wine) – Collections of $19.5 million, at a tax rate of $0.84 per gallon, equals 23.2 million gallons of product sold
- Malt Liquor (beer and cider) – Collections of $23.3 million, at a tax rate of $0.16 per gallon, equals 145.6 million gallons of product sold

Over the last five fiscal years, overall alcoholic beverage luxury tax revenues have grown at an average rate of 4.7% per year. Using this recent growth in revenue collections as a basis for future sales volume growth, with an additional 2 years of growth at 4.7%, we estimate that 202 million gallons of alcoholic beverage products will be sold in the state during FY 2023.

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Market research by the International Wine and Spirits Record (IWSR) indicates that in 2020, approximately 9.6% of the total alcoholic beverage market by volume fell under the broad "ready-to-drink category", which includes malt-based seltzers and wine coolers, along with the canned cocktail products that are impacted by HB 2627. In addition, the IWSR data indicates that canned cocktail products were 6.9% of sales volume for this "ready-to-drink category" market segment. By applying these percentages, the IWSR data suggests that canned cocktails are approximately 0.7% of the overall alcohol market by volume (6.9% of the 9.6% market segment). Given the recent rapid growth for the canned cocktail segment listed in the IWSR data, this analysis assumes the products will be 1.0% of total alcohol volume sold in Arizona during FY 2023.

Given an alcoholic beverage market size of 202 million gallons in Arizona and a market share of 1.0% by volume for ready-to-drink spirits, in FY 2023 we estimate 2.0 million gallons of ready-to-drink spirits will be sold in Arizona.

Under current law, these products are taxed at $3 per gallon under the spirituous liquor category, which is distributed as follows: 70% to the General Fund, 20% to the Corrections Fund, 7% to the Drug Treatment and Education Fund, and 3% to the Corrections Revolving Fund. With HB 2627, these products would be taxed at $0.84 per gallon and those revenues would be distributed under the same formula as the vinous liquor category: 25% to the General Fund, 50% to the Corrections Fund, 18% to the Drug Treatment and Education Fund, and 7% to the Corrections Revolving Fund.

Applying this $(2.16) per gallon tax reduction to the 2.0 million gallons of ready-to-drink spirits sales volume yields a total luxury tax impact of $(4.4) million in FY 2023.

Beyond the overall net luxury tax reduction, HB 2627 would move revenues between 2 types of luxury tax distributions as described above. After accounting for that issue, the impact of the $(4.4) million overall revenue reduction would be distributed as follows:

- $(3.8) million in General Fund revenues
- $(0.4) million in Corrections Fund revenues
- $(0.1) million in Drug Treatment and Education Fund revenues
- $(0.1) million in Corrections Revolving Fund revenues

Local Government Impact

None.

2/10/22