Fiscal Note

BILL # SB 1556

TITLE: adult hemp beverages; policies; procedures

SPONSOR: Shope

STATUS: Senate Engrossed

PREPARED BY: Destin Moss

Description

The bill would create a new mechanism by which entities licensed by the Department of Liquor Licenses and Control (DLLC) could manufacture and sell beverages containing hemp-derived THC (tetrahydrocannabinol, the active ingredient in marijuana). The bill would subject these hemp beverages to a luxury tax rate of $1.50 per gallon. Additionally, the bill would also establish a new luxury tax category for "ready-to-drink spirits" (RTD) beverages and tax these beverages at a rate of $1.50 per gallon. These RTD beverages are currently taxed as "spiritous liquor" at a rate of $3.00 per gallon.

Estimated Impact

We estimate the bill will increase total state revenues by $2.9 million annually. The reduction in the luxury tax rate levied against RTD beverages will result in an overall revenue loss of $(5.5) million. The taxes levied on the sale of hemp-derived beverages will generate additional revenues of $8.4 million combined across the TPT and luxury tax categories. Based on the bill's proposed regulatory structure and authorized sales locations, Legislative Council does not believe the 16% marijuana excise tax enacted by Proposition 207 is applicable to the sales of hemp beverages authorized by the bill. *Table 1* includes additional information on these revenue changes and their distributions.

Table 1

Anticipated Revenue Impacts of SB 1556 ($ in Millions)

Distribution	$1.50/Gallon RTD Luxury Tax 1/	$1.50/Gallon Hemp Luxury Tax	Hemp Beverage TPT Collections	Total Distributions
General Fund 2/	$(2.2)	$2.5	$3.9	$4.2
Corrections Fund	(2.2)	0.0	0.0	(2.2)
Drug Treatment and Education Fund	(0.8)	0.0	0.0	(0.8)
Corrections Revolving Fund	(0.3)	0.0	0.0	(0.3)
Local Gov't/Education	0.0	0.0	2.0	2.0
Total Collections	(5.5)	2.5	5.9	2.9

1/ RTD beverages are currently taxed as "spiritous liquor" at a rate of $3.00 per gallon. The new $1.50 per gallon rate will therefore reduce revenues as compared to current law.
2/ The $1.0 million appropriation from the Liquor Licenses Fund would have a General Fund impact of $(1.0) million. This impact is not reflected in *Table 1*.

The bill would appropriate an ongoing amount of $1.0 million from the Liquor Licenses Fund beginning in FY 2026 to DLLC for the regulation of hemp beverages. This appropriation would have an additional $(1.0) million General Fund impact – under current law, any monies not spent from Liquor Licenses Fund revenue in a given year are transferred to the General Fund. To the extent that any license fees under the bill do not generate sufficient revenue to support the increased appropriation, those appropriated monies would instead be paid from existing DLLC license revenue and would reduce monies that would otherwise be transferred to the General Fund.

JLBC

We asked DLLC and the Department of Revenue (DOR) for information regarding the bill's impact on revenue collections and administrative expenses. DOR was unable to provide a revenue impact estimate and we have not yet received a response from DLLC.

Analysis

Adult Hemp Beverage Sales

The bill would create a new mechanism by which "adult hemp beverages," defined as beverages that contain less than a specified amount THC derived from industrial hemp, could be manufactured and sold by DLLC-licensed entities. Current law allows beverages containing marijuana-derived THC to be sold at marijuana establishments (dispensaries) licensed by the Department of Health Services.

Given the developing legal market for hemp-derived products, this analysis uses data from Minnesota, which currently allows the sale of hemp beverages at retail and on-premise (restaurant/bar) locations in a similar manner as outlined in SB 1556. Data from the Minnesota Department of Revenue suggests that total sales of hemp-derived beverages and edible products are $160.4 million annually. Minnesota does not separately track beverage and edible sales, but we have found anecdotal comments from retailers selling these products that suggest beverages likely account for approximately 50% of total hemp-derived product sales. After applying this 50% sales ratio, the starting point for our analysis is that current Minnesota hemp-derived beverage sales are $80.2 million annually.

To derive the total amount of hemp-derived beverages that would be sold in Arizona under the bill, we calculate a population adjustment to this Minnesota sales data based on relative populations of each state [Arizona population of 7.58 million/Minnesota population of 5.79 million = 30.9% adjustment factor]. After applying the 30.9% population factor increase, we estimate that the total dollar sales volume of hemp beverages in Arizona would be $105 million annually.

Luxury Tax Revenue

The bill would establish a new luxury tax rate for hemp beverages at $1.50 per gallon. Based on current pricing of marijuana beverages at Department of Health Services licensed dispensaries, we assume the average price of a 12-ounce hemp beverage is $6 per beverage.

Given an Arizona dollar sales volume of $105 million, this would translate into 17.5 million 12-ounce beverages sold, or 1.64 million gallons of hemp beverage product being sold each year in the state. At the $1.50 per gallon luxury tax rate established by the bill, these sales would generate $2.5 million in revenues [= 1,640,000 gallons x $1.50 tax rate].

The bill does not currently specify a distribution formula for hemp beverage luxury tax revenues. Under current law, any luxury taxes levied by the state without a specific distribution formula are deposited into the General Fund. Therefore, the luxury tax revenue from the newly authorized hemp beverages would result in a $2.5 million increase in General Fund revenues.

Sales Tax Revenue

The sale of hemp beverages would also be subject to state and local transaction privilege tax (TPT) in the same manner as alcohol-based DLLC-licensed products. Using the estimated $105 million annual dollar sales volume, this would generate $5.9 million [= $105.0 million x 5.6%] in annual state TPT revenues. This increase would be distributed as follows: $3.9 million to the General Fund, $0.5 million for shared revenue to all city governments statewide, $0.9 million for shared revenue to all county governments statewide, and $0.6 million for the state's education tax distribution.

Adult Hemp Beverage Licensing Revenue

Under the regulatory structure established by the bill, the ability to sell hemp beverages in Arizona would be included with a standard wholesale or retail liquor license. Given that these licensing fees are established by statute and remain unchanged by the bill, DLLC is unlikely to generate additional licensing revenues from wholesalers and retailers selling hemp beverages.

However, the bill does establish new licensing categories for the manufacture and laboratory testing of hemp beverages. We are unable to estimate the potential licensing revenues arising from these new license categories.

Ready-to-Drink Beverage Luxury Tax Reduction

The bill defines "ready-to-drink spirits" beverages as products that contain spirituous liquor but are sold in containers smaller than 16 fluid ounces and do not exceed 10.0% alcohol by volume. According to the Department of Revenue, RTD beverages are currently taxed at the spirituous liquor luxury tax rate of $3.00 per gallon. Under SB 1556, these products would instead fall under a new luxury tax category and be taxed at a rate of $1.50 per gallon.

The Distilled Spirits Council of the United States reports that $2.8 billion of RTD cocktails were sold across the United States in 2023. Based on current trends outlined in that report, we estimate that nationwide revenue from the sales of RTDs will reach $3.8 billion in 2025. Assuming that Arizona's share of the national RTD beverages market is proportionate to its 2.2% of the national population, we project that Arizona will have about $84 million [= $3.8 billion x 2.2%] in total RTD beverage sales in 2025.

Market research by the International Wine and Spirits Record (IWSR) indicates that, in 2024, 12-ounce containers made up 69% of RTD beverage sales volume – this ratio is used to approximate the proportion of RTD sales that are affected by SB 1556 due to the bill's 16 fluid ounce container limit.

Based on this estimate, we project that the amount of RTD sales in Arizona subject to the new luxury tax rate under the bill would be $58.0 million [= $84 million x 69%] in 2025. Given that 12-packs of 12-ounce cans are typically priced at around $16 to $20 in Arizona, we estimate an average retail price of $18 per 12-pack, or $16 per gallon for RTD beverages in single-serving containers. Applying the average retail price of $16 per gallon to our projected sales base of $58.0 million yields an estimated RTD beverage sales volume subject to the tax rate under the bill of 3.63 million gallons in Arizona in 2025.

Under current law, these RTD sales are estimated to generate $10.9 million [= 3,625,000 x $3.00] in revenues for 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. Therefore, the removal of RTD products from the spirituous liquor category would result in a $(10.9) million luxury tax revenue reduction as follows: $(7.6) million for the General Fund, $(2.2) million for the Corrections Fund, $(0.8) million for the Drug Treatment and Education Fund, and $(0.3) million for the Corrections Revolving Fund.

As proposed by the bill, these current RTD sales would instead be taxed at the new $1.50/gallon tax rate. Under that tax rate, the sales would generate $5.4 million in revenues – given the lack of a specified distribution formula, this new tax would result in a $5.4 million increase in General Fund revenue.

Local Government Impact

As described above, the increased level of state TPT revenues would generate additional revenue sharing distributions to cities and counties. In addition, revenues from sales taxes levied directly by cities and counties would also increase given the higher levels of taxable sales activity associated with the newly authorized hemp beverages.

3/13/25