

JLBC Fiscal Note

BILL # SB 1812

TITLE: luxury tax; ready-to-drink spirits product

SPONSOR: Gowan

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STATUS: As Introduced

Description

As introduced, SB 1812 would 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. The Department of Revenue (DOR) currently taxes these RTD beverages as "spiritous liquor" at a rate of \$3.00 per gallon.

Estimated Impact

We estimate that the bill would reduce luxury tax revenues by \$(3.9) million annually beginning in FY 2027. Of this amount, the revenue loss would be as follows: \$(1.6) million to the General Fund, \$(1.6) million from the Corrections Fund, \$(0.5) million from the Drug Treatment and Education Fund, and \$(0.2) million from the Corrections Revolving Fund.

The Department of Liquor Licenses and Control has not yet provided an estimate of any costs or revenues to the agency that they expect as a result of this bill.

Analysis

Our estimate is based on the following data sources and assumptions:

- 1) The Wine and Spirits Wholesalers of America report that the spirits-based RTD beverage market had sales totaling \$2.72 billion in the 12-month period from July 2024 – June 2025. Assuming Arizona's RTD beverage market is 2.2% of the national market, which is proportional to its share of the national population, this puts the size of the market at \$59.8 million per year [= \$2.72 billion x 2.2%].
- 2) The International Wine and Spirits Record has conducted research suggesting that in 2024, 69% of RTD beverage sales volume consisted of 12-ounce cans. The definition of RTD spirits products in SB 1812 contains an upper limit of 16 ounces per container, so we assume that the remaining 31% of products are sold in packaging too large to qualify for the new luxury tax category. Multiplying the market size estimate by the proportion of products sold in 12-ounce cans results in our estimate of the RTD beverage tax base in Arizona, which is \$41.3 million [= \$59.8 million x 69%].
- 3) 12-packs of 12-ounce cans are typically priced at around \$16 to \$20 in Arizona, so we estimate an average retail price of \$18 per 12-pack, or \$16 per gallon for RTD beverages in single-serving containers. Dividing the average retail price of \$16 per gallon from our projected sales base of \$41.3 million yields an estimated RTD beverage sales volume subject to the tax rate under the bill of 2.58 million gallons per year in Arizona [= \$41.3 million / \$16/gallon].
- 4) Under current law, DOR taxes RTD beverages at \$3.00 per gallon, the rate charged for spirituous liquor, so 2.58 million gallons currently generates \$7.8 million in luxury tax revenues. Taxes assessed against spirituous beverage sales (including RTDs) are currently distributed among four funds 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.
- 5) Under SB 1812, RTD beverages would no longer be included under the spirituous liquor luxury tax category, so the distribution noted in #4 would be reduced in total by \$(7.8) million as follows: \$(5.5) million from the General Fund, \$(1.6) million from the Corrections Fund, \$(0.5) million from the Drug Treatment and Education Fund, and \$(0.2) million from the Corrections Revolving Fund.
- 6) SB 1812 does not include a formula for distributing revenues collected under the new RTD beverage category, so all those revenues would be deposited into the General Fund. Under SB 1812, the same 2.58 million gallons would be taxed at \$1.50 per gallon and would generate \$3.9 million in General Fund revenues under the new RTD beverage category.
- 7) Combining #5 and #6, the net result is an overall luxury tax revenue loss of \$(3.9) million, distributed as follows: \$(1.6) million to the General Fund, \$(1.6) million from the Corrections Fund, \$(0.5) million from the Drug Treatment and Education Fund, and \$(0.2) million from the Corrections Revolving Fund.