



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 4, 2019

Honorable Brett Harrell
Chairman, House Ways and Means
133 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 44 1031)

Dear Chairman Harrell:

The bill would replace the current state and local excise taxes on most alcoholic beverages¹ with new statewide, uniform rates. The new rates would be 8¢ per 12 ounces for malt beverages, \$2.34 per liter on distilled spirits, and 36¢ per liter on wine. A portion of the revenue would be distributed to local governments each quarter, based on each governments' share of the total revenues raised through alcohol excise taxes during calendar year 2018. No effective date is given in the bill, though it was assumed to be July 1, 2019 for the purposes of the fiscal note.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would increase both state and local revenue (Table 1). Depending on the consumption, state revenue is estimated to increase \$4.5 million to \$8.4 million in fiscal year 2020, with the revenue gain increasing slightly in subsequent years. Local revenue is estimated to increase by \$8.7 million to \$11.2 million in fiscal year 2020 and also increase in later years. The attached appendix details the analysis.

Table 1. Projected Revenue Changes under LC 44 1031

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
High Consumption Estimate					
State Revenue	\$8.4	\$8.6	\$8.8	\$9.0	\$9.1
Local Revenue	\$11.2	\$12.5	\$13.9	\$15.3	\$16.8
Low Consumption Estimate					
State Revenue	\$4.5	\$4.6	\$4.7	\$4.8	\$4.8
Local Revenue	\$8.7	\$10.0	\$11.3	\$12.7	\$14.1

¹ Local mixed drink taxes, and state and local alcohol license fees are not affected by the bill.

Impact on State Expenditures

The bill would significantly alter the current method of alcoholic beverage excise tax collection, with the Department of Revenue (DOR) becoming responsible for the collection and remittance of local taxes for the first time. DOR estimated that the bill would result in annual costs of \$1.53 million and one-time costs of \$566,000.

- Annual Costs – Most annual costs are associated with additional personnel in the Alcohol and Tobacco Division (ATD) and the Taxpayer Services Division (TSD). ATD would hire 17 additional personnel (auditors, criminal investigators, and tax examiners) due to the increased workload, primarily associated with the responsibility for local excise tax collections. TSD would hire four additional staff who would largely be responsible for ensuring that the information system properly distributes local excise tax revenue.
- One-time Costs – The one-time costs include \$284,000 for changes to DOR’s Integrated Tax System and Georgia Tax Center information systems, and \$255,000 for expenses related to the new hires (supplies, equipment, etc.). Other one-time expenses include updating forms, updating the website, training, and regulation writing and publishing.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

Analysis by the Fiscal Research Center

State Accounting Office (SAO) data indicates that state taxes on beer, wine, and distilled spirits raised \$195.7 million in tax revenue in FY 2018 and that has been growing at an annual rate of 2.02 percent since 2008. U.S. Census Government Finance Statistics (Census) data indicates that local taxes on alcohol in Georgia raised \$139.7 million in tax revenue in FY 2016 (inclusive of mixed drink taxes) and that has been growing at 1.12 percent annually since 2007. These baseline trends are assumed to continue in the absence of this bill. Comparing these two data sources and backing out mixed drink taxes from the local number (based on reporting from the Dept. of Community Affairs, which indicated that mixed drink taxes account for about 15.2% of local alcohol taxes), the share of local revenues to total state plus local revenues has averaged 38.7 percent over the five most recent years available.

Malt beverages are taxed at 4.5¢ per 12 once can or bottle with a proportional tax for cans and bottles of different sizes. Draft beer is taxed at \$10 per 31-gallon keg and proportionally on containers of different sizes. In FY 2018, these taxes on malt beverages raised \$86.9 million in state revenue. Based on data from the Alcohol Tax and Trade Bureau (ATTB) on sales of beer by container size in Georgia, it is estimated that this revenue represents a tax base of 1.81 billion 12-ounce units of malt beverages, including hard cider.

Distilled spirits are taxed at 50¢ per liter and an additional 50¢ per liter for imported (in this context meaning from out of state) spirits. Purified alcohol is taxed at 70¢ per liter and an additional 70¢ per liter for imported alcohol. In FY 2018, these taxes on spirits raised \$67.3 million. Based on data from the Georgia Distillers Association and the ATTB on the amounts of distilled spirits and purified alcohol produced and sold, respectively, in Georgia, it is estimated that this revenue represents a FY 2018 tax base of between 68 and 69.4 million liters of distilled spirits and alcohol.

Table wine (14 percent or less alcohol by volume) is taxed at 11¢ per liter and an additional 29¢ per liter for imported table wine. Dessert wine (above 14 percent alcohol) is taxed at 27¢ per liter and an additional 40¢ for imported dessert wine. In FY 2018, these taxes on wine raised \$41.5 million in state revenue. Based on data from the ATTB on the amounts and types of wine produced and sold in Georgia, it is estimated that this revenue represents a FY 2018 tax base of between 106.4 and 115.4 million liters of wine.

The high and low estimates for state and local revenue effects are thus based on the following assumptions:

- The local share of total revenues raised through alcohol taxes in CY 2018 is estimated to be 38.7 percent.
- Total statewide revenues from alcohol excise taxes under current law as well as under LC 44 1031 are assumed to grow at 2.02 percent annually through FY 2024.
- Local alcohol taxes under the current law baseline are assumed to grow at 1.12 percent per year based on its current trend.
- Based on the estimate of 1.81 billion 12-ounce units of malt beverages and the estimated ranges of volumes of distilled spirits (68-69.4 million liters) and wine (106.4-115.4 million

liters), it is estimated that if in place in FY 2018, the proposed taxes would have generated between \$342.3 and \$348.8 million dollars for that year.

This base year range is projected forward at the state revenue growth rate noted above to produce the proforma revenue estimates in Table 3 below. Table 2 shows the projected baseline revenues. The differences, the estimated net revenue effects of the bill, are reported in Table 1.

Table 2. Baseline State and Local Alcohol Tax Revenue Estimates

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
State	\$205.4	\$209.5	\$213.8	\$218.1	\$222.5
Local (net of mixed drink taxes)	\$123.8	\$125.2	\$126.6	\$128.0	\$129.5

Table 3. Proforma State and Local Alcohol Tax Revenue Estimates

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
High Initial Volume					
State Revenues	\$213.8	\$218.2	\$222.6	\$227.1	\$231.7
Local Revenues	\$135.0	\$137.7	\$140.5	\$143.4	\$146.2
Low Initial Volume					
State Revenues	\$209.9	\$214.1	\$218.4	\$222.9	\$227.4
Local Revenues	\$132.5	\$135.2	\$137.9	\$140.7	\$143.5