BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 19, 2025

Bill: SB-378 **Sponsor:** Senators William E. Sharer and Micaelita Debbie O'Malley

Short Title: Liquor Tax Rates

Description: This bill increases by 20% the rates of liquor excise tax to the following:

- from $1.60 per liter to $1.92 per liter on spirituous liquors
- from $.41 per gallon to $.49 per gallon on beer
- from $.45 per liter to $.54 per liter on wine
- from $1.50 per liter to $1.80 per liter on fortified wine
- from $.41 per gallon to $.49 per gallon on cider

Tax rates on microbrewers and small winegrower products are unchanged.

Effective Date: July 1, 2025

Taxation and Revenue Department Analyst: Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	**FY2026**	**FY2027**	**FY2028**	**FY2029**		
--	$3,840	$3,680	$3,550	$3,420	R	Local DWI Grant Fund
--	$0	$0	$0	$0	R	Municipality – Class A County (Farmington)
--	$430	$410	$390	$380	R	Drug Court Fund
--	$4,560	$4,370	$4,220	$4,070	R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The Taxation and Revenue Department (Tax & Rev) used the Liquor Excise Tax forecast from the Consensus Revenue Estimating Group (CREG) in December 2024 to estimate the revenue impact of the proposed tax increases. The Liquor Excise Tax covers a variety of products. The bill proposes tax increases to most categories, with the exception of microbrewer and small winegrower products. Tax & Rev applied different demand elasticities to the products. Based on a meta-analysis study of the impact of price and tax levels on drinking and income elasticities by Wagenaar, Salois and Komro[1], Tax & Rev assumes a price elasticity of -0.11 for beer, -0.19 for wine and for -0.20 for distilled spirits. Tax & Rev also assumes that wholesalers pass the tax on to retailers and consumers at a rate of 1.5 times the tax, based on the Wagenaar, Salois and Komro study. After the initial consumption change from the rate increases, Tax & Rev assumes an average annual growth by liquor product from the last 10-years, removing the growth rates from FY21 and FY22 due to changes in consumption attributable to the COVID-19 pandemic.

The tax increases per product are modest. The initial drop in liquor consumption resulting from higher prices could be lower than what is modeled, increasing positive revenue impacts forecasted to the various

[1] Wagenaar Alexander C., Salois, Matthew J., Komro, Kelli A. (2009). Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies. Journal, *Addiction*, 104, 179-190; doi:10.1111/j 1 360-0443.2008.02438.x

funds. Also, if the purchase of liquor products for consumption moves to neighboring states or to online purchasing (see Policy Issues below), then the assumed drop in liquor purchases in state could be higher still or the growth lower in the out years. A study by Ornstein and Levy[2] notes no strong evidence of substitutable products for either beer, wine or distilled spirits. Tax & Rev makes no assumption of changes in consumption patterns between liquor products.

Policy Issues: The taxing nationwide of liquor products through an excise tax occurs at many different government levels: federal, state and local, and at differing points of the supply chain: manufacturer, wholesaler and retailer. Tax rates tend to differ based on the alcohol content of the liquor category. Like other states, New Mexico taxes spirituous liquors at a higher rate than wine and beer as then contain a higher alcohol content. Similarly, wine is taxed higher than beer. Like many other states as well, the tax is based on the volume of liquor sold, not on the value of the product. New Mexico's liquor excise tax is imposed on wholesalers and on average currently brings in $50 million in revenue annually with half of the revenue distributed to the general fund.

The rate increases by each liquor product are relatively modest for the final consumer, but as relayed in Table 1, New Mexico would move up several rankings for each category amongst neighboring states. New Mexico was already at a higher ranking compared to most of its neighboring states and thus the increase in rates may drive some of the purchasing of products to neighboring states with lower tax rates or to online retail purchasing.

Table 1: State Rankings by state level liquor excise taxes [3]

Liquor Category	New Mexico - Proposed Rates	New Mexico - Current Rates	Surrounding States				
			Arizona	Utah	Colorado	Oklahoma	Texas
Beer [1]	9	14	36	13	46	15	31
Spirits [1]	22	24	43	6	47	27	46
Wine [2]	4	5	26	*	40	29	44

Source: Tax Foundation, Tax & Rev calculations

Notes: 1. As of January 1, 2024; 2. As of January 1, 2021; 3. Comparable state ratings based on dollars per gallon, include local rates, state-controls, differing rates by alcohol content.

* Utah is one of five states where the government controls sales of wine.

Alcohol and substance abuse are among the costliest health problems in the United States. Studies have shown that public investment reduces alcohol and substance abuse and delays abuse initiation at young ages. While liquor demand is generally inelastic, meaning that a price increase due to taxes will result in a relatively small decrease in the quantity of liquor demanded by consumers, raising taxes can still generate significant revenue for governments while potentially reducing overall alcohol consumption. Increasing excise taxation of alcoholic beverages is considered optimal in alcohol control policy as increasing taxation has proven to be an effective and cost-efficient method for reducing social and health alcohol-related harms. In addition to lowering attributable harm, there are economic reasons for implementing excise taxation on alcohol. These reasons include generating revenue and paying for negative externalities associated with alcohol consumption. Many studies have found that increases in alcohol taxation are related to reductions in alcohol consumption, even after accounting for the extent to which the tax increase is passed on to the consumer through the retail price.

However, the impact of tax changes on tax revenue has different nuances. On the one hand, a higher

[2] Ornstein, S.I., Levy, D. (1983). Price and Income Elasticities of Demand for Alcoholic Beverages. In: , et al. Genetics Behavioral Treatment Social Mediators and Prevention Current Concepts in Diagnosis. Recent Developments in Alcoholism, vol 1. Springer, Boston, MA. https://doi.org/10.1007/978-1-4613-3617-4_18

effective tax structure might not only reduce alcohol consumption but also increase revenue. Yet, on the other hand, it may be argued that tax increases not only increase prices and reduce consumption but also could result in decreased tax revenue as well as increased unrecorded alcohol consumption and out-of-state sales.

Because the liquor excise tax is imposed as a set dollar amount per volume of liquor at wholesale, the value of the tax erodes over time as a result of inflation. The tax rates currently imposed on liquor were last changed in 1994 (Laws 1994, Chapter 65, Section 8). Tax & Rev estimates that inflation has totaled 114% in the 31 years since these tax rates were last adjusted. In light of that, the 20% increase proposed in this bill can be seen as adjusting the tax rates much less than inflation that has occurred since 1994.

Technical Issues: None.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will conduct staff training, update forms, instructions, and publications.

This bill will have a low impact on Tax & Rev's Information Technology Division (ITD), approximately 220 hours or just over 1 month and $14,611 in staff workload costs.

If several bills with similar effective dates become law, there will be a greater impact to ITD, and additional staff workload costs or contract resources may be needed to complete the changes specified by the effective date(s) of each bill.

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2025	**FY2026**	**FY2027**	**3 Year Total Cost**		
$14.6	--	--	$14.6	NR	ITD – Staff workload

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: Conflicts with HB-417/SB-431