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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/30/08

SPONSOR Vigil LAST UPDATED \_\_\_\_\_ HB 357

SHORT TITLE Increase Liquor Excise Tax SB \_\_\_\_\_

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	57,646.0	57,646.0	Recurring	General Fund
	40,895.0	40,895.0	Recurring	Local DWI Grant Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)

### SUMMARY

#### Synopsis of Bill

House Bill 357 proposes to significantly increase the excise tax on spirits, beer and wine as follows:

	Current Law	HB357	Unit
Spiritous Liquors	\$ 1.60	\$ 4.98	Liter
Beer (except microbrew)	0.41	1.85	Gallon
Wine	0.45	1.46	Liter
Fortified wine	1.50	2.77	Liter

The new rates will go into effect on July 1, 2008.

### FISCAL IMPLICATIONS

DFA compiled data from Taxation and Revenue Department and, using an elasticity function which measures how the demand of beer, wine, or spirits changes with changes in price. The conclusion was that the increases in the excise taxes would lead to a significant reduction in

quantity demanded. In the case of spirits the quantity demanded falls by 25 percent. However, the fall in demand does not offset the revenue generated by the new tax rates and the net fiscal impact is an increase in revenue of \$98 million, \$57.6 million of which goes to the general fund and \$40.9 million goes to the DWI Grant Fund, all of which would be distributed to the counties based for DWI programs.

**Excise Tax Collections Under Proposed Law (HB357)**

	Beer	Wine	Spirits	TOTAL
	gallon	liter	liter	
Retail Price	8.4	6	20	
Price Minus Excise	8	5.6	18.4	
Current Excise	0.41	0.45	1.6	
Consumption (000)	49,125	14,191	10,217	
Taxes Collected (000 \$)	20,141	6,386	16,347	<b>42,874</b>
Proposed Excise	1.85	1.46	4.98	
New price	9.8064	7.0328	23.38	
Elasticities (Leung and Phelps)	-0.3	-1	-1.5	
Percentage Increase in Price	17%	17%	17%	
Percentage Decrease in Consumption	-5.20%	-16.80%	-25.40%	
New Consumption (000)	46,588	11,811	7,627	
Taxes Collected (000\$)	86,189	17,244	37,982	<b>141,415</b>

DFA and TRD Calculations

**SIGNIFICANT ISSUES**

New Mexico is already higher than the US median in terms of excise taxes on liquor. HB357 would push the state to the top with the highest taxes, above Alaska.

As the DFA analysis shows, these changes would have an impact both on revenues and on consumption. However, there may be an incentive to order wine from other states or go to neighboring states for purchasing liquor. Alternatively, it could be a boon for the microbrew, cider and small winery business as consumers substitute consumption of the higher taxed liquids for the lower taxed ones.

NF/mt