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Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 02/16/09

SPONSOR Vigil LAST UPDATED _____ HB 528

SHORT TITLE Increase Liquor Excise Tax SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$58,300.0	\$59,000.0	Recurring	General Fund
	\$41,400.0	\$41,900.0	Recurring	Local DWI

(Parenthesis () Indicate Revenue Decreases)

Relates to HB78 & HB57

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 528 increases the liquor excise tax on spirituous liquor, beer (except from microbreweries), wine (except from small and NM wineries), and fortified wine as follows:

<u>Liquor</u>	<u>Current Law</u>	<u>HB528</u>
Beer (per gallon)	\$0.41	\$1.85
Micro Beer (per gallon)	\$0.08	\$0.08
Cider (per gallon)	\$0.41	\$0.41
Spirituous Liquor (per liter)	\$1.60	\$4.98
Wine (per liter)	\$0.45	\$1.46
Fortified Wine (per liter)	\$1.50	\$2.77
Sm. Winery (per liter)	\$0.10	\$0.10
Sm. Winery (per liter)	\$0.20	\$0.20

The new rates will be effective July 1, 2009.

FISCAL IMPLICATIONS

The fiscal impact was calculated using elasticities described below in “Significant Issues.” For FY11 and future years a growth rate of 1.28 percent was used.

Fiscal Impact of HB528 in FY10

\$Millions

Liquor	Current Tax Revenue	HB528 Revenue
Beer (per gallon)	20.6	88.0
Spirituos Liquor (per liter)	17.4	38.8
Wine (per liter)	6.3	17.0
Fortified Wine (per liter)	0.2	0.2
	44.4	144.1
Fiscal Impact		99.7
GF		58.3
Local DWI		41.4

SIGNIFICANT ISSUES

Liquor demand is responsive to price changes and it is important to recognize what when prices go up, demand will go down, affecting the fiscal impact. This is called the elasticity of demand. Below is a table from TRD outlining the elasticities for the types of liquor that are affected by HB528. The price for beer, for example, went from \$8.40 per gallon to \$9.84, a 17 percent increase in price, with the new excise tax rate. This price increase will depress demand for beer by 5.1 percent.

	<u>Beer</u>	<u>Wine</u>	<u>Spirits</u>
Current Retail Price	\$8.40	\$6.00	\$18.00
Price without tax	\$7.99	\$5.55	\$6.40
Current Tax Rate	\$0.41	\$0.45	\$1.60
Proposed Tax Rate	\$1.85	\$1.46	\$4.98
Percent Tax Increase	351%	224%	211%
Price Increase	17.10%	16.80%	18.80%
Price Elasticity	-0.3	-1	-1.5
Consumption Change	-5.10%	-16.80%	-28.20%

Source: TRD

TRD has raised some other issues:

- Research indicates that it is the volume of pure alcohol consumed that imposes most of the costs to society and personal health, rather than the type of beverage chosen as the delivery vehicle for that alcohol. To reflect these costs in the taxes on alcoholic beverages, tax rates would be based on “alcohol equivalencies”. The current tax rate structure is not based on “alcohol equivalency”, with the alcohol in beer taxed much less heavily than the alcohol in spirits.
- The proposed tax rate increase in this bill, when viewed as a percentage increase in tax, is lowest on spirits (211%) and highest on beer (351%). This approach would tend to rates more closely related to “alcohol equivalency”.
- The bill does not propose an increase in the liquor excise tax for small wine growers and small brewers, which would increase their tax advantage significantly. This tax advantage would create an incentive to buy bulk precursors to wine and then create the finished product in quantities small enough to qualify for the small winery low excise rates.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB 78, which changes the way flavored malt beverages are taxed, HB 36, which bans flavored malt beverages, and HB57, which imposes a local surtax.

NF/svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** revenue should be adequate to fund government services.
2. ***Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
3. ***Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
4. ***Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
5. ***Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc