

## Liquor Profits

### Revenue Description

The Department of Revenue (DOR) is the only liquor wholesaler in the state of Montana. The profits from sales to retail establishments are deposited in the general fund.

### Statutory Reference

Tax Rate – Authority to markup [16-1-404\(2\), MCA](#) and rate of markup [ARM 42.11.104](#)

Tax Distribution – [16-2-108\(4\), MCA](#)

Date Due – N/A

### Applicable Tax Rates

Liquor profits received by the state are primarily generated by a mark-up on the sale of liquor and fortified wine, less costs such as commissions and discounts. A 40% mark-up is added to the state's base cost for liquor. The state's mark-up percentage on the base cost of fortified wine (more than 16% but no greater than 24% alcohol by volume) is 51%.

**Collection Frequency:** Payment for liquor purchases is due within 60 days of the invoice date and revenue is deposited into an enterprise fund.

**Distribution:** Liquor profits are deposited in the general fund annually.

### Comparison of Legislative and Executive Forecasts

There are no material differences between the legislative and executive branch forecasts.

| Liquor Profits<br>(\$ Millions) |          |           |           |           |
|---------------------------------|----------|-----------|-----------|-----------|
|                                 | FY 2015  | FY 2016   | FY 2017   | Total     |
| Executive Forecast              | \$10.790 | \$11.010  | \$11.180  | \$32.980  |
| Legislative Forecast            | 10.744   | 11.184    | 11.618    | 33.545    |
| Difference                      | \$0.046  | (\$0.174) | (\$0.438) | (\$0.565) |
| % Difference                    | 0.4%     | -1.6%     | -3.8%     | -1.7%     |

### Forecast Risks

- Change in rate of CPI growth
- Departure of sales growth from historic trends

### Revenue Estimate Methodology

#### Data

The liquor profits estimate is based on data obtained from DOR, SABHRS, IBARS, and HIS. Details on number of units sold, and average cost per unit are provided by DOR; fiscal year tax collections are from SABHRS; the present law operational budget for the DOR liquor division is from IBARS; forecasts for independent economic variables are produced by IHS. IHS data provide regressors to model the average cost per unit of alcohol.

#### Analysis

Gross liquor profits are calculated by multiplying the average cost per unit by the number of units sold. The average cost per unit is forecast with a regression model using the independent, IHS-provided values for national CPI. Additionally, the model employs the previous year's average cost per unit as an auto-regressive component. The number of units sold is modeled with an annual linear time trend.

## Consumption Taxes

## Liquor Profits

Net profits are calculated by reducing the gross profits by excise and license tax amounts, discounts, cost of goods sold, and the division's operating budget.

### Revenue Estimate Assumptions

| FY     | GF Profit<br>\$ Millions | Gross<br>Revenue<br>\$ Millions | Business<br>Costs<br>\$ Millions | License &<br>Excise Taxes<br>\$ Millions | Effective<br>Cost/Unit | Unit Sales<br>(Millions) | Annual<br>% Change<br>CPI |
|--------|--------------------------|---------------------------------|----------------------------------|--|------------------------|--------------------------|---------------------------|
| A 2002 | \$5.600                  | \$62.515                        | \$43.554                         | \$12.898                                 | \$10.553               | 5.280                    | 1.8%                      |
| A 2003 | 6.000                    | 66.124                          | 46.238                           | 13.643                                   | 10.689                 | 5.491                    | 2.2%                      |
| A 2004 | 6.500                    | 70.823                          | 49.605                           | 14.614                                   | 10.838                 | 5.781                    | 2.2%                      |
| A 2005 | 6.650                    | 75.687                          | 53.408                           | 15.616                                   | 11.036                 | 6.028                    | 3.0%                      |
| A 2006 | 7.450                    | 83.913                          | 59.146                           | 17.310                                   | 11.456                 | 6.439                    | 3.8%                      |
| A 2007 | 8.200                    | 92.302                          | 65.009                           | 19.039                                   | 11.908                 | 6.816                    | 2.6%                      |
| A 2008 | 8.775                    | 98.595                          | 69.486                           | 20.333                                   | 12.196                 | 7.091                    | 3.7%                      |
| A 2009 | 7.250                    | 102.340                         | 73.657                           | 21.107                                   | 12.263                 | 7.322                    | 1.4%                      |
| A 2010 | 9.000                    | 102.734                         | 72.293                           | 21.159                                   | 12.154                 | 7.414                    | 1.0%                      |
| A 2011 | 9.000                    | 106.068                         | 74.517                           | 21.792                                   | 12.119                 | 7.670                    | 2.0%                      |
| A 2012 | 9.500                    | 113.386                         | 80.690                           | 23.223                                   | 12.284                 | 8.090                    | 2.9%                      |
| A 2013 | 10.500                   | 119.044                         | 84.502                           | 24.161                                   | 12.557                 | 8.042                    | 1.7%                      |
| A 2014 | 10.500                   | 122.063                         | 87.946                           | 25.123                                   | 12.635                 | 8.468                    | 1.6%                      |
| F 2015 | 10.744                   | 126.167                         | 91.628                           | 26.035                                   | 12.678                 | 8.724                    | 1.2%                      |
| F 2016 | 11.184                   | 130.357                         | 94.514                           | 26.899                                   | 12.727                 | 8.979                    | 1.3%                      |
| F 2017 | 11.618                   | 135.160                         | 97.891                           | 27.890                                   | 12.831                 | 9.234                    | 1.8%                      |

### Revenue Projection

