

Legislative Fiscal Division

Revenue Estimate Profile

Liquor Profits

Revenue Description: The Department of Revenue (DOR) is authorized to sell liquor and fortified wine to retail liquor establishments throughout the state. These sales result in profits that are deposited in the general fund. Tax revenues generated from liquor excise and license taxes, as well as wine taxes, are estimated separately.

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. House Bill 348 enacted by the 2001 Legislature phased-in liquor store commission increases based on sales volume over a three-year period beginning FY 2003. 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%. The mark-up percentage for both liquor and wine is determined by administrative rule (see ARM 42.11.104).

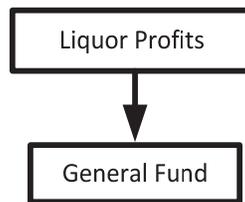
Statutory Reference:

- Tax Rate – Authority to markup the price is found in 16-1-404(2) and ARM 42.11.104
- Tax Distribution (MCA) – 16-2-108(4)
- Date Due – NA

Applicable Tax Rate(s): N/A

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

Distribution Chart:



Summary of Legislative Action:

House Bill 402 – This bill creates a direct shipment endorsement for wineries licensed or registered in Montana, which allows the winery to sell and ship up to 18 9-liter cases of wine annually to an individual for personal use. The bill also eliminates the wine, and combined beer and wine connoisseur's license.

House Bill 524 – This legislation eliminates the requirement that a retail licensee selling beer or wine for off-premise consumption be operated as a bona fide grocery store or a drugstore licensed as a pharmacy. It allows any entity that receives approval from local building, health, or fire officials to be licensed to sell beer or wine for off-premise consumption.

Liquor Profits – Legislation Passed by 63rd Legislature			
General Fund Impact (\$ Millions)			
Bill Number and Short Title	FY 2013	FY 2014	FY 2015
HB0402 License and regulate wineries selling and shipping wine directly to MT consumers	\$0.000	(\$0.008)	\$0.017
HB0524 Removing grocery, pharmacy requirement on off-premises beer, wine license	0.000	0.103	0.141
Total General Fund Impact	\$0.000	\$0.095	\$0.158

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

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% of Total General Fund Revenue:

FY 2004 – 0.47%	FY 2007 – 0.45%	FY 2010 – 0.55%
FY 2005 – 0.43%	FY 2008 – 0.45%	FY 2011 – 0.50%
FY 2006 – 0.44%	FY 2009 – 0.40%	FY 2012 – 0.51%

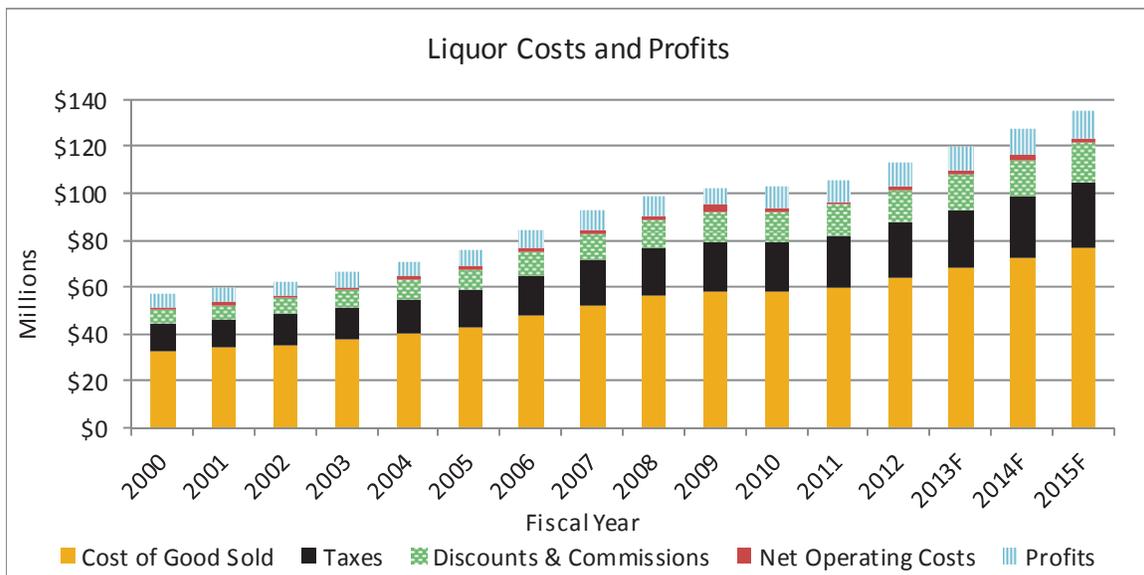
Revenue Estimate Methodology:

Data

The liquor profits estimate is based on data obtained from DOR, the state budget system (MBARS), and the state accounting system (SABHRS). DOR provides monthly historical data for the total liquor sales, the number of units of liquor sold, and the average price for each unit of liquor. MBARS provides the present law operational budget for the DOR liquor division. SABHRS data provides a historic breakout of liquor expenses and is used as a comparison to check the adequacy of the estimate.

Analysis

As seen in the figure below, the profits have historically been a small part of the total liquor sales. This is assumed to continue in the three forecast years.



The starting point in estimating liquor profits is the gross sales of liquor. The steps in determining the liquor profits are as follows:

- Determine units
- Determine total sales value (units × price per unit)
- Determine costs of goods sold (units × cost per unit)
- Calculate discounts and commissions
- Obtain operating budgets
- Calculate taxes

Liquor profits are estimated by reducing total tax included liquor sales (for the methodology of total liquor sales, see the “Liquor Excise and License Tax” revenue section) by all the costs of doing business. For the purpose of estimating liquor profits, the cost of doing business includes the cost of the goods sold (cost of liquor and transportation), the taxes (excise and license), discounts and commissions, and net operating costs (program administration). These costs historically represent slightly more than 90% of the total cost of a unit of liquor. When costs are subtracted from total sales, the resulting amount is the estimate for liquor profits.

Forecast Methodology:



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Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in Senate Joint Resolution 2. It does not reflect changes, if any, enacted by the 2013 Legislature that may affect future estimates of this revenue source.

	t	GF Profit	Gross Sales + Taxes	Excise License Tax	Discount Commission	Cost of Goods	Operation Costs	Other Income
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	5.600	62.515	12.898	6.797	35.279	1.478	0.008
Actual	2003	6.000	66.124	13.643	7.433	37.321	1.485	0.008
Actual	2004	6.500	70.828	14.614	8.165	39.933	1.507	0.010
Actual	2005	6.650	75.687	15.616	9.162	42.693	1.553	0.000
Actual	2006	7.450	83.916	17.310	10.148	47.307	1.692	0.000
Actual	2007	8.200	92.301	19.039	11.131	52.142	1.736	0.000
Actual	2008	8.775	98.595	20.333	12.114	55.688	1.683	0.000
Actual	2009	7.250	102.342	21.107	12.558	57.704	3.396	-0.012
Actual	2010	9.000	102.734	21.159	12.617	57.881	1.796	-0.010
Actual	2011	9.000	106.087	21.792	13.112	59.761	1.643	-0.007
Actual	2012	9.500	113.383	23.223	14.013	63.924	1.923	-0.009
Forecast	2013	10.604	120.121	24.787	14.845	67.954	1.923	-0.009
Forecast	2014	10.985	127.236	26.255	15.725	72.160	2.103	-0.009
Forecast	2015	11.602	134.787	27.813	16.658	76.637	2.069	-0.009

GF Profits = Gross Sales - Excise/License Tax - Discount/Commission - Cost of Goods
- Operation Costs + Other

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Revenue Projection:

