

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.

Summary of Legislative Action

[House Bill 506](#) – This bill allows a distillery that produces less than 25,000 gallons of product annually to deliver its product directly to an agency liquor store. It also requires the department to create an electronic reporting system for distilleries to record their deliveries. Both of these revenue effects will decrease transfers from the Liquor Enterprise Fund to the general fund.

Liquor Profits – Legislation Passed by 64th Legislature General Fund Impact (\$ Millions)			
Bill Number and Short Title	FY 2015	FY 2016	FY 2017
HB0506 Allowing microdistilleries to deliver products directly to agency liquor stores	-	(\$0.122)	\$0.005
Total General Fund Impact	-	(\$0.015)	\$0.061

Revenue Estimate Methodology

Data

The liquor profits estimate is based on data obtained from DOR, SABHRS, IBARS, and IHS. 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.

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

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2015 Legislature.

FY	GF Profit \$ Millions	Gross Revenue \$ Millions	Business Costs \$ Millions	License & Excise Taxes \$ Millions	Effective Cost/Unit	Unit Sales (Millions)	Annual % Change 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	10.663	125.269	90.997	25.849	12.588	8.724	0.4%
F 2016	11.035	128.717	93.360	26.561	12.566	8.979	0.6%
F 2017	11.530	134.191	97.210	27.690	12.739	9.234	2.5%

Revenue Projection

