
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).

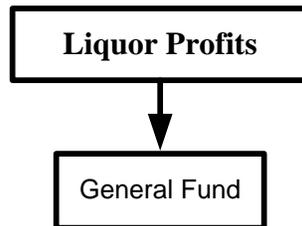
Statutory Reference:

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:



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

% 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.

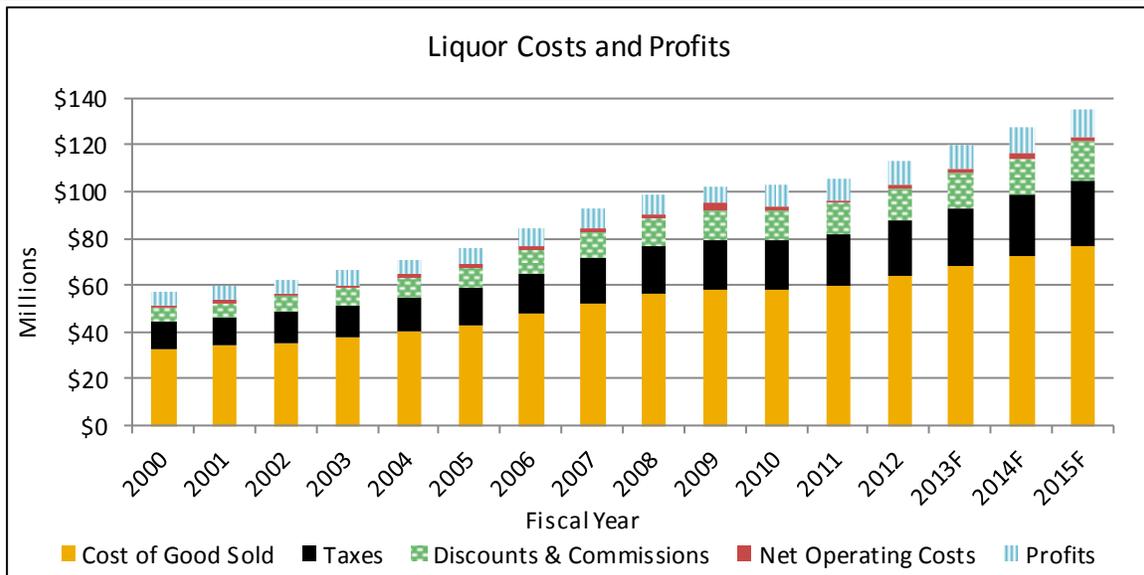
Analysis

As seen in the figure below, the profits are a small part of the total liquor sales. Since FY 2000, profits have averaged about 9.2% of total tax included liquor sales. In the forecast period, profits are expected to be approximately 8.7% of total tax included sales.

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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 91.1% of the cost of a unit of liquor. When costs are subtracted from total sales, the resulting amount is the estimate for liquor profits.

Forecast Methodology:

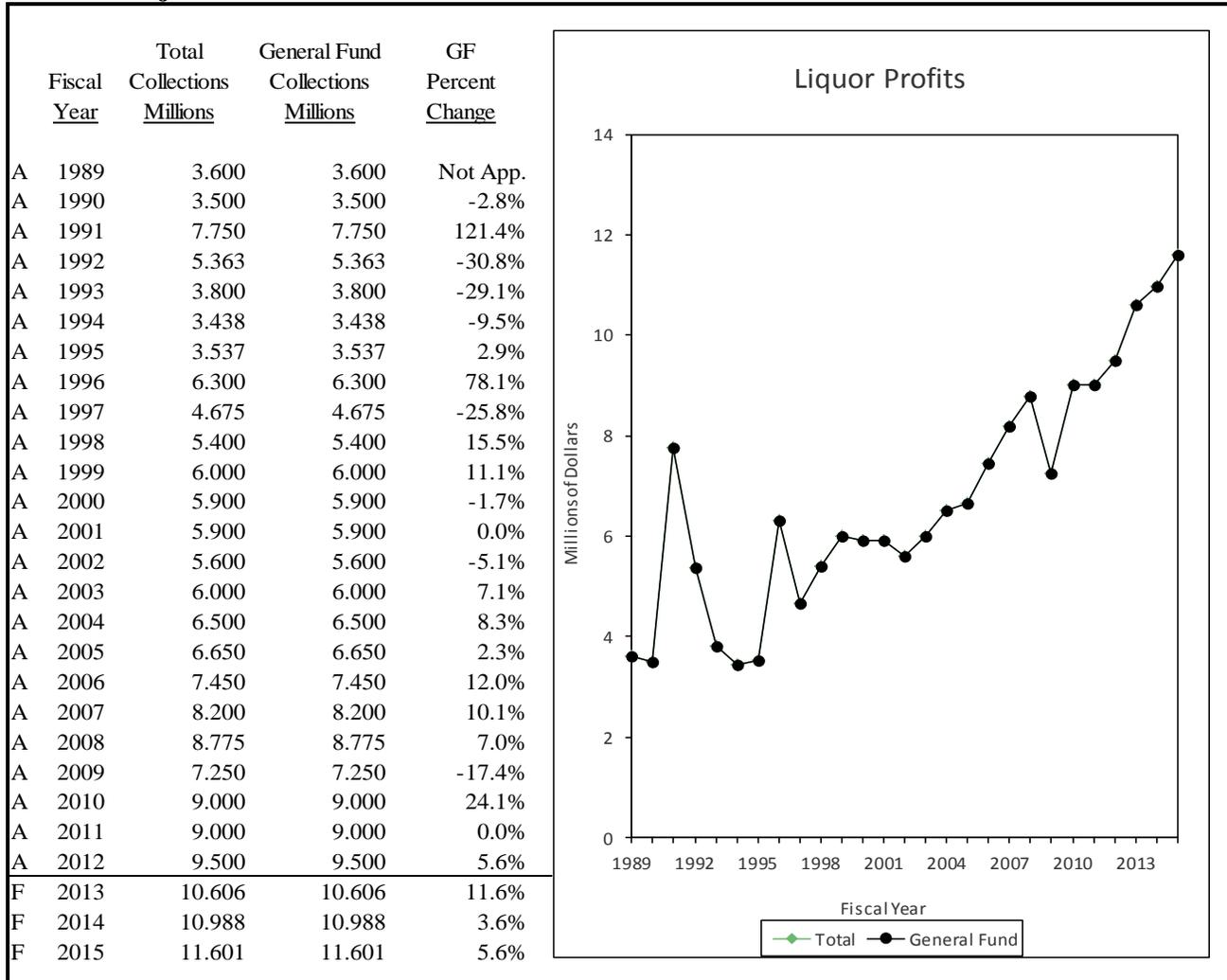


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Revenue Projection:



Data Source(s): SABHRS, MBARS, Department of Revenue

Contacts: Department of Revenue