

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 654 - HB 1285

March 18, 2017

SUMMARY OF BILL: Authorizes distilleries to file for an exemption from the wholesale liquor tax on any products fermented and distilled using 51 percent or more agricultural products grown in Tennessee. Authorizes distilleries to sell its distilled products for on premise consumption.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact – Exceeds \$7,600

Increase Local Revenue – Exceeds \$13,500/Permissive
Decrease Local Revenue – \$2,400/Mandatory

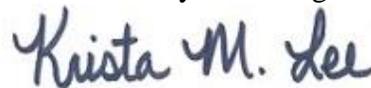
Assumptions:

- According to the Department of Revenue (DOR), total FY15-16 wholesale liquor tax paid by distilleries was \$23,851.
- The portion of products made with 51 percent or more agricultural products grown in Tennessee is not known.
- Approximately half of distilleries are currently or will be using 51 percent agricultural products grown in Tennessee.
- There will be a recurring decrease in wholesale liquor tax collections of \$11,926 (\$23,851 x 50%) distributed as follows: \$9,500 General Fund and a mandatory recurring decrease in local government revenue estimated to be \$2,426.
- The Alcoholic Beverage Commission will not receive any additional licensing fees.
- No additional personnel or resources will be required by the ABC.
- According to ABC, distilleries are not currently licensed for on premise consumption.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.

- Based on taxpayer information provided by the DOR, the average annual taxable base per distillery is estimated to be \$30,000.
- According to DOR, there are currently eight licensed distillery taxpayers in Tennessee. It is reasonably assumed that at least four will choose to serve their manufactured alcohol for on premise consumption.
- Local privilege tax is estimated to be \$1,200 total annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- A total taxable base of at least \$120,000 (\$30,000 x 4 distilleries).
- The recurring increase in state revenue to the General Fund is estimated to exceed \$17,096 [(\$120,000 x 7.0%) – (\$120,000 x 7.0% x 3.617%) + (\$120,000 x 15.0% x 50.0%)].
- The permissive recurring increase in local revenue is estimated to exceed \$13,504 [\$1,200 + (\$120,000 x 2.5%) + (\$120,000 x 7.0% x 3.617%) + (\$120,000 x 15.0% x 50.0%)].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.
- The net recurring increase in state revenue to the General Fund is estimated to exceed \$7,596 (\$17,096 - \$9,500).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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