

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 971 - SB 994

April 11, 2019

SUMMARY OF BILL: Expands the definition of beer to include beverages with alcohol content not to exceed 18 percent rather than eight percent.

ESTIMATED FISCAL IMPACT:

**Increase State Revenue – \$3,200/Department of Revenue
\$10,400/Highway Fund**

**Decrease State Revenue – \$40,000/ABC
Net Impact - \$655,500/General Fund**

Increase Local Revenue – Net Impact - \$313,700

Assumptions Relative to Licensing:

- Currently the Alcoholic Beverage Commission (ABC) only licenses beer manufacturers that produce high gravity beer (greater than 8 percent alcohol).
- Such high gravity beer license is \$1,000 annually.
- Based on information provided by ABC, there are seven such licensing fees paid annually.
- There will be a recurring decrease in state revenue resulting from fewer licensing fees being paid to ABC estimated to be \$7,000 (\$1,000 x 7 licensees).
- An additional \$1,000 is payable to both the county and the municipality the brewery is located in.
- The recurring decrease in local revenue is estimated to be \$14,000 (\$1,000 x 7 licensees x 2 local government entities).

Assumptions Relative to High Gravity Beer Sales:

- According to the Department of Revenue (DOR), high gravity beer is currently taxed as an alcoholic beverage; under this bill high gravity beer will no longer be subject to such tax.
- Based on information provided by DOR, 4.5 percent of wholesale alcoholic beverage tax collections are from high gravity beer; the total collection in FY19-20 from high gravity beer is estimated to be \$707,000.

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- Wholesale alcoholic beverage tax collections are allocated 82.5 percent to the General Fund and 17.5 percent to local government.
- The recurring decrease in state revenue to the General Fund is estimated to be \$583,725 (\$707,000 x 82.5%).
- The recurring decrease in local revenue is estimated to be \$123,275 (\$707,000 x 17.5%).
- High gravity beer will no longer be subject to the alcoholic beverage enforcement tax that is allocated to ABC.
- Based on information provided by DOR, the total collection from high gravity beer in FY19-20 is estimated to be \$33,000; resulting in a recurring decrease in state revenue to ABC of \$33,000.
- High gravity beer will be subject to the beer wholesale tax.
- Approximately 584,517 gallons (or 18,855.4 barrels) of high gravity beer will be sold in FY19-20.
- The beer wholesale tax is \$35.60 per barrel distributed as follows: \$0.17 to DOR, \$0.92 retained by the wholesaler, and \$34.51 to local government.
- The recurring increase in state revenue to DOR is estimated to be \$3,205 (18,855.4 barrels x \$0.17).
- The recurring increase in local revenue is estimated to be \$650,700 (18,855.4 barrels x \$34.51).
- High gravity beer will be subject to the beer barrelage tax.
- The beer barrelage tax is \$4.29 per barrel and allocated as follows: 67.1 percent to the General Fund, 12.8 percent to the Highway Fund, and 20.1 percent to local governments.
- The recurring increase in beer barrelage tax collections is estimated to be \$80,890 (18,855.4 barrels x \$4.29) allocated as follows: \$54,277 to the General Fund, \$10,354 to the Highway Fund, and \$16,259 to local government.
- High gravity beer will no longer be subject to the liquor by the drink (LBD) tax.
- Based on information provided by DOR, LBD tax collections from high gravity beer are estimated to be \$532,000 in FY19-20. LBD tax collections would be allocated as follows: \$261,000 to the General Fund and \$271,000 to the respective local government.
- The recurring decrease in state revenue to the General Fund is estimated to be \$261,000.
- The recurring decrease in local revenue is estimated to be \$271,000.
- High gravity beer will be authorized for sale in grocery stores and other establishments licensed to sell beer, resulting in an increase in sales of high gravity beer.
- Based on information provided by DOR, total high gravity beer retail sales are estimated to be approximately \$21,000,000 in FY19-20.
- High gravity beer sales will cannibalize a portion of current beer sales.
- The overall recurring net increase in beer sales in Tennessee is estimated to exceed \$2,000,000.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Tennessee is 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring increase in state revenue to the General Fund is estimated to be \$134,936 [(\$2,000,000 x 7.0%) – (\$2,000,000 x 7.0% x 3.617%)].

- The recurring increase in local revenue is estimated to be \$55,064 [(\$2,000,000 x 2.5%) + (\$2,000,000 x 7.0% x 3.617%)].

Total Impact Assumptions:

- The recurring increase in state revenue to DOR is estimated to be \$3,205.
- The recurring increase in state revenue to the Highway Fund is estimated to be \$10,354.
- The total recurring decrease in state revenue to ABC is estimated to be \$40,000 (\$33,000 + \$7,000).
- The total recurring net decrease in state revenue to the General Fund is estimated to be \$655,512 (\$583,725 + \$261,000 - \$54,277 - \$134,936).
- The total recurring net increase in local government revenue is estimated to be \$313,748 (\$55,064 + \$16,259 + \$650,700 - \$271,000 - \$123,275 - \$14,000)

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

/jdb