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FISCAL IMPACT REPORT

ORIGINAL DATE 1/23/18

SPONSOR Stewart LAST UPDATED _____ HB _____

SHORT TITLE Cider Definition & Tax Rate SB 32

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue*					Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22		
\$0	Up to (\$12.0)	Up to (\$13.6)	Up to (\$15.5)	Up to (\$17.5)	Recurring	General Fund
\$0	Up to (\$8.5)	Up to (\$9.7)	Up to (\$11.0)	Up to (\$12.4)	Recurring	Local DWI Grant Fund

Parenthesis () indicate revenue decreases

*Represents likely upper bounds of negative revenue impacts

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	Minimal				Nonrecurring	TRD Operating Budget

Parenthesis () indicate expenditure decreases

Relates to HB35

SOURCES OF INFORMATION

LFC Files

Responses Received From

Regulation and Licensing Department (RLD)

Taxation and Revenue Department (TRD – no analysis received, but data supplied for analysis)

SUMMARY

Synopsis of Bill

Senate Bill 32 amends sections of the Liquor Excise Tax Act and the Liquor Control Act to better align the definition of cider with federal law and align the taxation of cider with craft beer. The bill changes the definition of “cider” to include cider made from pears, not just apples, and increases the maximum percent of alcohol by volume allowed to 8.5 percent from 7 percent. The bill also changes the tax rate on cider manufactured or produced by a small winegrower and sold in this state from 41 cents per gallon to eight cents per gallon on the first 10 thousand barrels and 28 cents per gallon for all barrels sold over 10 thousand barrels but less than 15 thousand barrels.

The effective date of this bill is July 1, 2018.

FISCAL IMPLICATIONS

With limited data available on cider production and sales, the fiscal impact estimate relies on some industry sales estimates and consensus revenue estimating group growth forecasts. Because this impact estimate assumes 40 percent of cider sales in the state are from New Mexico producers and manufacturers, which is far higher than the local craft beer to total beer ratio, this probably represents the upper bounds of the estimate, which is why there is notation in the fiscal impact table stating, “up to....”

	Current Revenues				
	FY18	FY19	FY20	FY21	FY22
General Fund	\$23,500.0	\$25,300.0	\$25,200.0	\$25,100.0	\$24,900.0
Local DWI	\$20,230.6	\$18,124.5	\$18,053.6	\$17,982.6	\$17,840.7
Muni in Class A County	\$249.0	\$249.0	\$249.0	\$249.0	\$249.0
Total	\$43,979.6	\$43,673.5	\$43,502.6	\$43,331.6	\$42,989.7

	Proposed Revenues				
	FY18	FY19	FY20	FY21	FY22
General Fund	\$23,500.0	\$25,288.0	\$25,186.4	\$25,084.5	\$24,882.5
Local DWI	\$20,230.6	\$18,116.0	\$18,043.9	\$17,971.7	\$17,828.3
Muni in Class A County	\$249.0	\$249.0	\$249.0	\$249.0	\$249.0
Total	\$43,979.6	\$43,652.9	\$43,479.3	\$43,305.2	\$42,959.8

	Difference				
	FY18	FY19	FY20	FY21	FY22
General Fund	\$0.0	-\$12.0	-\$13.6	-\$15.5	-\$17.5
Local DWI	\$0.0	-\$8.5	-\$9.7	-\$11.0	-\$12.4
Muni in Class A County	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total	\$0.0	-\$20.6	-\$23.3	-\$26.4	-\$30.0

SIGNIFICANT ISSUES

Cider is typically sold and consumed in similar venues and similar fashions as beer, and the two are often viewed as alternatives by consumers, so this would satisfy the LFC tax policy principle of equity, by treating similar taxpayers fairly. The bill also better aligns the definition of cider with federal laws and regulations. Federal law requires cider manufacturers to hold a winegrowers license, which is why the new language in this bill refers to “cider manufactured or produced by a small winegrower.”

As this bill provides a tax advantage for small cider producers (the same advantage currently enjoyed by microbrewers), and all of New Mexico’s cider producers would qualify for this tax rate, this also provides the state’s small cider companies with an advantage when competing against large national or multinational cider makers.

ADMINISTRATIVE IMPLICATIONS

There would likely be a minimal fiscal impact to TRD as it updates tax rates and forms.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to HB35, which changes the distribution of liquor excise tax revenues.

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

JC/jle