

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 02/23/11
 LAST UPDATED 03/07/11 HB 421

SPONSOR Vigil

SHORT TITLE Increase Liquor Excise Tax SB _____

ANALYST Burrows

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13	FY14	FY15		
	\$47,200.0	\$47,800.0	\$48,100.0	\$48,250.0	Recurring	Local DWI Grant Fund
	\$66,500.0	\$67,400.0	\$67,700.0	\$68,000.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Conflicts with HB 23 and SB 258

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Responses Not Received From

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 421 increases the liquor excise tax on spirituous liquors, beer, wine, and fortified wine as follows:

Liquor Type	Current Excise Tax	Proposed Excise Tax
Spirits	\$1.60 / liter	\$4.98 / liter
Fortified Wine	\$1.50 / liter	\$2.77 / liter
Beer	\$0.41 / gallon	\$1.85 / gallon
Wine	\$0.45 / gallon	\$1.46 / gallon

The rates on microbrew beer, cider and small winery wine are not increased in this bill. Revenue distribution shares are unchanged by the bill, so the general fund and the Local DWI Grant Fund benefit proportionately from the increased revenue.

The effective date of this bill’s provisions is July 1, 2011.

FISCAL IMPLICATIONS

Liquor demand is responsive to price changes and it is important to recognize that when prices go up demand will do down, thereby affecting the fiscal impact.

Impacts were calculated based on the effect of the tax increase on price and the correlated decrease in demand for each product. Demand elasticity, the ratio of the change in purchases to the change in price, were assumed to be -0.16 for beer and cider, -0.52 for spirits and -0.58 for wine. These estimates are based on a review of the economic literature. The figure below highlights the effect of the rate increase by product:

Liquor Type	Serving Size per Drink (oz.)	Current Tax per Drink (\$)	Proposed Total Tax per Drink (\$)	Increase in Tax per Drink (\$)	% Increase in Tax per Drink
Fortified Wine	3.5	0.16	0.29	0.13	81%
Spirits	1.5	0.07	0.22	0.15	214%
Beer	12.0	0.04	0.17	0.14	350%
Cider	12.0	0.04	0.04	No Change	0%
Micro-beer	12.0	0.01	0.01	No Change	0%
Wine	5.0	0.07	0.22	0.15	214%
Wine from a Small Winery ¹	5.0	0.03	0.03	No Change	0%
Wine from a Very Small Winery ²	5.0	0.01	0.01	No Change	0%

¹ A small winery produces between 80,000 and 950,000 liters annually

² A very small winery produces less than 80,000 liters annually

As this analysis shows, these changes would have an impact both on revenues and on consumption. Higher excise taxes may provide incentive to purchase liquor online or from neighboring states. Alternatively, this bill could be a boon for the cider, microbrew beer and small winery business as consumers substitute consumption of the higher taxed liquids for the lower taxed ones.

SIGNIFICANT ISSUES

The economic rationale for alcohol taxation has traditionally been three-fold: 1) excise taxes collected from wholesalers are relatively easy to collect because of the small number of taxpayers; 2) alcohol excise taxes have a positive impact on reducing the use and abuse of alcohol; and 3) alcohol excise tax revenue helps cover the economic and social costs of alcohol use and abuse. After accounting for the effects of inflation, state alcohol taxes have eroded over time. Also, economic theory supports that young adults are more sensitive to price changes.

PERFORMANCE IMPLICATIONS

TRD notes there would be a small impact (120 hours) on the staffing resources of TRD's information systems team.

CONFLICT

House Bill 23 and Senate Bill 258 both propose an increase in the liquor excise tax, but at rates different than those proposed in this bill.

OTHER SUBSTANTIVE ISSUES

According to the Department of Health (DOH), New Mexico had the highest alcohol-related death rate in the nation between 1997 and 2004 (the most recent year for which other state rates are available). In 2007, New Mexico's alcohol-related death rate was 1.9 times the U.S. rate. A recent report on alcohol-related costs in New Mexico estimated the total cost of alcohol-related problems in New Mexico in 2007 to be \$2.8 billion, or more than \$1,400 per person, with the majority of these costs resulting from lost productivity due to alcohol-related premature death and disability. According to the best available estimate, 18% of these costs accrued to state and local government.

DOH also notes that New Mexico's last liquor excise tax increase was enacted in 1993. Raising alcohol taxes is widely regarded as one of the most effective alcohol-related prevention strategies. According to the best available recent estimate, a 1% increase in the price of alcoholic beverages results in a 0.8% decrease in consumption. However, some studies have suggested that alcohol tax increases disproportionately affect high-risk drinkers such as underage drinkers and adult chronic/heavy drinkers.

Moreover, DOH reports the public health impacts of alcohol tax increases are proportional to the size of the tax increase. For example, Alaska implemented a large increase in state alcohol excise tax rates in 2002, (rate increases of 206% on beer, 614% on wine, and 133% on spirits). An 11 percent decrease in Alaska's alcohol-related chronic disease death rate in the following year was attributed to the tax increase. As noted in the conclusion of the study, the effective size of the Alaska alcohol tax increase was "large compared with other efforts to prevent negative outcomes related to alcohol consumption."

New Mexico currently has the 9th highest liquor tax on beer; this proposal would make New Mexico the highest. Our State has the 18th highest liquor tax on spirits; this proposal would make New Mexico the 5th highest (see Attachment).

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The Liquor Excise Tax will be collected and distributed as currently outlined in the Tax Administration Act.

LKB/svb:bym

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc

State Beer Excise Tax Rates, As of February 1, 2010

(Dollars Per Gallon)

State	Tax Rate	Rank	State	Tax Rate	Rank
Ala. (a)	\$1.05	2	Alaska	\$1.07	1
Alaska	\$1.07	1	Ala. (a)	\$1.05	2
Ariz.	\$0.16	30	Ga. (b)	\$1.01	3
Ark.	\$0.21	21	N.C.	\$1.00	4
Calif.	\$0.20	22	Hawaii	\$0.93	5
Colo.	\$0.08	45	S.C.	\$0.770	6
Conn.	\$0.20	22	Fla.	\$0.48	7
Del.	\$0.16	30	Miss.	\$0.43	8
Fla.	\$0.48	7	N.M.	\$0.41	9
Ga. (b)	\$1.01	3	Utah	\$0.41	9
Hawaii	\$0.93	5	Okla.	\$0.40	11
Idaho	\$0.15	34	Maine	\$0.3500	12
Ill.	\$0.231	20	La.	\$0.32	13
Ind.	\$0.115	40	Nebr.	\$0.31	14
Iowa	\$0.19	26	N.H.	\$0.30	15
Kans.	\$0.18	27	S.D.	\$0.27	16
Ky.	\$0.08	45	Vt.	\$0.2650	17
La.	\$0.32	13	Wash.	\$0.26	18
Maine	\$0.35	12	Va.	\$0.26	19
Md.	\$0.09	43	Ill.	\$0.23	20
Mass.	\$0.11	41	Ark.	\$0.2100	21
Mich.	\$0.20	22	Calif.	\$0.20	22
Minn.	\$0.15	34	Conn.	\$0.200	22
Miss.	\$0.427	8	Mich.	\$0.20	22
Mo.	\$0.06	48	Tex.	\$0.20	22
Mont.	\$0.14	36	Iowa	\$0.19	26
Nebr.	\$0.31	14	Kans.	\$0.18	27
Nev.	\$0.16	30	Ohio	\$0.18	27
N.H.	\$0.30	15	W. Va.	\$0.18	27
N.J.	\$0.12	39	Ariz.	\$0.16	30
N.M.	\$0.41	9	Del.	\$0.16	30
N.Y.	\$0.14	36	Nev.	\$0.16	30
N.C.	\$0.9971	4	N.D.	\$0.16	30
N.D.	\$0.16	30	Idaho	\$0.15	34
Ohio	\$0.18	27	Minn.	\$0.15	34
Okla.	\$0.40	11	Mont.	\$0.14	36
Ore.	\$0.0839	44	N.Y.	\$0.14	36
Pa.	\$0.08	45	Tenn.	\$0.14	36
R.I.	\$0.11	41	N.J.	\$0.12	39
S.C.	\$0.77	6	Ind.	\$0.12	40
S.D.	\$0.27	16	Mass.	\$0.11	41
Tenn.	\$0.14	36	R.I.	\$0.11	41
Tex.	\$0.20	22	Md.	\$0.090	43
Utah	\$0.41	9	Ore.	\$0.08	44
Vt.	\$0.265	17	Colo.	\$0.08	45
Va.	\$0.2565	19	Ky.	\$0.080	45
Wash.	\$0.26	18	Pa.	\$0.08	45
W. Va.	\$0.18	27	Mo.	\$0.06	48
Wis.	\$0.06	48	Wis.	\$0.06	48
Wyo.	\$0.019	50	Wyo.	\$0.019	50
D.C.	\$0.09	-	D.C.	\$0.09	-

Note: Local excise taxes excluded unless they are uniform and statewide.

(a) Includes a local rate of \$0.52 per gallon statewide.

(b) Includes a local rate of \$0.53 per gallon statewide.

Source: The Tax Foundation- Using Data from State Revenue Departments; Beer Institute.

Source: Dept of Taxation and Revenue

State Spirits Excise Tax Rates, As of February 1, 2010						
(Dollars Per Gallon)						
State	Tax Rate	Rank		State	Tax Rate	Rank
Ala. (a)	\$18.78	4		Wash. (a)	\$26.45	1
Alaska	\$12.80	6		Ore. (a)	\$24.63	2
Ariz.	\$3.00	36		Va. (a)	\$20.13	3
Ark.	\$2.58	38		Ala. (a)	\$18.78	4
Calif.	\$3.30	34		N.C. (a)	\$13.39	5
Colo.	\$2.28	43		Alaska	\$12.80	6
Conn.	\$4.50	26		Iowa (a)	\$12.47	7
Del.	\$5.46	22		Utah (a)	\$11.41	8
Fla.	\$6.50	16		Idaho (a)	\$10.96	9
Ga.	\$3.79	30		Mich. (a)	\$10.91	10
Hawaii	\$5.98	19		Ohio (a)	\$9.04	11
Idaho (a)	\$10.96	9		Mont. (a)	\$8.62	12
Ill.	\$8.55	13		Ill.	\$8.55	13
Ind.	\$2.68	37		Miss. (a)	\$6.75	14
Iowa (a)	\$12.47	7		Pa. (a)	\$6.54	15
Kans.	\$2.50	39		Fla.	\$6.50	16
Ky.	\$1.92	45		N.Y.	\$6.44	17
La.	\$2.50	39		N.M.	\$6.06	18
Maine (a)	\$5.21	24		Hawaii	\$5.98	19
Md.	\$1.50	47		Okla.	\$5.56	20
Mass.	\$4.05	28		N.J.	\$5.50	21
Mich. (a)	\$10.91	10		Del.	\$5.46	22
Minn.	\$5.03	25		S.C. (b)	\$5.42	23
Miss. (a)	\$6.75	14		Maine (a)	\$5.21	24
Mo.	\$2.00	44		Minn.	\$5.03	25
Mont. (a)	\$8.62	12		Conn.	\$4.50	26
Nebr.	\$3.75	31		Tenn.	\$4.40	27
Nev.	\$3.60	33		Mass.	\$4.05	28
N.H. (a)	\$0.00	–		S.D.	\$3.93	29
N.J.	\$5.50	21		Ga.	\$3.79	30
N.M.	\$6.06	18		Nebr.	\$3.75	31
N.Y.	\$6.44	17		R.I.	\$3.75	31
N.C. (a)	\$13.39	5		Nev.	\$3.60	33
N.D.	\$2.50	39		Calif.	\$3.30	34
Ohio (a)	\$9.04	11		Wis.	\$3.25	35
Okla.	\$5.56	20		Ariz.	\$3.00	36
Ore. (a)	\$24.63	2		Ind.	\$2.68	37
Pa. (a)	\$6.54	15		Ark.	\$2.58	38
R.I.	\$3.75	31		Kans.	\$2.50	39
S.C. (b)	\$5.42	23		La.	\$2.50	39
S.D.	\$3.93	29		N.D.	\$2.50	39
Tenn.	\$4.40	27		Tex.	\$2.40	42
Tex.	\$2.40	42		Colo.	\$2.28	43
Utah (a)	\$11.41	8		Mo.	\$2.00	44
Vt. (a)	\$0.68	48		Ky.	\$1.92	45
Va. (a)	\$20.13	3		W.Va. (a)	\$1.85	46
Wash. (a)	\$26.45	1		Md.	\$1.50	47
W.Va. (a)	\$1.85	46		Vt. (a)	\$0.68	48
Wis.	\$3.25	35		N.H. (a)	\$0.00	–
Wyo. (a)	\$0.00	–		Wyo. (a)	\$0.00	–
D.C.	\$1.50	–		D.C.	\$1.50	–

(a) States where the government controls sales. In control states, products are subject to ad valorem mark-up and excise taxes. The excise tax rate is calculated using methodology developed by the Distilled Spirits Council of the United States.

(b) Includes a wholesale tax of \$5.36 per case.

Source: The Tax Foundation using information from State revenue departments, Distilled Spirits Council of the United States (DISCUS); Note: Local excise taxes excluded.

Source: Dept of Taxation and Revenue