

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1702 – HB 1730

March 6, 2018

SUMMARY OF BILL: Redefines wine, for purposes of the sale of wine in retail food stores, thereby increasing the alcoholic beverage content of wine which retail food stores are authorized to sell, from wine that is 18 percent alcohol by volume (ABV) to 21 percent ABV. Repeals the Unfair Wine Sales Law (the UWSL). Removes the current prohibition against a person being issued two licenses for retail package stores.

ESTIMATED FISCAL IMPACT:

**Increase State Revenue - \$16,100/FY18-19/ABC
\$28,000/FY19-20/ABC
\$39,900/FY20-21/ABC
\$35,700/FY21-22 and Subsequent Years/ABC**

Decrease State Revenue – Net Impact - \$279,400

Decrease Local Revenue – Net Impact - \$129,800

Assumptions:

- Authorizing retail food stores to sell wine with a higher ABV will not increase the amount of wine sold at retail food stores; therefore, no impact to the wholesale gallonage tax, the wholesale case tax, or state and local sales and use tax.

Impact on Sales of Wine at Retail Food Stores

- Pursuant to Tenn. Code Ann. § 57-3-902, the UWSL imposed a 20 percent mark-up on sales of wine at retail food stores.
- This legislation will repeal the UWSL; thereby removing the 20 percent mark-up imposed on sales of wine at retail food stores.
- The average price for a bottle of wine, with a 20 percent mark-up, before taxes, is estimated to be \$7.58.
- With state and local sales and use tax, assuming the local option sales tax rate is 2.50 percent, the average total price of a bottle of wine is estimated to be \$8.30 (\$7.58 x 109.5 %).
- It is assumed that retail food stores will reduce their mark-up percentage to 10 percent.

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- 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 average price of a bottle of wine in a retail food store with a 10 percent markup, before taxes, is estimated to be \$6.95 $[(\$7.58 / 120\%) / 110\%]$. With state and local sales tax, the average total cost of a bottle of wine is estimated to be \$7.61 $(\$6.95 \times 109.5)$.
- An average price decrease of 8.33 % $[(\$7.61 - \$8.30) / \$8.30]$.
- The price elasticity of wine is estimated to be -0.55; therefore, the increase in bottles sold at retail food stores due to the decrease in the price of wine is estimated to be 4.58 percent (-0.55×-8.33) .
- FY15-16 wine tax collections were \$13,958,492.
- Pursuant to Tenn. Code Ann. § 57-3-302(a), the wine gallonage tax is equal to \$1.21 per gallon.
- Approximately 11,535,944 gallons of wine were sold in FY15-16 $(\$13,958,492 / \$1.21)$.
- Wine volume of 750ml per bottle and 3,785.4 ml per gallon; therefore, 58,224,216 bottles of wine were sold in Tennessee in FY15-16 $[(11,535,944 \times 3,785.4) / 750]$.
- It is assumed that 33.3 percent of these bottles, or 19,388,664 bottles $(58,224,216 \times 33.3\%)$ were sold for on-premises consumption, and that 66.7 percent, or 38,835,552 bottles $(58,224,216 \times 66.7\%)$ were sold for off-premises consumption.
- According to the Department of Revenue, the three-year average growth of wine collections for FY13-14 through FY15-16 is estimated to have been 5 percent. It is assumed this growth rate applies to on-premises consumption in FY16-17. Therefore, it is estimated that 20,358,097 bottles of wine were sold for on-premises consumption in Tennessee in FY16-17.
- FY16-17 wine tax collections were \$17,093,286.
- Approximately 14,126,683 gallons of wine were sold in FY16-17 $(\$17,093,286 / \$1.21)$.
- Wine volume of 750ml per bottle and 3,785.4 ml per gallon; therefore, 71,300,194 bottles of wine were sold in Tennessee in FY16-17 $[(14,126,683 \times 3,785.4) / 750]$, of which 50,942,096 bottles of wine $(71,300,193 - 20,358,097)$ are estimated to have been sold for off-premises consumption.
- Reports from liquor and wine stores claim that their wine sales are down 30 percent in the first year (FY16-17) that retail food stores were allowed to sell wine.
- It is estimated that liquor and wine stores sold 27,184,886 bottles of wine $(38,835,552 \times 70\%)$ for off-premises consumption in FY16-17.
- It is estimated that grocery stores sold 23,757,209 bottles of wine $(50,942,096 - 27,184,886)$ for off-premises consumption. This number is assumed to remain constant into perpetuity under current law.
- Sold at a 20 percent mark-up, the state portion of the sales and use tax collected on these bottles is estimated to be \$12,605,575 $(23,757,209 \times \$7.58 \times 7\%)$ and local sales tax collected on these bottles is estimated to be \$4,501,991 $(23,757,209 \times \$7.58 \times 2.5\%)$.
- For the increased number of bottles sold at a 10 percent markup, the state portion of the sales and use tax is estimated to be \$12,087,233 $(23,757,209 \times 104.58\% \times \$6.95 \times 7\%)$ and the local sales tax collected on these bottles is estimated to be \$4,316,869 $(23,757,209 \times 104.58\% \times \$6.95 \times 2.5\%)$.

- A recurring decrease in state sales tax revenue of \$518,342 (\$12,605,575 - \$12,087,233) and a recurring decrease in local sales tax revenue of \$185,122 (\$4,501,991 - \$4,316,869).
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring decrease in state shared sales tax revenue apportioned to local government is estimated to be \$18,748 (\$518,342 x 3.617%).
- Fifty percent of tax savings, or \$351,732 [(\$518,342 + \$185,122) x 50%], will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$23,731 [(\$351,732 x 7%) - (\$351,732 x 7% x 3.617%)].
- The recurring increase in local sales tax collections is estimated to be \$9,684 [(\$351,732 x 2.5%) + (\$351,732 x 7% x 3.617%)].
- The net recurring decrease in state sales tax revenue is estimated to be \$494,611 (\$518,342 - \$23,731).
- The net recurring decrease in local sales tax revenue is estimated to be \$175,438 (\$185,122 - \$9,684).
- The increase in bottles sold in grocery stores will also increase wine tax collections.
- Assuming a 4.58 percent increase in bottles sold in retail food stores, an additional 1,088,080 bottles of wine will be sold in retail food stores (23,757,209 x 4.58%).
- An increase in gallons of wine sold in retail food stores of 215,581[(1,088,080 / 3,785.4) x 750].
- The recurring increase in wine gallonage tax collections is estimated to be \$260,853 (215,581 x \$1.21).
- Wine tax collections are distributed 82.5 percent to the General Fund and 17.5 percent to local government.
- The recurring increase in state wine tax revenue is estimated to be \$215,204 (\$260,853 x 82.5%).
- The recurring increase in local wine tax revenue is estimated to be \$45,649 (\$260,853 x 17.5%)
- The net decrease in state tax revenue as a result of this legislation is estimated to be \$279,407 (\$494,611 - 215,204).
- The net decrease in local tax revenue as a result of this legislation is estimated to be \$129,789 (\$175,438 - 45,649).

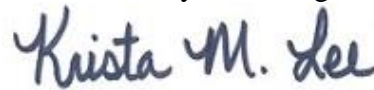
Additional Retail Licenses

- Pursuant to Tenn. Code Ann. § 57-3-406(a)(2), an individual shall not have more than two retail licenses, unless the Tennessee Alcoholic Beverage Commission (ABC) had issued more than two licenses to a licensee prior to April 12, 2016.
- This prohibition does not apply to retail food stores.
- This legislation will authorize any person to hold an unlimited number of retailer licenses.
- It is assumed that this legislation will result in an increase in retailer license issuances.
- According to the ABC, there are currently 678 retail package stores.

- The number of additional licenses that will be issued is unknown, but is reasonably estimated to equal a 2.0 percent increase, for each FY18-19 through FY20-21.
- An increase in retailer license issuances of 14 additional licenses in FY18-19 ($678 \times 2.0\%$), 14 additional licenses in FY19-20 [$(678 + 14) \times 2.0\%$], and 14 additional licenses in FY20-21 [$(678 + 14 + 14) \times 1.0\%$].
- The total number of issued retailer licenses beginning in FY21-22 is assumed to remain constant into perpetuity under the provisions of this legislation.
- Pursuant to Tenn. Code Ann. § 57-3-204(b), a one-time retailer application fee of \$300 and an initial and annual renewal licensing fee of \$850.
- The increase in state revenue to the ABC is estimated to be \$16,100 in FY18-19 [$(14 \times \$300) + (14 \times \$850)$].
- The increase in state revenue to the ABC is estimated to be \$28,000 in FY19-20 $\{(14 \times \$300) + [(14 + 14) \times \$850]\}$.
- The increase in state revenue to the ABC is estimated to be \$39,900 in FY20-21 $\{(14 \times \$300) + [(14 + 14 + 14) \times \$850]\}$.
- The recurring increase in state revenue to the ABC is estimated to be \$35,700 beginning in FY21-22.

CERTIFICATION:

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



Krista M. Lee, Executive Director

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