



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 975

PRINTERS NO. 1476

PRIME SPONSOR: Turzai

COST / (SAVINGS)

FUND	FY 2016/17	FY 2017/18
General Fund	\$0	See fiscal impact
State Stores Fund	\$0	See fiscal impact

SUMMARY: House Bill 975, printer's number 1476, amends the act of April 12, 1951 (P.L. 90, No. 21), as reenacted and amended, known as the Liquor Code, to provide for the divestiture by the Commonwealth of the wholesale wine distribution business, and to establish wine retail licenses.

Effective date is 60 days after enactment.

ANALYSIS: The bill amends the Liquor Code to provide for Wine Wholesale Licenses. The bill adds a new section to direct the Pennsylvania Liquor Control Board (PLCB) to accept applications from licensed importers, within 30 days of the effective date of the act, for wine wholesale licenses for the purpose of distributing wholesale wine to the PLCB, licensees, and to United States Armed Forces facilities located on United States Armed Forces installations within the Commonwealth. The PLCB shall approve the issuance of a wine wholesale license within 60 days of receipt of the application if the applicant meets the specified requirements. A wine wholesale license applicant must provide a list of the brands of wine it will distribute and must post a schedule of prices with the PLCB on a monthly basis. Wine wholesale licensees may not engage in variable pricing, unfair or deceptive trade practices, or intentionally exclude competing brands. All wine products shipped into the Commonwealth must be delivered to the licensed wine wholesaler's premises and must remain on the premises for 48 hours before delivery.

Initial wine wholesale licensee fees are 10% of the cost of goods sold. Cost of goods sold shall be determined as the purchase price the PLCB paid to the licensed importer for wine sold by the PLCB in the most recent twelve month period. An additional application fee of \$2,500 shall be submitted for each new brand the wine wholesale licensee would like to add to its distribution list. New brands of wine are those that were not previously sold by the PLCB at PA Liquor Stores or through special liquor orders. Annual renewal fees shall be equal to 5% of the wine wholesale licensee's gross receipts. All fees and renewal fees paid shall be deposited in the General Fund.

Wine wholesale licensees shall collect the 6% State sales tax and the 18% emergency State tax. The emergency State tax shall be included in the retail price of wine offered for sale by the wholesale wine licensee.

The bill also adds a new section to provide for wine retail licenses. In order to meet the requirements to apply for a wine retail license, a retail store must have at least 51% of sales floor space for the sale of food, supplies for the table and food products for human consumption, have an area under one roof of greater than 5,000 square feet, and must not require a customer to purchase a membership or pay a fee to purchase

wine and spirits. Wine retail licensees may sell up to 9,000 milliliters of wine in one transaction (12 bottles) between the hours of 7 a.m. and 11 p.m. every day but Sunday. Sunday wine sales are permitted upon the purchase of a Sunday sales permit for \$2,000 annually.

The initial application fee of \$250,000 is due at the time of application. Annual renewal fees are two percent (2%) of the licensee's total gross receipts for the sale of wine for off-premise consumption in the most recent twelve month period. All fees are to be deposited in the General Fund.

FISCAL IMPACT: Enactment of this legislation is estimated to generate an additional \$178.2 million in license fees in fiscal year 2017-18 assuming full divestiture of wholesale wine and approximately 440 new retail wine establishments with each licensee purchasing a Sunday sales permit. As required by the legislation, the license fees shall be deposited in the General Fund. The legislation moves the point of taxation for the 18% Liquor Tax from the retail transaction to the wholesale transaction for purchases of wine which results in a net loss of tax revenues deposited into the General Fund estimated to be \$7.47 million in 2017-18 when coupled with anticipated increased sales of wine. The PLCB gross margin is estimated to be \$68.3 million less in 2017-18 assuming complete divestiture of the wine wholesale and 30% of the wine sales in the Commonwealth now being sold through the new wine retail licensees. The net loss of tax revenue and loss of PLCB gross margin for 2017-18 assume 6 months of operations from the new wine wholesalers and 6 months of sales from the new wine retail licensees. Finally, it is assumed that the PLCB will modify its current wholesale and retail footprint by reducing operating costs accordingly to mitigate the loss of its gross margin as the wholesale wine licenses and additional retail outlets begin selling wine in the Commonwealth.

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House Appropriations Committee (R)

DATE: April 24, 2017

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.