

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. Senate Bill 688

PRINTER NO. 710

AMOUNT

See Fiscal Impact

FUND

State Stores Fund

DATE INTRODUCED

May 5, 2023

PRIME SPONSOR

Senator Regan

DESCRIPTION

Senate Bill 688 amends the Liquor Code to allow importers, importing distributors, distributors, restaurant licensees and hotel licensees to sell ready-to-drink cocktails for off-premise consumption.

The legislation provides that a ready-to-drink cocktail is a beverage composed in part of spirits combined with other nonalcoholic ingredients that are premixed in original containers of not more than 16 ounces consisting of at least 1.5%, but not greater than 12.5%, alcohol by volume.

The legislation specifies that importing distributors and distributors may sell unlimited quantities of ready-to-drink cocktails, and restaurant licensees and hotel licensees may not sell more than 192 fluid ounces in a single sale. It allows the board to continue to sell ready-to-drink cocktails but eliminates the 10% licensee discount for sales of ready-to-drink cocktails from the board.

The legislation establishes an initial application fee and renewal fees for licensees selling ready-to-drink-cocktails for off-premise consumption. The initial application fee for importers and importing distributors is \$5,000, and the annual renewal fee is 3% of the licensee's gross sales of ready-to-drink cocktails. The initial application for a license with an interior connection to a grocery store, convenience store or department store is \$2,500, and the annual renewal fee is 2% of the licensee's gross sales of ready-to-drink cocktails. The initial application for a restaurant licensee, hotel licensee, and distributor licensee is \$1,000, and the annual renewal fee is 2% of the licensee's gross sales of ready-to-drink cocktails.

The legislation also provides for the taxation of ready-to-drink cocktails for off-premise consumption that are sold outside of the control system. On each sale of ready-to-drink cocktails, it imposes an 18% tax in lieu of the emergency state tax on the net price of all ready-to-drink cocktails sold and the 6% sales tax. For any second or subsequent sale, the seller may receive a credit for taxes already paid. This taxing mechanism is designed to ensure that the taxes are collected on the final retail price of the ready-to-drink cocktails. In addition, the 18% tax is to be included in the purchase price and may not be stated separately.

The legislation is schedule to take effect immediately.

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FISCAL IMPACT:

The provisions contained in Senate Bill 688 that will allow for the sale of ready-to-drink cocktails for off-premise consumption by licensees, coupled with the increasing demand of ready-to-drink cocktails, will result in the expansion of sales and additional revenue accruing to the General Fund from taxes. Assuming sales for ready-to-drink cocktails grow by 100% as a result of the provisions contained in the legislation, the Commonwealth will see an increase in tax revenue accruing to the General Fund of an additional \$102.7 million over the next five years.

Est. 5-Year Sales Projection				SB 688 Expansion		
Year	Sales	18 % JFT	6% Sales Tax	Sales	18 % JFT	6% Sales Tax
FY 2024-25	\$65,720,530	\$ 11,829,695	\$ 4,653,014	\$131,441,060	\$23,659,391	\$9,306,027
FY 2025-26	\$75,578,609	\$ 13,604,150	\$ 5,350,966	\$151,157,219	\$27,208,299	\$10,701,931
FY 2026-27	\$83,136,470	\$ 14,964,565	\$ 5,886,062	\$166,272,941	\$29,929,129	\$11,772,124
FY 2027-28	\$89,787,388	\$ 16,161,730	\$ 6,356,947	\$179,574,776	\$32,323,460	\$12,713,894
FY 2028-29	\$95,174,631	\$ 17,131,434	\$ 6,738,364	\$190,349,262	\$34,262,867	\$13,476,728
Totals	\$409,397,629	\$ 73,691,573	\$ 28,985,352	\$818,795,258	\$147,383,146	\$57,970,704

The provisions contained in the legislation requiring licensees to pay an initial application fee and annual renewal fees based on gross sales (3% for importers and importing distributors and 2% for restaurant licensees, hotel licensees and distributors) will generate additional revenue to be deposited in the State Stores Fund. Assuming that 50% of the 12,507 eligible licensees apply and make an initial application to sell ready-to-drink cocktails, the legislation is estimated to generate \$7.9 million.

Also, if it is assumed that all new sales resulting from the provisions contained in the legislation are sold through the licensees and importers and that importing distributors act as the wholesaler and discount the product at the same level as the board (10%) discounts to licensees, the annual renewal fees are estimated to generate an additional \$24.1 million over the next five years.

Year	Importer and Importing Distributor Gross Sales	3% Gross Sales Renewal Fee	Restaurant, Hotel and Distributor Gross Sales	2% Gross Sales Renewal Fee
FY 2024-25	\$ 73,982,915	\$ 2,219,487	\$ 82,203,239	\$ 1,644,065
FY 2025-26	\$ 85,080,352	\$ 2,552,411	\$ 94,533,725	\$ 1,890,674
FY 2026-27	\$ 93,588,387	\$ 2,807,652	\$ 103,987,097	\$ 2,079,742
FY 2027-28	\$ 101,075,458	\$ 3,032,264	\$ 112,306,065	\$ 2,246,121
FY 2028-29	\$ 107,139,986	\$ 3,214,200	\$ 119,044,429	\$ 2,380,889
Totals	\$ 460,867,099	\$ 13,826,013	\$ 512,074,554	\$ 10,241,491

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Further, based on a net present value calculation comparing the current ready-to-drink product line (\$87.5 million) to the revenues collected through (1) the initial application fee, (2) annual renewal fee arrangement and (3) additional taxes as a result of increased sales volume, which amount to \$134.6 million over the next five years, Senate Bill 688 represents fair compensation to the Commonwealth for the privilege of allowing licensees to sell ready-to-drink-cocktails.