

HOUSE BILL REPORT

HB 2424

As Reported By House Committee On:

Agriculture & Ecology
Finance

Title: An act relating to fermented apple cider.

Brief Description: Providing for the taxation of fermented apple cider.

Sponsors: Representatives Chandler, Chappell, Mastin, Morris, Lisk, Clements, Grant, Honeyford and Thompson.

Brief History:

Committee Activity:

Agriculture & Ecology: 1/18/96, 1/22/96 [DP];

Finance: 1/31/96, 2/5/96 [DP(AG)].

HOUSE COMMITTEE ON AGRICULTURE & ECOLOGY

Majority Report: Do pass. Signed by 16 members: Representatives Chandler, Chairman; Koster, Vice Chairman; Chappell, Ranking Minority Member; Linville, Assistant Ranking Minority Member; Boldt; Clements; Delvin; R. Fisher; Honeyford; Johnson; Murray; Ogden; Regala; Robertson; Rust and Schoesler.

Staff: Kenneth Hirst (786-7105).

Background: The state's liquor control laws define wine as being an alcoholic beverage obtained by fermentation of fruits (grapes, berries, apples, et cetera) or other agricultural products containing sugar and containing not more than 24 percent nor less than 0.5 percent of alcohol by volume. Wine containing not more than 14 percent of alcohol by volume is considered to be "table wine."

All table wines sold to wine wholesalers within the state are taxed at the base rate of 20.25 cents/liter. 0.25 cents/liter of this amount is for Washington State University for wine and wine grape research and related activities. A portion of the remaining amount is to be available to the Liquor Control Board for administrative activities, and monies in excess of that portion are distributed by the board as specified by statute. Surcharges in the form of several additional taxes are also levied on such wine: 1.42 cents/liter, for the general fund; 0.25 cents/liter until July 1, 2001, for the

Wine Commission; and 1 cent/liter, for the Violence Reduction and Drug Enforcement (VRDE) Account.

Beer is also subject to a base tax and several additional taxes. One such additional tax is for the Health Services Account. With certain exceptions, it is at the rate of \$2.39/barrel (2.04 cents/liter) until June 30, 1997, and \$4.78/barrel (4.07 cents/liter) thereafter.

Summary of Bill: In lieu of the base tax on table wine, cider is to be taxed at the base rate of 3.59 cents/liter. The "cider" taxed in this manner contains not less than 0.5 percent nor more than 7 percent of alcohol by volume and is made from the normal alcoholic fermentation of the juice of sound, ripe apples. It includes flavored, sparkling, or carbonated cider and cider made from condensed apple must. As a result of the change in the base tax rate, the additional tax for the general fund is 0.25 cents/liter. Cider's additional tax for the Wine Commission is 0.05 cents/liter, and the additional tax for the VRDE Account is 0.18 cents/liter.

An additional tax is imposed on cider (similar to an additional tax on beer) of 2.04 cents/liter until June 30, 1997, and of 4.07 cents/liter thereafter, for the Health Services Account.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 1996.

Testimony For: (1) Apple cider is marketed in the same manner as beer, not wine. In other states it is often sold in six-pack containers; it has the alcoholic content of beer. The bill would tax cider like beer, not wine. (2) Before beer or wine is purchased by the consumer, it is sold by the wholesaler to the distributor and by the distributor to the retailer. Any difference in the tax levied on these two products is exaggerated by these transactions. At the current rate, the tax difference becomes nearly a \$1.00/six pack. As a result, cider cannot be competitive. (3) Gallo estimates that the potential market for cider is very large, larger than the total market for all distilled spirits or for all wines. Growth of the market will benefit the nation's largest producer of apples, Washington, because cider is generally made from apples purchased on the open market. (4) Some of Washington's wineries are interested in producing this product.

Testimony Against: None.

Testified: Bob DeMont and Roger Nabidian, E. and J. Gallo Winery; Enid Layes, E. and J. Gallo Winery and Washington Horticultural Association; and Vicki Chiechi Hinze, Washington Wine Institute (in favor).

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee on Finance Compared to Recommendation of Committee on Agriculture & Ecology: No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Same as Agriculture & Ecology Committee.

Testimony Against: None.

Testified: Representative Gary Chandler, prime sponsor; and Enid Layes, Gallo Winery and Washington State Horticultural Association.