

HOUSE BILL REPORT

ESSB 5368

As Reported by House Committee On:
Finance

Title: An act relating to studying taxes and fees related to alcohol.

Brief Description: Studying taxes and fees related to alcohol.

Sponsors: Senate Committee on Labor & Commerce (originally sponsored by Senator Chapman).

Brief History:

Committee Activity:

Finance: 3/21/25, 4/4/25 [DPA].

Brief Summary of Engrossed Substitute Bill
(As Amended by Committee)

- Directs the Washington State Institute for Public Policy to conduct a study and produce a report on the state's system of alcohol taxation and fees.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 8 members: Representatives Berg, Chair; Street, Vice Chair; Parshley, Ramel, Santos, Springer, Walen and Wylie.

Minority Report: Without recommendation. Signed by 7 members: Representatives Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase, Mena, Penner and Scott.

Staff: Rachelle Harris (786-7137).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

State Alcohol Laws and Regulation.

State law regulates the manufacture, distribution, and retail sale of alcoholic beverages, including spirits, wine, and beer. The Liquor and Cannabis Board (LCB) issues various types of liquor licenses, including retail licenses for taverns and hotels. The Department of Revenue (DOR) collects taxes on the sale of alcoholic beverages in the state. The tax rates on the sale of alcoholic beverages varies based on the type of alcohol, sales price, sales volume, and alcohol content of the product. For example, the sale of spirits is taxed at a different rate than the sale of wine, and the sales and liter taxes for spirits are based on sale price and volume, respectively. The rates for sales and liter taxes on spirits also vary depending on whether the purchaser is a member of the general public or an on-premises retailer such as a bar.

Washington State Institute for Public Policy.

The Washington State Institute for Public Policy (WSIPP) is a nonpartisan public research group, established by the Legislature in 1983. The WSIPP carries out research at the direction of the Legislature or its Board of Directors, conducting multi-disciplinary research and cost benefit analysis in areas such as general government, education, criminal justice, and health. Fiscal and administrative services for the WSIPP are provided by the Evergreen State College.

Summary of Amended Bill:

The WSIPP is directed to conduct a study on the state's system of alcohol taxation and fees and produce a report. The report is inclusive of alcohol taxes and fees where the tax or fee is based on the sale price, sales volume or alcohol content of the product, as well as administrative fees such as liquor license and permits. The final report must include:

- the specific types of state taxes and fees applicable to spirits, beer, and wine, by product category, inclusive of general taxes such as sales and business and occupation taxes;
- current and historical tax and fee rates by tax or fee type;
- annual state sales of spirits, wine, and beer in total and per capita from 2015 to 2024;
- annual spirits, wine, and beer tax and fee revenues generated from 2015 to 2024 in total and by tax or fee type;
- annual spirits, wine, and beer tax and fee revenues per capita generated from 2015 to 2024 in total and by tax or fee type; and
- to the extent practicable, all of the following:
 - an analysis of total and per capita spirits sales and related tax and fee revenues in other states, differentiated by whether the sale of off-premises spirits is controlled by the state or allowed by licensed private entities;
 - an analysis of total and per capita spirits sales and related tax and fee revenues in other states and countries differentiated by whether spirits taxation is based on volume, price, or alcohol content;
 - an analysis of total and per capita spirits, beer, and wine sales, tax, and fee

- revenues in this state and other states by each applicable unit of measurement of alcohol content and volume, differentiated by product category;
- an analysis of alcohol administrative fee amounts to determine the sufficiency of each fee to cover reasonable costs for efficient administration and enforcement. This must include recommendations for either increases or decreases in any alcohol administrative fee pursuant to the findings of the study;
 - an analysis of the impact of alcohol taxes and fees on prices and consumer consumption;
 - specified annual data ranging from 2008 to 2020;
 - estimated costs to transition to a tax system in the state where tax rates are determined solely by the alcohol content of products, the estimated annual costs to administer this system, and the estimated tax revenue of this system;
 - estimated tax rates for spirits, beer, and wine that would have to be applied to maintain a revenue neutral tax system in the state, if tax rates were based solely on the alcohol content of products; and
 - an analysis of the economic impact of the state's breweries, wineries, and distilleries, and potential changes to the economic impact if tax rates were based solely on the alcohol content of products.

The final report is due to the Legislature by June 30, 2026. The LCB and DOR must provide relevant data to the WSIPP for the study.

Amended Bill Compared to Engrossed Substitute Bill:

The amended version of the bill clarifies the distinction between taxes and fees that are based on the sale price, sales volume or alcohol content of the product versus administrative fees such as liquor license and permits, and requires inclusion of both. It also adds analysis and recommendations to administrative fees, as well as an analysis of the impact of alcohol taxes and fees on prices and consumer consumption. The amended version of the bill extends the data that must be included to 2015-2024.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on April 4, 2025.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) It is important to have data on sales to properly restructure the taxation scheme on alcohol. Our understanding of elasticity is merely anecdotal and so the study will help

with that. New products have outpaced the current market, so the state is not getting the optimal tax revenue. The study can inform decision-making for the Legislature so tax policy goals can be achieved. The state is losing a lot of opportunities to generate proper revenues that reflect the customer demand in an evolving market.

(Opposed) Washington has one of the highest wine rates in the country, especially along with other wine states like Oregon and California. We need policies that help the local wine industry instead of threatening to increase taxes on wine. This is a step towards benefiting out of state producers. Washington's small craft breweries are facing challenges. Tariffs and competition in the marketplace are difficult, and an overhaul in tax structure would be very damaging. Spending money on a study is not a wise use of funds. The current system provides good revenue for the state. The model in this state is used in every other state with spirits being taxed at higher rates. Spirits sales have grown since our state went privatized.

Persons Testifying: (In support) Katie Beeson, Washington Food Industry Association (WFIA); Vicki Christophersen, Association of Washington Spirits and Wine Distributors; Carrie Tellefson, RNDC; Charlie Brown, Diageo; Lisa Cole, Southern Glazers Wine and Spirits; and Jack Morrow, Southern Glazers Wine and Spirits.

(Opposed) Josh McDonald, Washington Wine Institute; Daniel Olson, Washington Brewers Guild; and Scott Hazlegrove, WA Beer and Wine Distributors Association.

Persons Signed In To Testify But Not Testifying: None.