



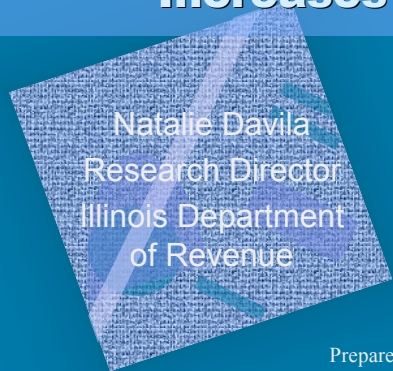
# Illinois Department of Revenue



Brian Hamer, Director



# Revenue Impact from Tax Increases in Alcopops



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Oklahoma City

## Context of Estimate



- ❖ Legislative Session Scheduled to end 5/31
- ❖ Previous year, legislative session ran through July 23rd
- ❖ Research Staff: Director, one Economist, Three Researchers (one on paternity leave)
- ❖ Most significant revenue issue still on table – gaming bills
  - ❖ New casinos
  - ❖ Racinos
  - ❖ Increased number of positions

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## Other Issues Still Outstanding



- ❖ Software Tax
- ❖ Internet Lottery
- ❖ Corporate Franchise Tax Amnesty
- ❖ Understanding April Surprise
- ❖ FY06 Income Tax Refunds
- ❖ Streamline Sales Tax
- ❖ Leaking Underground Storage Tanks Tax Enhancement
- ❖ Sales Tax on Jet Fuel
- ❖ Lottery Special Tickets
- ❖ Supreme Court Case on Wine Distribution
- ❖ Staff Hiring Plan

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## State of Illinois Liquor Tax



- ❖ 18.5 cents per gallon of beer
- ❖ 18.5 cents per gallon of cider with an alcohol content of 0.5 percent to 7 percent
- ❖ 73 cents per gallon of wine other than cider with an alcohol content of less than 20 percent
- ❖ \$4.50 per gallon for alcoholic liquor with an alcohol content of 20 percent or more

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## State of Illinois Liquor Tax



| Effective Date | Cider 0.5% -7% or Beer | Wine <=14% | Wine >14%, < 20% | Alcohol => 20% |
|----------------|------------------------|------------|------------------|----------------|
| July 1, 1934   | \$0.02                 | \$0.10     | \$0.25           | \$0.50         |
| July 1, 1941   | \$0.04                 | \$0.15     | \$0.40           | \$1.00         |
| July 1, 1957   | \$0.04                 | \$0.15     | \$0.40           | \$1.02         |
| August 1, 1959 | \$0.06                 | \$0.23     | \$0.60           | \$1.52         |
| August 1, 1969 | \$0.07                 | \$0.23     | \$0.60           | \$2.00         |
| July 1, 1999   | \$0.185                | \$0.73     | \$0.73           | \$4.50         |

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## Time Line

5/12/05 3:02pm : Receive first indication that Alcopop is an issue being considered. What are Alcopops?

5/15/05 6:00pm: Informed that budget estimate being carried is \$48 million. Proponents of tax increase have drafted legislation.

5/16/05: Discover methodology used by proponents assumes that Alcopops make up 20 percent of the beer market.

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## Time Line

5/17/05 10:45 am: Research director sends out question to FTA listserv

5/17/05 10:51 am: Karl Knapp responds and provides contacts at the Beverage Marketing Corporation of New York, Beer Institute, and economist (Steve Barsby) within North Carolina's Dept of Revenue.

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## Time Line

5/17/05 11:25 am: Fred Church from Ohio responds. Agrees that 20 percent of beer market is way overstated. Using data from the National Association of Convenience Stores, he suggests that Alcopops account for only 3 percent of sales. Provides links to elasticity studies.

5/17/05 11:30 am: Research director provides feedback to the Budget Office that the estimate of \$48 million is too high. Twenty percent of beer market is too high – without having gathered any hard core data, recommend order of magnitude \$12-\$24 million.

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## Time Line

5/17/05 2:34pm: Greg Harkenrider and Chuck Martie from Kentucky respond. Indicate that the alternative malt beverage was less than 5% of the market. Citing Beverage Marketing, they indicate that the malternative category accounted for 2.7% of the 197.5 million barrels that US brewers shipped in 2003.

5/17/05 5:07 pm: Staff finds that Progressive Grocer data that indicates Alcopops account for 4 percent of the market.

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## Time Line

5/18/05 1:30pm: Research director sends e-mail to Frank Chalupla, an economics professor at University of Illinois asking if he has done any research on Alcopops.

5/19/05 6:03 pm: Legal staff in Department of Revenue still wavering on probability of litigation based on what they know about the industry at this point.

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## Time Line

5/20/05 9:29am: Given frenzied conditions, data misread – assume Alcopop 5 to 7% of beer market rather than alcohol content between 5% to 7%. No one catches this mistake.

5/20/05 1:48pm: Bill Casey from New York provides information from Adam's Beverage Handbook on Alcopops. Upon review, we both think these numbers underestimate the size of the market (approx 0.1 percent of beer sales).

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## Time Line

5/20/05 2:55 pm: Director of Revenue circulates legal opinion to Governor's office that there are significant legal risks to taxing Alcopops at a rate higher than beer and hard cider. Legal division has found information that refutes some of the assertions made by lobbyists. Estimate currently at an additional \$15 million if alcopop taxed at wine rate, based in misunderstanding (see 5.20/05 9:29am).

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## Time Line

5/21/05 3:08 pm: Based on legal opinion, research director circulates revenue estimates associated with general increase in liquor tax

5/21/05 9:53 am: Dr. Chaloupka replies that research could be done for \$25k in a timely manner (6-9 months).

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## Time Line

5/23/05: Research director revises estimate assuming Alcopops make up 5% of beer market. This is based on more recent data from the National Association of Convenience Stores. This information is passed along to industry lobbyists.

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## Time Line

5/26/05 1:49pm: Research director requests clarification on what the actual proposal under consideration is – how much of a tax increase? Revenue estimate still is being circulated, without clarification on what the tax increase being proposed is. Legal opinion has apparently not been circulated to appropriate people.

5/27/05 3:30pm: Research director hears from industry. Claim that 5% is too high. Claim but won't verify that Alcopop makes up less than 3 percent of beer market.

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## Time Line







5/28/05 9:37 pm: No word on Alcopop for over 24 hours. Assume that issue is off the table.

5/31/05 11:46 am: Budget passes without Alcopop revenue enhancement. Research director provides feedback to FTA listserv on revenue estimate for Alcopops.

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## Lessons Learned

-  Subject all outside revenue estimates to intense scrutiny
-  Quick response on degree of magnitude important
-  Reach out to interest groups/lobbyists as soon as possible
-  Form internal working group when possible
-  Get legal opinion as soon as possible.
-  Put defensible estimate “out there” as quickly as possible, but make sure it is documented

Most importantly – reach out to colleagues here at the conference! Their insight/expertise is invaluable.

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