LIQUOR SALES TAX
RCW 82.08.150

Tax Base — Selling price of spirits in their original package. Spirits include any beverage containing alcohol obtained by distillation, including wines with more than 24 percent alcohol by volume.

Tax Rate

Sales to consumers: 20.5 percent

Basic rate	=	15.0%	RCW 82.08.150(1)
14% surtax rate	=	2.1%	RCW 82.08.150(4)
Health care rate	=	3.4%	RCW 82.08.150(6a)

Except for liquor purchased by the drink, consumers may purchase spirits only in their original packages and only through Washington State Liquor Control Board stores or their authorized agencies. (Hotels or clubs licensed under Chapter 70.62 RCW with overnight sleeping accommodations and a restaurant liquor license may sell liquor by the bottle to registered guests for consumption in guest rooms, hospitality rooms, or at banquet facilities in the hotel or club.) The liquor sales tax is measured by the wholesale purchase price plus a markup by the Board. Retail sales tax does not apply to such purchases.

Sales to restaurant licensees: 13.7 percent

Basic rate	=	10.0%	RCW 82.08.150(2)
14% surtax rate	=	1.4%	RCW 82.08.150(4)
Health care rate	=	2.3%	RCW 82.08.150(6b)

Establishments that sell spirits, strong beer, beer, and wine for consumption on the premises must obtain a restaurant license. Since their purchases of spirits from the Liquor Control Board are for resale, a lower liquor sales tax rate has been provided for such "wholesale" purchases. Also, the Board allows a discount of 15 percent from the wholesale price plus markup before applying the lower tax rate. Sales of liquor by the drink are subject to state and local retail sales tax.

Levied by — State

Administration — Liquor Control Board. Statutorily, the Department of Revenue oversees collection of the liquor sales taxes, although the actual administration of the tax is handled by the Board. The tax is added to the Board's purchase price, plus markup, and is included in the selling price of spirits and strong beer. The Board transmits the receipts to the Department on a monthly basis. The Department, in turn, transmits the receipts to the State Treasurer, who distributes the funds on a quarterly basis.

Recent Collections ($000)

Fiscal Year	Collections*	% Change	% of All State Taxes
2004	$69,317	9.4%	0.5%
2003	63,346	4.9	0.5
2002	60,391	5.2	0.5
2001	57,389	6.8	0.5
2000	53,756	8.0	0.5
1999	49,770	5.7	0.4
1998	47,098	8.5	0.4
1997	43,402	5.5	0.4
1996	41,148	4.9	0.4
1995	39,240	(0.9)	0.4

*Includes liquor surtaxes.

Distribution of Receipts

(1) Basic tax rates (15 and 10 percent tax rates):
- 65% state general fund
- 35% liquor excise tax fund which is distributed quarterly to:
  - 20% to counties on basis of unincorporated population.
  - 80% to cities on basis of incorporated population.
  - (NOTE: prior to making the distribution to counties, sufficient funds are distributed to the county research services account to fund any legislative appropriations.)

(2) Surtax rates (additional 2.1 and 1.4 percent tax rates):
- 100% state general fund.

(3) Health care rates (current 3.4 and 2.3 percent rates):
- 100% health services account.

Exemptions

Sales to the federal government for resale through commissaries at military installations.

History

The tax was adopted as part of the 1935 Revenue Act at a rate of 10 percent. In 1939 retail sales tax was extended to sales by the Liquor Control Board. An additional tax, known as the war liquor tax, of 10 percent was added in 1943. In 1949 both the original 10 percent tax and the war liquor tax were repealed. Two years later the current tax was adopted at a rate of 10 percent, and liquor was exempted from the retail sales tax. The rate was increased to 15 percent in 1959, except for Class H (restaurant) licensees. In 1982 surtaxes totaling 14 percent were added to the basic rate. Also in 1982 the definition of strong beer was increased from 4 percent alcohol to more than 8 percent. In 1993 a phase-in of the additional tax rates for the health services account was adopted; these reached the current levels on July 1, 1997. In 2003 strong beer (more than 8 percent alcohol by weight) was shifted from liquor sales tax to the beer excise tax.

Discussion/Major Issues

Washington is a liquor monopoly state, as are 17 other states, although some of these states are at the wholesale level only. The other 32 states allow sales of liquor through privately-owned wholesale and retail outlets, and there is no state control of liquor prices. Thus, liquor in the original package can be purchased in Washington only through a Liquor Control Board store or one of its authorized contract stores. Because of the monopoly control, the state is able to increase the wholesale price of liquor it purchases for resale via a markup. Currently, the markup on distilled spirits as determined by the Board approximates 51 percent of the delivered cost.

Liquor taxes on distilled spirits in Washington have typically been among the highest in the nation. According to the latest published industry data,[1] in 2002 Washington ranked third among all states (behind New Hampshire and Florida) in revenue from alcoholic beverages in relation to adult population. Washington per capita taxes, fees, and monopoly profits from alcoholic beverages amounted to $98.55, compared with the U.S. average of $59.47.

Many persons feel that high "sin" taxes are justified, as they may help reduce consumption. However, the high state tax burden on alcoholic beverages, coupled with substantial federal taxes on liquor, may be considered by some as excessive.

[1] Public Revenues from Alcohol Beverages, 2002, Distilled Spirits Council of the United States, Inc., January 2004.