

LIQUOR SALES TAX
RCW 82.08.150

Tax Base Selling price of spirits in their original package. The term “spirits” includes 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)
Additional 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)
Additional 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)

<u>Fiscal Year</u>	<u>Collections*</u>	<u>% Change</u>	<u>% of All State Taxes</u>
2009	\$96,592	5.2%	0.6%
2008	91,798	7.8	0.5
2007	85,153	8.1	0.5
2006	78,806	6.3	0.5
2005	74,102	6.9	0.5
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

*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) Additional rates (additional 3.4 and 2.3 percent rates):

100% state general fund. (Health services account until July 1, 2009)

Exemptions

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

History

The liquor sales tax was adopted as part of the 1935 Revenue Act at a rate of 10 percent. In 1939, the Legislature extended the retail sales tax 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.

In 2009, the receipts from the “additional” rates (3.4 percent for consumers and 2.3 percent for Class H) adopted in 1993 were shifted to the general fund, effective July 1, 2009, thereby ending the dedication of a portion of the tax for financing of health care.

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. Because of the monopoly, liquor in the original package can only be purchased in Washington 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 in the retail price, in addition to the taxes which are added.

Currently, the markup on distilled spirits as determined by the Board approximates 51.9 percent of the delivered cost, including a 6.5 percent increase effective on August 1, 2009. The latest increase in the markup was implemented pursuant to direction from the state Legislature in 2009 in order to help close a state budgetary shortfall.

In the annual report covering Fiscal Year 2008, the Liquor Control Board estimated that approximately 23 percent of the average retail cost of liquor was attributable to the markup in price applied by the Board. An additional 34 percent of the cost was due to the state liquor sales and liter taxes. Federal taxes represent 16 percent of the retail price and the remaining 27 percent was the manufacturer’s price at the distillery.

Washington taxes on spirits have typically been among the highest in the nation. According to the latest published industry data,¹ in 2007 Washington ranked third among all states (behind New Hampshire and Rhode Island) in revenue from alcohol beverages in relation to adult population. Washington taxes, fees, and monopoly profits from all types of alcohol beverages amounted to \$128.16 per capita, compared with the U.S. average of \$78.48. Taxes on spirits were higher in Washington than in any other state. Revenue per gallon of spirits amounted to \$118.29; this ranked first in the nation and was well above the national average of \$68.71.

¹Public Revenues from Alcohol Beverages, 2007, Distilled Spirits Council of the United States, Inc., January 2009.