

CHAPTER 3A
ALCOHOLIC BEVERAGE TAX
AND
LIQUOR LICENSE FEES

HIGHLIGHTS

- **Tax Base** Taxes and surtaxes are imposed on alcoholic beverages on a per gallon basis; license fees are levied on holders of alcoholic beverage licenses.

 - **Tax Rates**

	<u>Tax Per Gallon</u>	<u>Surtax Per Gallon</u>	<u>Total Taxes Per Gallon</u>
Beer	\$0.04	\$0.16	\$0.20
Wine (14%* or less)	\$0.01	\$0.19	\$0.20
Wine (over 14%*)	\$0.02	\$0.18	\$0.20
Champagne and Sparkling Wine	\$0.30	none	\$0.30
Distilled Spirits (100 proof or less)	\$2.00	\$1.30	\$3.30
Distilled Spirits (over 100 proof)	\$4.00	\$2.60	\$6.60
Sparkling hard cider	\$0.02	\$0.18	\$0.20

 - **License Fees** \$60 - \$1,193 per year

 - **Revenue**

2003-04	\$293 million
2004-05 (est.)	\$297 million
2005-06 (est.)	\$300 million

0.5% of total state General Fund revenues

 - **Administration** Department of Alcoholic Beverage Control (ABC) issues licenses and collects the license fees.
Board of Equalization (BOE) collects the taxes
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1. TAX OVERVIEW

Alcoholic beverage taxes and surtaxes are imposed on all beer and wine or distilled spirits sold within this state. The taxes and surtaxes are levied on a per gallon basis and

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are imposed at the highest level in the distribution chain (i.e., on manufacturers, manufacturer's agents, distillers, winegrowers, wholesalers, or rectifiers). Taxes and surtaxes on alcoholic beverages that are imported (transported) into California from out-of-state are imposed on importers.

Taxes and surtaxes are generally passed on to consumers. Although imposed in lieu of all county, municipal, or district taxes, the alcoholic beverage taxes and surtaxes are incorporated into the retail price of a product and become part of the sales tax base for that product.

Alcoholic beverage license fees are levied when licenses for the sale of alcoholic beverages are granted or renewed on a yearly basis.

In most instances, different licenses are required for manufacture, wholesale distribution, and retail sales. On-sale and off-sale retail licenses distinguish between beverages sold for on-premises consumption and those sold for consumption off the premises. Trains, boats and aircraft also require special alcoholic beverage licenses.

2. TAX RATE

There is no single tax or surtax rate on alcoholic beverages. The rate varies considerably, depending on the type of alcohol being taxed. The rates are described in the "Highlights" box at the beginning of this chapter.

3. EXEMPTIONS

Exemptions from the alcoholic beverage tax are provided under the following circumstances:

- Alcohol used in trades, professions or industries other than for beverage purposes when sold by specified licensees (e.g., alcohol purchased by private businesses for business-related testing purposes);
- Ethyl alcohol used by governmental agencies or scientific universities, or alcohol or industrial alcohol in certain products when sold in containers larger than one gallon;
- Sales to common carriers for use on boats, trains, or airplanes when the alcoholic beverages are to be used outside the state;
- Transportation of alcoholic beverages through the state by common carriers;
- Receipt of beverages that are to be destroyed (credit for taxes paid);
- Alcoholic beverages destroyed or damaged so that they could not be sold and that the licensee has not otherwise been compensated for the loss in the amount of the tax

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included in the purchase price paid for the alcoholic beverages.

- Beverages when sold out of state;
- Distilled spirits sold to other distributors; and
- Distilled spirits sold to instrumentalities of the United States armed forces that are located on territory within the state.

4. FEDERAL TAXATION

The federal government also imposes excise taxes on alcoholic beverages, as follows:

Beer	\$ 0.58 per gallon
Wine (14%* or less)	\$ 1.07 per gallon
Wine (14% to 21%*)	\$ 1.57 per gallon
Wine (21% to 24%*)	\$ 3.15 per gallon
Wine (more than 24%*)	\$13.50 per gallon
Champagne and Sparkling Wine	\$ 3.40 per gallon
Distilled Spirits	\$13.50 per gallon
Artificially Carbonated Wine	\$ 3.30 per gallon

*Alcohol content

The federal taxes, which are considerably higher than state taxes, are imposed in addition to state taxes. Both taxes are included in the state sales tax base.

5. REVENUE

Alcoholic beverage taxes raised \$293 million in 2003-04 (0.5% of General Fund revenues). They forecast to raise \$297 million in 2004-05 and \$300 million in 2005-06. All alcoholic beverage tax revenues accrue to California's General Fund.

License fee revenues (currently on the order of \$35 million annually) are directed to special funds. Most license fee revenue is deposited into the ABC Fund for use by the Department of ABC in administering the ABC Act. Much smaller amounts (less than \$1 million annually) are directed to the ABC Appeals Fund to support the Appeals Board and the Motor Vehicle Account to help fund the California Highway Patrol Designated Driver Program.

6. ADMINISTRATION

The Department of ABC issues licenses and collects license fees. California's BOE administers security and collects the state excise taxes. The tax is a direct obligation of the taxpayer and the BOE administers the taxes in a manner consistent with other taxes,

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with specified provisions for determinations of tax due, collection actions, and refund provisions. The California Taxpayer's Bill of Rights creates specific remedies and programs related to Alcoholic Beverage Taxes.

7. CODE

California Constitution, Article XX, Section 22

Revenue and Taxation Code Sections 32001-32557

Business and Professions Code Sections 23300-25762.