



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Fiscal Note

Short Title: Hard Cider/Revise Excise Tax Rate.
Bill Number: House Bill 995 (First Edition)
Sponsor(s): Representative McGrady

SUMMARY TABLE

FISCAL IMPACT OF H.B.995, V.1					
	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue	(39,000)	(40,000)	(40,000)	(41,000)	(41,000)
Less Expenditures	-	-	-	-	-
General Fund Impact	(39,000)	(40,000)	(40,000)	(41,000)	(41,000)
NET STATE IMPACT	(\$39,000)	(40,000)	(40,000)	(41,000)	(41,000)
Local Impact					
Local Revenue	(1,074,000)	(1,087,000)	(1,100,000)	(1,113,000)	(1,126,000)
Less Local Expenditures	-	-	-	-	-
NET LOCAL IMPACT	(\$1,074,000)	(1,087,000)	(1,100,000)	(1,113,000)	(1,126,000)

FISCAL IMPACT SUMMARY

H995 reduces the excise tax on hard cider, as defined in the bill, from 26.34¢/liter to 61.71¢/gallon, a tax rate reduction of approximately 38%. It also changes how hard cider tax proceeds are shared between the State and local governments, increasing the State share and decreasing the local share.

FISCAL ANALYSIS

Change in Revenue Collections

Under current tax law, hard cider meets the definition of “unfortified wine” and is taxed at the unfortified wine excise tax rate: 26.34¢/liter. H995 carves hard cider out from the definition of unfortified wine and applies to it a tax rate of 61.71¢/gallon, which is the existing tax rate for beer. For comparison, the current tax rate of 26.34¢/liter equates to approximately 99.71¢/gallon; the new rate of 61.71¢/gallon represents a tax rate decrease of approximately 38%.

In FY 2017-18, net collections of the unfortified wine tax totaled \$28.7 million, with proceeds split between the State (\$14.8 million) and locals (\$14.0). The State Department of Revenue does not collect data about the proportion of this tax that came from traditional unfortified wine versus hard cider; however, other data sources can help approximate the potential fiscal impact of the change.

According to the National Beer Wholesalers Association, just under 193 million gallons of beer were sold in North Carolina in calendar year 2018 and of that, an estimated 1.5% (or approximately 2.9 million gallons) was hard cider that would be affected by the bill. Based on this data, total tax revenue would have been approximately \$1.1 lower in 2018 had the proposed rate been in effect.

	<u>Current Law</u>	<u>HB 995</u>
Est. Gallons Sold	2,893,000	2,893,000
Tax Rate	<u>0.9971</u>	<u>0.6171</u>
Tax Revenue	2,885,000	1,785,000

For future years, the estimated revenue loss has been calculated taking into account the growth rate in malt beverage tax gross proceeds over the past 3 years, which is 1.21%.

Change in Revenue Distributions

The bill also changes how tax proceeds on hard cider sales are shared between the State and local governments. Under current law, the State retains 50.56% of all unfortified wine net tax proceeds, with local governments receiving 49.44%. Under the bill, the State would retain 79.53% of hard cider net tax proceeds; local governments would receive 20.47%.

This change in distribution almost entirely mitigates the State’s revenue loss from the rate change; however, local governments lose funds both from the rate decrease and from the change in the distribution formula.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

North Carolina Department of Revenue; National Beer Wholesalers Association - Industry Affairs, 2019

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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