

REDUCE STATE GROSS PROFIT ON SPIRITS; PAY SMALL DISTILLERS \$15 PER GALLON

Phone: (517) 373-8080
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Senate Bill 448 (reported from committee as H-4)

Sponsor: Sen. John Proos

Senate Committee: Regulatory Reform

House Committee: Regulatory Reform

Complete to 12-8-16

Analysis available at
<http://www.legislature.mi.gov>

BRIEF SUMMARY:

Generally speaking, the bill would amend Section 233 of the Michigan Liquor Control Code to:

- Lower the state's maximum gross profit to the state on a bottle of spirits by one-half percent per year from its current level of 65 percent to 55 percent as of 2036.
- However, an annual one-half percent decrease only becomes effective in a calendar year if the percentage of profit from the previous calendar year did not result in a decrease in revenue to the state because of the change in the percentage of profit.
- Require the Liquor Control Commission to pay an eligible distiller \$15 per gallon for every gallon of spirits sold in Michigan in a calendar year. An "eligible distiller" is a small distiller licensed under Section 534 of the act or an out-of-state entity that is the substantial equivalent. A "small distiller" is defined in the Code as a manufacturer of spirits annually manufacturing in Michigan not more than 60,000 gallons of spirits, of all brands combined. A distiller would have to request the payment no later than April 15 following the year for which the payment is requested, and the payment would have to be made by July 31 in that year.
- However, the payment to the eligible distiller could not exceed the gross profit minus the 17 percent discount that the LCC received from the sale of spirits from an eligible distiller in a calendar year. This would apply to calendar years beginning on or after January 1, 2018.

FISCAL IMPACT:

As written, the bill would reduce the lapse from the Liquor Purchase Revolving Fund to the General Fund by an average of about \$65 million per year, primarily due to the phase down of the Liquor Control Commission's markup percentage. The reductions would be significantly smaller during the first few years, although by the time the markup percentage is reduced to 55%, the annual General Fund revenue loss could exceed \$140 million per year.

To the extent that sales in Michigan from craft distilleries expand faster than anticipated, the impact of the \$15 per gallon payment from the commission to the distiller would have a larger negative impact on the General Fund.

Finally, School Aid Fund revenue would decline by an average of about \$3 million per year, although as with the General Fund, the reductions would be initially relatively modest early on and much larger when the markup percentage has reached 55%.

BACKGROUND:

The following information on the Michigan Spirit Distribution System is derived from the Liquor Control Commission website:

Michigan operates as a "control" state for the sale of spirits. The Commission acts as the wholesaler for all spirit products. A Vendor of Spirits sells spirits to the Commission. The Commission then resells the spirits to both on and off-premises retail licensees. Spirit products are warehoused and delivered to retail licensees by Authorized Distribution Agents ("ADA"). An ADA is required to be certified by the Commission and is also required to have a contract with each Vendor of Spirits they represent to deliver their particular spirit products. Spirit products that are sold to consumers for off-premise consumption by licensed Specially Designated Distributors ("SDD") are sold statewide at uniform prices set by the Commission. The uniform price set by the Commission is determined by the cost of the spirit product to the Commission plus a 65% mark-up, plus a combination of specific taxes.

Legislative Analyst: Chris Couch
Josh Roesner
Fiscal Analyst: Marcus Coffin
Jim Stansell

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