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WINE & SPIRITS
WHOLESALERS ASSOCIATION

February 13, 2017

To: Senate Committee on Assessment and Taxation
From: R.E. "Tuck" Duncan, General Counsel[1]
RE: SB 175 — Income tax, rates, modifications, credits; cigarettes and tobacco products, rates; alcoholic beverages, liquor enforcement, rates; business entities, filing fees.

A few weeks ago I distributed to you my recent *Kansas Beverage News* article on beverage alcohol taxation and I refer you to it. The "whiskey tax" is as old as the Republic and was the first tax imposed on a domestic product by the newly formed federal government. Becoming law in 1791 it was intended to generate revenue to reduce the national debt. Now the Governor proposes more beverage alcohol taxes to reduce Kansas' debt. We oppose the increase for the following reasons.

Beverage Alcohol is taxed four (4) times. The federal government collects an excise tax when the product is produced, Kansas collects a gallonage tax when the product comes to rest at a distributor's warehouse, the state collects an 8% tax when the consumer buys a bottle at the liquor store and the consumer pays 10% on the cost of a drink (wine beer or spirits).

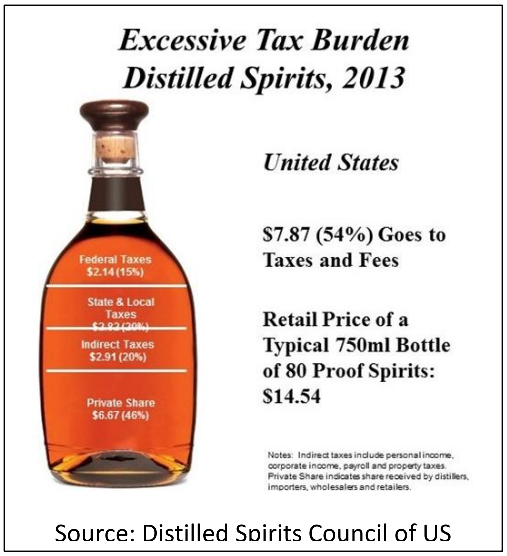
The total taxes generated on a $15.00 liter of spirits = $16.26

Federal tax $13.50 proof gallon /typical 80 proof liter (.264)	= $2.85
State Gallonage tax $2.50 liquid gal, on a liter	= 0.66
8% enforcement tax on average $15.00 liter of spirits	= 1.20
10% drink tax on liter (33 drinks @ $3.50 drink)	= 11.55
	$1**6.26**

Few other products have as many levels of taxation.

[1] *I am out-of-state Monday February 13, 2017 and regret that I cannot present testimony in person If there is a continuance of this hearing to a later date I would be pleased to comment and answer questions.*

In the most recent fiscal year FY 2016 Kansas collected $ 43,792,301 excise (drink) taxes; $ 67,754,222 enforcement (retail) taxes and $ 22,192,394 gallonage taxes for a total of $133,738,917. That was an increase of $1.1 million or nearly a 1% increase from $132,589,265 the previous fiscal year's collections. As a general rule liquor taxes have increased in each of the fiscal years this century. Since FY 2011 liquor tax collections have increased by 17 per cent.



Source: Distilled Spirits Council of US

Beverage alcohol products rank among the highest taxed consumer items available today in the United States.

47% of all Kansas sales are within the 2 counties of the Missouri state line. Folks will cross the border and buy. As a result of doubling the enforcement tax there will be a tax differential between KCMO and Johnson County of 7.65%.

An additional difficulty with increasing taxes on specific products, such as alcohol, is the effect an increase in price has on the demand for the goods. Economists refer to this as the "elasticity of demand." If the tax adversely effects price, demand drops and total tax collections are reduced such that the purpose of increasing the tax, more revenue, is defeated.

The budget director concedes we will lose $95 million in sales at retail (1.5% sales loss at retail for each 1% tax increase), which means a loss of approximately $75 million at wholesale. In total there is a rollover loss of economic activity (x6) of $1 billion to the annual Kansas economy.

Alas, in the final analysis, do we really want to raise liquor taxes by $50 million, and hamper our economy at the cost of 1 billion? One would think not.

Please remove the proposed beverage alcohol taxes from SB175. *Thank you for your attention to and consideration of this matter.*

Pdf to: Phyllis.Fast@Senate.ks.gov