

Alcoholic Beverage Taxes

Background

Alcoholic beverage excise taxes on distilled spirits, beer, and wine became effective in 1936 at the following rates: distilled spirits - \$1.04 a gallon; beer - \$1.50 a barrel; and wine - \$0.25 a gallon.

In 1940, the excise tax rate for distilled spirits was raised to \$1.20 and in 1948, it was raised to \$1.28. In 1970, the rate was raised to \$1.92 a gallon where it remains today. In 1986, the tax rate was lowered to \$0.25 per gallon on distilled spirits placed in containers for sale at retail, where the distilled spirits represent 6 percent or less of the total volume of contents of such containers.

In 1954, the rate on wine excise was raised to \$0.50 a gallon, and the rate on beer excise was increased to \$2.50 a barrel (\$0.083/gallon). Effective August 1, 1992, the liability for the excise tax on beer was shifted from the brewer to the distributor or retailer.

In 1982, a wholesale sales tax was imposed at the rate of 9 percent of the gross receipts derived from “sales at wholesale” or “wholesale sales of distilled spirits, wine, and beer”. The 2005 General Assembly raised the wholesale sales tax to 11 percent effective June 1, 2005.

Although insignificant from a revenue standpoint, each wholesaler pays a 5-cents-per-case tax on each case of distilled spirits sold within the state.

Current Rate Structure

Total alcoholic beverage taxes were \$102.2 million in FY07, which represents 1.02 percent of the total General Fund revenue.

Distilled Spirits Excise Tax	\$1.92 a gallon
Beer Excise Tax	\$2.50 a barrel
Wine Excise Tax	\$0.50 a gallon
Wholesale Sales Tax	11% of gross receipts
Distilled Spirits Case Sales Tax	\$0.05 per case

Tax Base The consumption tax is a gallonage tax and becomes the liability of the distilled spirits and wine wholesaler when these beverages are sold to retailers or consumers within the state. The gallonage tax on beer is paid by the distributor selling in this state. The wholesale sales tax is based on gross receipts derived at the wholesale level. When reporting and paying the sales tax, the wholesaler, distributor, or anyone required to pay the tax is allowed to deduct 1 percent of the tax due as compensation. The wholesaler of distilled spirits in Kentucky pays the case sales tax.

Tax Due The consumption tax, the wholesale sales tax and the case sales tax must be remitted to the Department of Revenue on or before the twentieth day of the month following the month in which the transactions occurred.

- Exemptions**
- ◆ Wine manufactured, sold, given away or distributed and used solely for sacramental purposes.
 - ◆ Distilled spirits and wine purchased by holders of special licenses provided for in KRS 243.320 and 243.330 and used as non-beverage alcohol, e.g. medicinal alcohol, anti-septic alcohol, flavoring extracts, syrups, etc.
 - ◆ Holders of railroad or commercial airline system licenses exempt from excise tax.
 - ◆ Sales to federal agencies and instrumentalities.
 - ◆ Sales for shipment outside Kentucky for sales through retail outlets and consumption outside Kentucky.

Table 1. Total Alcoholic Beverage Tax Expenditures

FY 2008	FY 2009	FY 2010
\$0.87 million	\$0.87 million	\$0.87 million

Tax Expenditures

1. Allowance for Collecting and Reporting

Kentucky Revised Statute 243.886, effective 1982

As compensation, each wholesaler required to pay and report the wholesale sales tax is permitted to deduct on each report 1 percent of the tax due.

FY 2008	FY 2009	FY 2010
\$825,000	\$825,000	\$825,000

2. Low Volume Distilled Spirits Taxed at Reduced Rate

Kentucky Revised Statute 243.720(1)(b), effective 1986

Distilled spirits in containers where the distilled spirits represent 6 percent or less of the total volume of the contents of such containers are taxed at the reduced rate of 25 cents per gallon.

FY 2008	FY 2009	FY 2010
\$40,000	\$40,000	\$40,000
