

# Fiscal Analysis

## ELIMINATION OF UNIFORM SELLING PRICE OF SPIRITS FOR OFF-PREMISE CONSUMPTION



**Bill/Sponsor** HOUSE BILL 4458 (H-2), Rep. Sal Rocca

**House Committee** Regulatory Reform

### Analysis

#### Summary

House Bill 4458 (H-2) would amend the Michigan Liquor Control Code of 1998 by defining “retail selling price” as the price the commission pays for spirits plus the gross profit established in section 233 of the code. The bill also would allow off-premise licensees to sell alcoholic liquor at or above the minimum “retail selling price” fixed by the commission.

#### Fiscal Impact

Currently liquor prices in Michigan are fairly tightly established. The Liquor Control Commission marks-up the cost of liquor by 65% (the gross profit), the licensees receive a 17% discount, and a 13.85% tax is collected by the commission at the time of sale by the commission. The following is an example of how liquor prices are calculated in Michigan.

	<b>Price to On-Premise Licensee</b>	<b>Price to Off-Premise Licensee</b>	<b>Price to Retail Consumer</b>	
<b>Calculation of base price and discount</b>				
A	Price of bottle to LCC: includes amount to distiller and Federal Government share (1)	\$6.06	\$6.06	\$6.06
B	Liquor mark-up: 65% of A	\$3.94	\$3.94	\$3.94
C	Base price/bottle: A + B	\$10.00	\$10.00	\$10.00
D	Discount to licensee: 17% of C for on-premise and off-premise licensees only	(\$1.70)	(\$1.70)	-
E	<b>Subtotal – price before taxes</b>	<b>\$8.30</b>	<b>\$8.30</b>	<b>\$10.00</b>
<b>Calculation of taxes</b>				
F	Specific tax: 4% of C, convention facilities	\$0.40	\$0.40	\$0.40
G	Specific tax: 4% of C, school aid fund	\$0.40	\$0.40	\$0.40
H	Specific tax: 4% of C, general fund	\$0.40	\$0.40	\$0.40
I	Substance abuse tax: 1.85% of C for off-premise licensee and retail consumers only	-	\$0.18	\$0.18
J	<b>Subtotal: price after taxes (2)</b>	<b>\$9.50</b>	<b>\$9.68</b>	<b>\$11.38</b>
K	Sales tax: 6% of J for retail consumer only	-	-	\$0.68
L	<b>Total Costs</b>	<b>\$9.50</b>	<b>\$9.68</b>	<b>\$12.07</b>

(Example provided by the Department of Consumer and Industry Services)

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- (1) Federal excise tax = \$13.50 per proof gallon. It is paid by the distillery/importer.  
(2) The retail price in this row represents the shelf price consumers pay for this product in liquor and grocery stores. The difference between the retail price and the price to the off-premise licensee equals the merchant's profit. The merchant's profit matches the discount rate calculated in row D above.

The proposed bill would continue the prices charged to the licensees (line E) by the commission as well as the taxes applied and collected by the commission on the minimum pricing (lines F, G & H), but would allow licensees to charge anywhere above the minimum pricing set by the commission. The bill would allow no cap on the pricing of liquor in Michigan.

The fiscal impact on State or local units of government is indeterminate. Critical in determining the fiscal effect is the price elasticity of demand for liquor. Meaning, the relative degree of responsiveness of the quantity of liquor sold to relatively small changes in its price. It cannot be determined how high licensees will raise prices; to what extent there will be consumption changes, or how much out-of-state purchasing by consumers may change. If liquor prices to consumers increases and demand remain constant there would be additional revenues to the State in the form of increased sales tax revenue.

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**FLOOR ANALYSIS - 10/16/03**

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