

Competitive Alcohol Pricing Task Force

Written Testimony of Michael D. Cimini

September 12, 2012

1. The easiest way to reduce prices is to reduce taxes. Specifically with regard to CT versus MA as the attached sheet compiled by the State of Connecticut shows, CT is 118% higher on beer excise taxes, 31% higher on wine excise taxes, and 33% higher on liquor excise taxes.

The multiplier effect: In addition since those taxes are laid in they become a part of the selling price and are subject to a markup in each step of the process.

Category	Nominal Excise Tax	Plus Wholesaler 25% Markup	Plus Retailer 25% Markup	Plus 6.35% Sales Tax
Beer	.24	.30	.38	.40
Wine	.72	.90	1.13	1.20
Liquor	5.4	6.75	8.44	8.97

So the effect of the tax becomes greater in each bracket adding as much as \$8.97 per gallon in the liquor category.

2. Even with a higher tax scheme, suppliers who have an incentive to hit a certain price point in the market are currently producing better price points for their goods in CT than in MA. Just as the Governor cherry picked a few highlighted items to make his point in his February 28, 2012 testimony to the General Law Committee, items can also be cherry picked to show the opposite effect.

Please see the attached sheet for 10 items that are cheaper to buy on case 1 in CT than at the very highest deal level in MA.

The Governor's list is actually misleading in 2 ways: 1) it shows the very best prices on a handful of items that Yankee Spirits was actively trying to promote through print advertising and is not reflective of pricing on the other 10,000 plus items for sale; 2) it states that all prices are pre-tax which is not true- all prices shown are pre-sales tax but are fully reflective of the underlying Federal and state excise taxes.

3. Should government try and force lower prices through unrestricted competition (instead of lowering tax rates to be competitive) a situation arises where small and medium sized operators are forced to funnel cash into a smaller array of products (reducing consumer selection) or to try and compete across the spectrum ultimately failing.

As a Massachusetts and Connecticut operator I can tell you for certain that from a marketing/perception standpoint the single biggest factor in the consumer decision as it relates to buying beverage alcohol across state lines is sales tax or lack thereof.

**Location:**

TAXES - ALCOHOL;



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2011-R-0252

**(Revised)****TAXES ON ALCOHOLIC BEVERAGES**

By: Judith Lohman, Assistant Director

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You asked for (1) a history of increases in taxes on alcoholic beverages in Connecticut, (2) the alcoholic beverage tax rates in surrounding states, and (3) whether any surrounding states have recently increased their alcoholic beverage taxes.

**SUMMARY**

Since 1968, Connecticut has increased its excise tax on alcoholic beverages three times, including the 20% increase that took effect on July 1, 2011. The tax was last increased in 1989, when the legislature doubled the tax on beer, wine, and liquor. During that time, Connecticut also reduced taxes on two subcategories of alcohol: (1) wine with 21% alcohol or less produced by small wineries and (2) low-alcohol liquor coolers.

A comparison of Connecticut's current per-gallon alcoholic beverage taxes with those of eight other states in the region shows that Connecticut ranks in the top half of the nine states in its taxes on beer, liquor, and wine. Since 2008, three other states in the region (Maine, New Jersey, and New York) have increased their state alcoholic beverage taxes. Maine's increase was subsequently repealed by voters in a referendum. Among the states bordering Connecticut, Massachusetts and Rhode

### Current Tax Rates

The best way to compare state excise taxes on alcoholic beverages is on a per-gallon basis. Table 2 shows per-gallon taxes on beer, wine, and liquor (distilled spirits) in Connecticut; other New England states; and New York, New Jersey, and Pennsylvania.

The comparison shows that Connecticut's tax on beer is the fourth highest. It is lower than in Maine, New Hampshire, and Vermont, but higher than in our border states of New York, Massachusetts, and Rhode Island. Connecticut's tax on wine is the second highest in the region after New Jersey's and its tax on liquor is the third highest behind New York and New Jersey.

Six of the nine states, including Connecticut, also apply state sales tax to alcohol purchases. Table 2 shows the alcoholic beverage and sales taxes that apply to beer, wine, and liquor purchases in each state.

**Table 2: Taxes on Alcoholic Beverages in Connecticut and Neighboring States**

State	Per-Gallon Excise Tax			State Sales Tax
	Beer	Wine	Liquor	
Connecticut	\$0.24	\$0.72	\$5.40	6.35%
Maine	0.25 <sup>1</sup>	0.30 <sup>1</sup>	2	5.0%
Massachusetts	0.11	0.55	4.05	Not applicable <sup>3</sup>
New Hampshire	0.30	2	2	No sales tax
New Jersey	0.12	0.88	5.50	7.0%
New York	0.14	0.30	6.44	4.0%
Pennsylvania	0.08	2	2	6.0%

Item	Ma Price	MA Deal Level	Ct Case 1 Price	Ct Cheaper by
Absolut 1.75	\$26.77	200	\$24.50	\$2.27
Belvedere 750	\$24.99	10	\$22.99	\$2.00
Bacardi 1.75	\$19.99	250	\$18.91	\$1.08
Dewars 1.75	\$29.99	500	\$29.91	\$0.08
Jack daniels 1.75	\$36.21	50	\$34.58	\$1.63
Patron 750	\$37.99	1	\$33.50	\$4.49
Kendal J Chardonnay	\$9.87	100	\$9.50	\$0.37
Cupcake	\$6.87	25	\$6.71	\$0.16
J Walker Blue	\$189.99	1	\$157.99	\$32.00
Caymus Cab	\$57.33	1	\$52.08	\$5.25