

Draft Subject to Revision

## Economic Impact of Alabama Beer Wholesale Distributors

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## Executive Summary

Summarized in this section are major findings of this report.

### Preliminary Analysis

1. Based on data available to this investigator, the total number of permanent employees of all distributors in Alabama is 2,033 with annual total wages paid to these employees being estimated at \$83,885,158.08. Total non-wage expenditures of these distributors are estimated to be \$25,501,088.06.

### Methodology

2. RIMS II multipliers for the state of Alabama are employed in estimating economic impact in this report. The economic impact estimated in this report may be viewed as the total amount of losses that will incur if all beer wholesale distributors cease to operate and their businesses are not replaced by other businesses in Alabama. The impact will be proportionately smaller to the extent that businesses of current distributors are replaced or offset by other in-state businesses.

### Estimates of Economic Impact

3. Direct impact refers to impact that excludes multiplier effects, while total impact includes multiplier effects. In estimation, all employees are assumed to spend approximately 10 percent of their earnings in places outside Alabama, lowering the in-state impact calculated in this report. Economic impact arises from wage expenditures of employees of distributors as well as nonwage expenditures of distributors. Impact estimates, summarized below, include both impacts of wage and nonwage expenditures.
4. Direct economic impact of beer wholesale distributors in Alabama, which excludes multiplier effects, is \$176,918,341 per year of which \$98,012,761 is the earnings impact. Direct employment impact is 2,367.

5. Total economic impact of beer wholesale distributors in Alabama, which includes multiplier effects, is \$316,577,679 per year of which \$175,384,034 is the earnings impact. Total employment impact is 4,148.
6. Total annual tax impacts of beer wholesale distributors in Alabama on all Alabama cities combined are sales tax of \$2,140,387 and property tax of \$177,489. Total tax impact on all Alabama cities combined is \$2,137,875 per year. These estimates include multiplier effects.
7. Total annual tax impacts of beer wholesale distributors in Alabama on the state government of Alabama are income tax of \$5,787,673, sales tax of \$1,926,348 and property tax of \$230,735. Total tax impact on the state government of Alabama is \$7,944,756 per year. These estimates include multiplier effects.
8. Total annual Impact of beer wholesale distributors on selected retail industries are, with impact figures in the parentheses: food at home, i.e., groceries (\$12,904,434), food away from home, i.e. restaurants (\$9,130,600), shelter, i.e., homes and apartments (\$31,599,366); apparel and services for men and boys (\$1,375,336); apparel and services for women and girls (\$2,695,066); footwear (\$1,293,780); vehicle purchases (\$9,682,959); health care (\$11,232,529); cash contributions (\$6,272,422); and more. Details are presented in Table 4-9 in the report.

### Tax on Beer in Alabama

9. Beer drinkers in Alabama pay the second highest tax rate, next to Alaska, on beer among the 50 states.
10. During FY 2012-13, the amount of excise tax that wholesale distributors collected and submitted to ABC Board for intra state distribution is \$49,885,302.79. Beer excise tax is distributed to 47 of 67 Alabama counties.

### Economic Functions of Beer Distributors

11. The existence of the distribution tier in the beer industry benefits brewers by lowering the needs for transportation as well as reducing

transaction costs which include advertising expenses and information gathering on consumer preferences. This benefit is especially important to small brewers.

12. The existence of the distribution tier in the beer industry benefits beer drinkers by making more choices available in the marketplace.

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## Section 1

### Introduction

Beer wholesale distributors play the role of securing beer from a wide variety of importers and manufacturers, and then making it available to retailers. Since there are three groups of businesses involved in this business format, it is often called the three-tier system. By working with numerous brewers, distributors provide a vehicle to market not only for the largest multinational beer brands but for small and start-up craft brewers as well. The three-tier system is comprised of licensed brewery called also beer manufacturers, licensed distributors called also beer wholesalers, and licensed retailers.

With limited exceptions, businesses in Alabama that are licensed to operate in one of the three tiers are prohibited from operating in either of the other two tiers. Businesses licensed to operate in one of the three tiers are also prohibited from having any interest in an entity licensed to operating in either of the two other tiers. Beer wholesalers are not allowed to sell alcoholic beverages directly to consumers. It may be noted that “Each alcoholic beverage manufacturer or importer licensed by the ABC Board to sell alcoholic beverages in Alabama is required to designate exclusive territories for each of its brands within the state and name one licensed wholesaler for each territory. ... Wholesalers are prohibited from selling beer outside their exclusive territory.” (*Memorandum*, dated May 14, 2015, from Michael Hill of the Alabama Law Institute to the Alabama Alcohol Beverage Study Commission titled “General Background on Alabama Alcohol Regulation)

Currently, there are approximately 47 beer wholesale distributors in Alabama, referred to in this report simply as distributors. These distributors generate a significant economic impact in terms of employment, earnings, and tax revenues. Estimated in this report are economic impacts of the Alabama’s beer wholesale distributors on the state’s economy. The estimation is based on the RIMS II multiplier model as these multipliers are estimated by the U.S. Bureau of Economic Analysis for Alabama.

## Section 2

### Preliminary Analysis

Reviewed in this section are estimates of the number of employees employed directly by distributors, wages paid to these employees, and non-wage expenditures of distributors.

#### Direct Employment and Wages

A report by the Beer Institute states that in 2012, Alabama distributors employed 2,180 workers with wages to these employees totaling \$120,769,200, suggesting \$55,398.72 per employee. (Beer Institute, "Beer Industry Economic Impact in Alabama," Alexandria, VA: Beer Institute, a report prepared for the National Beer Wholesalers Association, 2012, p. 1) A report by the University of Delaware indicates that in 2013, Alabama distributors employed 2,356 workers with wages paid to these employees totaling \$161,574,304, suggesting \$68,579.93 per employee. (William Lantham and Kenneth Lewis, "America's Beer Distributors: Fueling Jobs, Generating Economic Growth & Delivering Value to Local Communities," Center for Applied Business & Economic Research, University of Delaware, prepared for the National Beer Wholesalers Association, 2013, p. 20) An updated estimation, released by the National Beer Wholesalers Association, indicates that in Alabama, the number of employees by distributors is 2,033 with total wages of \$114,975,700, suggesting \$56,554.70 per employee.

A survey of distributors made specifically for this report indicates that on the basis of 633 sample employees, the average earning per employee in 2015 is \$41,261.76, which is higher than \$34,084.96 or \$655.48 per week that is reported under wholesale trade in the June 2015 issue of the Alabama Labor Market June 2015, but much lower than \$55,398.72, \$68,579.93, and \$56,554.70 that are indicated in the three national studies cited in the above. A 2014 national survey of beer wholesale distributors indicates a widely ranging compensation, excluding fringe benefits, depending on positions. The annual median compensation for the representative group of job titles, "driver/salesperson – combination" in 2014 was \$44,149. (Industry Insights, *2014 Compensation and Benefits Study*, report prepared for the National Beer Wholesalers Association, 2014, p. 10)

For estimation in this report, the total number of employees is conservatively assumed to be 2,033 at an annual wage of \$41,261.76 per employee. Most likely, these figures represent an underestimation of the real employment and wage impact.

Non-Wage Expenditures of Distributors

Although wages are a large component of business operations, they are not the only component that generates economic impact. Nonwage expenditures in the impact area have just as significant impact as wage expenditures. It is, therefore, necessary to calculate nonwage expenditures to derive complete impact estimation. The U.S. Bureau of the Census publishes annual surveys of business expenses by type. ([https://www.census.gov/services/sas/historic\\_data.html](https://www.census.gov/services/sas/historic_data.html), accessed July 7, 2015) The latest are “selected expenses for employer firms” based on data from the 2011 Service Annual Survey and Administrative Data. Dollar volume estimates are published in millions of dollars. Figures of two industry groups that are most close to beer wholesale distributors are summarized below. Nonwage expenditure items, not the dollar amount, that are likely to incur to the beer distributors are bold-faced:

Truck Transportation:

Total operating expenses	199,471
Gross annual payroll	53,704
Employer's cost for fringe benefits	12,967
Temporary staff and leased employee expense	2,373
<b>Expensed equipment</b>	<b>439</b>
<b>Expensed purchases of other materials, parts, &amp; supplies</b>	<b>5,570</b>
Purchased freight transportation	35,626
<b>Expensed purchases of software</b>	<b>205</b>
Purchased fuels for transportation equipment	29,910
<b>Purchased electricity and fuels (except motor fuels)</b>	<b>725</b>
Lease and rental payments	8,230
Purchased repair and maintenance	6,498
<b>Purchased advertising and promotional services</b>	<b>559</b>
<b>Cost of insurance</b>	<b>6,859</b>
Depreciation and amortization charges	9,122
Governmental taxes and license fees	3,647
All other operating expenses	23,037

## Warehousing and Storage:

Total operating expenses	18,733	
Gross annual payroll	5,872	
Employer's cost for fringe benefits	1,359	
Temporary staff and leased employee expense		1,021
<b>Expensed equipment</b>	<b>78</b>	
<b>Expensed purchases of other materials, parts, &amp; supplies</b>		<b>686</b>
<b>Expensed purchases of software</b>	<b>55</b>	
<b>Purchased electricity and fuels (except motor fuels)</b>		<b>615</b>
Lease and rental payments	2,081	
<b>Purchased repair and maintenance</b>	<b>488</b>	
<b>Purchased advertising and promotional services</b>		<b>79</b>
Depreciation and amortization charges	882	
Governmental taxes and license fees	370	
All other operating expenses	5,147	

The ratio of the nonwage expenditures of bold-faced items to wage expenditures is derived by adding the bold-faced nonwage expenditures and then by dividing the total by gross annual payroll. The ratios for truck transportation and warehousing and storage thus calculated are, respectively, 0.267 (=14,357/53,704) and 0.341 (=2,001/5,872), with the average of two being 0.304. Nonwage expenditures of Alabama beer wholesale distributors are obtained:

$$2,033 \times \$41,261.76 \times 0.304 = \$25,501,088.06$$

## Summary

Based on data available to this investigator, the total number of permanent employees of all distributors in Alabama is 2,033 with annual total wages paid to these employees being estimated at \$83,885,158.08. Total non-wage expenditures of these distributors are estimated to be \$25,501,088.06.

## Section 3

### Estimation Methodology

Explained in this section is the methodology of impact estimation based on RIMS II model.

#### Methodology of Impact Estimation

Economic impact studies often include multiplier effects in the study area. Multipliers employed in this study are RIMS II multipliers developed by the U.S. Bureau of Economic Analysis for Alabama. Use of multipliers in this report follows recommendations made in two studies prepared by BEA economists on how to use these multipliers (Zoë O. Ambargis, Thomas McComb, and Carol A. Robbins, “Estimating the Local Economic Impacts of University Activity Using a Bill of Goods Approach,” The 19th International Input-Output Conference, Alexandria, Virginia June 13-19, 2011; and Rebecca Bess and Zoë O. Ambargis, “Input-Output Models for Impact Analysis: Suggestions for Practitioners Using RIMS II Multipliers,” Paper presented at the 50th Southern Regional Science Association Conference, March 23-27, 2011, New Orleans, Louisiana).

There are three types of multiplier effects. The direct effect is defined as the increase in inputs that is prompted by the new expenditures for the purpose of operating or carrying out the project. “The indirect effect is defined as the additional rounds of spending in the supply chain of those inputs, and the induced effect is defined as the household spending by employees throughout the supply chain.” (Ambargis, McComb and Robbins, p. 5) RIMS II provides both Type I and Type II multipliers. Type I multipliers account for the direct and indirect impacts based on how goods and services are supplied within a region. Type II multipliers not only account for these direct and indirect impacts, but they also account for induced impacts based on the purchases made by employees. (Bess and Ambargis, p. 7) BEA began to publish Type II multipliers since May 11, 2011.

Direct effects, indirect effects, and induced effects of the multiplier in beer distribution are well explained by William Lantham and Kenneth Lewis in their 2013 report for the National Beer Wholesalers Association.

“Direct effects are the jobs, payroll and output created directly by the distributors in their own operations. Indirect effects are the additional

jobs, payroll and output created when the beer distributors purchase goods, equipment and services from the many diverse businesses that support them. These businesses include providers of office supplies, fuel for trucks, utilities, insurance and many other business services. It is important to note that these providers do not include the suppliers of the beer and other products that are handled by the distributors. Additional rounds of indirect effects occur as providers make purchases from their own input providers. Induced effects measure the additional jobs, payroll and output created throughout the economy when the employees of the distributors or of the indirect providers, in any of the rounds, make purchases of consumer goods, other property and services or pay taxes using their wages and salaries. The total effect, or total impact, is simply the sum of direct, indirect and induced effects. (William Lantham and Kenneth Lewis, "America's Beer Distributors: Fueling Jobs, Generating Economic Growth & Delivering Value to Local Communities," Center for Applied Business & Economic Research, University of Delaware, prepared for the National Beer Wholesalers Association, 2013, p. 7)

The approach to estimating the impact in this report is based on a publication by this investigator. (Semoon Chang, "RIMS II-Based Model of Estimating Economic Impacts: An Illustration Based on the Mobile, Alabama, Area Study" *Applied Research in Economic Development*, Vol. 3, No. 2, 2006, pp. 88-100)

### Appropriate Use of Multipliers

It is important to understand the nature and the limitations of regional multipliers which include RIMS II multipliers. Key limitations include the accuracy of leakage measures, the emphasis on short-term effects, the absence of supply constraints, and more. (Semoon Chang, Hwa-Kyung Kim, and Katarina Petrovcikova, "Uses and Abuses of Economic Impact Studies in Tourism," *Event Management*, forthcoming 2016.) Some of limitations are illustrated below.

Multipliers are usually based on the assumption that there are no constraints to local supply conditions. For example, the approach assumes that the firms in the local economy are not operating at full capacity or there are employees available for hire within the study area at the existing wage rate. If the local economy is operating at full capacity or full employment,

the multiplier effects may not exist, or may be smaller than what the multipliers indicate, if existed.

Multipliers assume that changes in output will result in a proportional change in jobs based on the average production patterns for the industries in a local economy. However, if an industry can increase its output by extending mainly the number of hours that existing employees work, then the results estimated with full multipliers will overstate the actual increase in local employment.

For the multiplier effects to fully take place, the initial spending should be permanent, or, at least, last for a while. If not, as may be the case with a short-term construction project, firms in the local area may increase output without hiring as many additional employees or buying as many additional inputs from the local economy as the multiplier model assumes. Put differently, festivals, sporting events and construction projects that do not last long will have multiplier effects that either do not exist, or are smaller than what the numbers may indicate.

Finally, any transfer benefits should not be counted as benefits of a project. For example, impact of a new Wal-Mart store should be net of the adverse impact on other smaller stores that may have to be closed. For another example, a new tenant at the RSA Tower in Montgomery or Birmingham should not be counted as an economic impact if the tenant is moving to the Tower from another location in Alabama.

## Summary

Projects lasting less than a year may not have full multiplier effects, while impact of businesses such as distributors that continue to operate will have full multiplier effects. RIMS II multipliers for the state of Alabama are employed in estimating economic impact in this report. The economic impact estimated in this report may be viewed as the total amount of losses that will incur if all beer wholesale distributors cease to operate and their businesses are not replaced by other businesses in Alabama. To the extent that these businesses are replaced by other in-state businesses, the estimated impact becomes smaller proportionately.

## Section 4

### Estimation of Economic Impact

Estimated economic impact of employment and wage expenditures, economic impact of nonwage expenditures of distributors, and economic impact of both wage and nonwage expenditures combined are estimated and presented in tables in this section. Each of the three groups has three tables: economic impact in employment and wages in both direct and total impact with multiplier effects, tax impact with multiplier effects, and impact on retail industries with multiplier effects.

#### Impact of Employee Wages

Table 4-1 in this section relate to direct and total impacts of employment and wage expenditures. Total output refers to the contribution of wage expenditures toward the state's gross state product. Table 4-2 shows tax impact of wage expenditures, including the multiplier effects, by selected jurisdiction and by taxes. Table 4-3 shows impact of wage expenditures on Alabama's retail industry by selected industries. Figures in Table 4-3 also include multiplier effects.

Table 4-1. Economic Impact of Employee Wages

Impact by Type	Direct Impact	With Multiplier
Total Output	\$151,417,253	\$270,946,032
Earning	\$83,885,158	\$150,104,102
Employment	2,033	3,550

Table 4-2. Tax Impact of Employee Wages

Alabama Cities Combined	Amount(\$)
Sales tax	1,831,870
Property tax	151,905
cities total	1,983,776
State of Alabama	
Income tax	4,953,435
Sales tax	1,648,683
Property tax	197,477
state total	6,799,596

Table 4-3. Impact of Employee Wages on Retail Industries

Food	Amount(\$)
Food at home	11,044,383
Food away from home	7,814,512
Alcoholic Beverages	1,167,576
Housing	
Shelter	27,044,619
Utilities, fuels, and public services	11,869,301
Household operations	3,074,406
Housekeeping supplies	2,116,232
Household furnishings/equipment	4,711,551
Apparel and services	
Men and boys	1,177,095
Women and girls	2,306,598
Children under 2 years old	272,857
Footwear	1,107,294
Other apparel products/services	799,536
Transportation	
Vehicle purchases (net outlay)	8,287,253
Gasoline and motor oil	6,672,317
Other vehicle expenses	7,522,618
Public transportation	996,247
Health care	9,613,467
Entertainment	7,827,203
Personal care products/services	1,881,448
Reading	269,685
Education	2,601,664
Tobacco prod/supplies	1,250,068
Miscellaneous	2,436,681
Cash contributions	5,368,312
Personal insurance/pensions	
Life/personal insurance	945,483
Pensions/social security	14,965,916
Grand Total	145,144,321

## Impact of Nonwage Expenditures

Table 4-4 in this section relate to direct and total impacts of employment and nonwage expenditures. Total output refers to the contribution of wage expenditures toward the state's gross state product. Table 4-5 shows tax impact of nonwage expenditures, including the multiplier effects, by selected jurisdiction and by taxes. Table 4-6 shows impact of nonwage expenditures on Alabama's retail industry by selected industries. Figures in Table 4-6 also include multiplier effects.

Table 4-4. Economic Impact of Nonwage Expenditures

Impact by Type	Direct Impact	With Multiplier
Total Output	\$25,501,088	\$45,631,647
Earning	\$14,127,603	\$25,279,932
Employment	334	598

Table 4-5. Tax Impact of Nonwage Expenditures

Alabama Cities Combined	Amount(\$)
Sales tax	308,516
Property tax	25,583
cities total	334,100
State of Alabama	
Income tax	834,238
Sales tax	277,665
Property tax	33,258
state total	1,145,161

Table 4-6. Impact of Nonwage Expenditures on Retail Industries

Food		Amount(\$)
	Food at home	1,860,051
	Food away from home	1,316,089
Alcoholic Beverages		196,639
Housing		
	Shelter	4,554,747
	Utilities, fuels, and public services	1,998,980
	Household operations	517,779
	Housekeeping supplies	356,407
	Household furnishings/equipment	793,501
Apparel and services		
	Men and boys	198,242
	Women and girls	388,468
	Children under 2 years old	45,954
	Footwear	186,486
	Other apparel products/services	134,655
Transportation		
	Vehicle purchases (net outlay)	1,395,706
	Gasoline and motor oil	1,123,725
	Other vehicle expenses	1,266,929
	Public transportation	167,784
Health care		1,619,062
Entertainment		1,318,226
Personal care products/services		316,866
Reading		45,419
Education		438,162
Tobacco prod/supplies		210,531
Miscellaneous		410,376
Cash contributions		904,110
Personal insurance/pensions		
	Life/personal insurance	159,234
	Pensions/social security	2,520,500
Grand Total		24,444,626

## Total Impact of Beer Wholesale Distributors

Table 4-7 in this section relate to direct and total impacts of wage and nonwage expenditures combined. Total output refers to the contribution of wage and nonwage expenditures toward the state's gross state product. Table 4-8 shows tax impact of wage and nonwage expenditures combined, including the multiplier effects, by selected jurisdiction and by taxes. Table 4-9 shows impact of wage and nonwage expenditures on Alabama's retail industry by selected industries. Figures in Table 4-9 also include multiplier effects.

Table 4-7. Economic Impact of Wage and Nonwage Expenditures Combined

Impact by Type	Direct Impact	With Multiplier
Total Output	\$176,918,341	\$316,577,679
Earning	\$98,012,761	\$175,384,034
Employment	2,367	4,148

Table 4-8. Tax Impact of Wage and Nonwage Expenditures Combined

Alabama Cities Combined	Amount(\$)
Sales tax	2,140,387
Property tax	177,489
cities total	2,317,875
State of Alabama	
Income tax	5,787,673
Sales tax	1,926,348
Property tax	230,735
state total	7,944,756

Table 4-9. Impact of Wage and Nonwage Expenditures Combined on Retail Industries

Food		Amount(\$)
	Food at home	12,904,434
	Food away from home	9,130,600
Alcoholic Beverages		1,364,215
Housing		
	Shelter	31,599,366
	Utilities, fuels, and public services	13,868,281
	Household operations	3,592,185
	Housekeeping supplies	2,472,639
	Household furnishings/equipment	5,505,051
Apparel and services		
	Men and boys	1,375,336
	Women and girls	2,695,066
	Children under 2 years old	318,811
	Footwear	1,293,780
	Other apparel products/services	934,191
Transportation		
	Vehicle purchases (net outlay)	9,682,959
	Gasoline and motor oil	7,796,042
	Other vehicle expenses	8,789,547
	Public transportation	1,164,031
Health care		11,232,529
Entertainment		9,145,429
Personal care products/services		2,198,313
Reading		315,104
Education		3,039,826
Tobacco prod/supplies		1,460,599
Miscellaneous		2,847,057
Cash contributions		6,272,422
Personal insurance/pensions		
	Life/personal insurance	1,104,717
	Pensions/social security	17,486,416
	Grand Total	169,588,947

## Summary

Direct impact refers to impact that excludes multiplier effects, while total impact includes multiplier effects. In estimation, all employees spend approximately 10 percent of their earnings in places outside Alabama, lowering the in-state impact calculated in this report proportionately.

**Impact of Wage Expenditures:** Direct economic impact of wage expenditures of beer wholesale distributors in Alabama, which excludes multiplier effects, is \$151,417,253 per year of which \$83,885,158 is the earnings impact. Direct employment impact is 2,033. Total economic impact of wage expenditures of beer wholesale distributors in Alabama, which includes multiplier effects, is \$270,946,032 per year of which \$150,104,102 is the earnings impact. Total employment impact is 3,550.

Total annual tax impacts of employees of beer wholesale distributors in Alabama on all Alabama cities combined are sales tax of \$1,831,870 and property tax of \$151,905. Total tax impact on all Alabama cities combined is \$1,983,776 per year. These estimates include multiplier effects. Total annual tax impacts of employees of beer wholesale distributors in Alabama on the state government of Alabama are income tax of \$4,953,435, sales tax of \$1,648,683 and property tax of \$197,477. Total tax impact on the state government of Alabama is \$6,799,596 per year. These estimates include multiplier effects.

Total annual Impact of employee wages on selected retail industries are, with impact figures in the parentheses: food at home, i.e., groceries (\$11,044,383), food away from home, i.e. restaurants (\$7,814,512), shelter, i.e., homes and apartments (\$27,044,619); apparel and services for men and boys (\$1,177,095); apparel and services for women and girls (\$2,306,598); footwear (\$1,107,294); vehicle purchases (\$8,287,253); health care (\$9,613,467); cash contributions (\$5,368,312); and more. Details are presented in Table 4-3 in the report.

**Impact of Nonwage Expenditures:** Expenditures of beer wholesale distributors on operational items other than wages also generate economic impact. Direct economic impact of nonwage expenditures of beer wholesale distributors in Alabama, which excludes multiplier effects, is \$25,501,088 per year of which \$14,127,603 is the earnings impact. Direct employment impact is 334. Total economic impact of nonage expenditures

of beer wholesale distributors in Alabama, which includes multiplier effects, is \$45,631,647 per year of which \$25,279,932 is the earnings impact. Total employment impact is 598.

Total annual tax impacts of nonwage expenditures of beer wholesale distributors in Alabama on all Alabama cities combined are sales tax of \$308,516 and property tax of \$25,583. Total tax impact on all Alabama cities combined is \$334,100 per year. These estimates include multiplier effects. Total annual tax impacts of nonwage expenditures of beer wholesale distributors in Alabama on the state government of Alabama are income tax of \$834,238, sales tax of \$277,665 and property tax of \$33,258. Total tax impact on the state government of Alabama is \$1,145,161 per year. These estimates include multiplier effects.

Total annual Impact of nonwage expenditures on selected retail industries are, with impact figures in the parentheses: food at home, i.e., groceries (\$1,860,051), food away from home, i.e. restaurants (\$1,316,089), shelter, i.e., homes and apartments (\$4,554,747); apparel and services for men and boys (\$198,242); apparel and services for women and girls (\$388,468); footwear (\$186,486); vehicle purchases (\$1,395,706); health care (\$1,619,062); cash contributions (\$904,110); and more. Details are presented in Table 4-6 in the report.

**Wage and Nonwage Impacts Combined:** Direct economic impact of wage and nonwage expenditures of beer wholesale distributors in Alabama, which excludes multiplier effects, is \$176,918,341 per year of which \$98,012,761 is the earnings impact. Direct employment impact is 2,367. Total economic impact of wage and nonage expenditures of beer wholesale distributors in Alabama, which includes multiplier effects, is \$316,577,679 per year of which \$175,384,034 is the earnings impact. Total employment impact is 4,148.

Total annual tax impacts of wage and nonwage expenditures of beer wholesale distributors in Alabama on all Alabama cities combined are sales tax of \$2,140,387 and property tax of \$177,489. Total tax impact on all Alabama cities combined is \$2,137,875 per year. These estimates include multiplier effects. Total annual tax impacts of wage and nonwage expenditures of beer wholesale distributors in Alabama on the state government of Alabama are income tax of \$5,787,673, sales tax of \$1,926,348 and property tax of \$230,735. Total tax impact on the state

government of Alabama is \$7,944,756 per year. These estimates include multiplier effects.

Total annual Impact of wage and nonwage expenditures on selected retail industries are, with impact figures in the parentheses: food at home, i.e., groceries (\$12,904,434), food away from home, i.e. restaurants (\$9,130,600), shelter, i.e., homes and apartments (\$31,599,366); apparel and services for men and boys (\$1,375,336); apparel and services for women and girls (\$2,695,066); footwear (\$1,293,780); vehicle purchases (\$9,682,959); health care (\$11,232,529); cash contributions (\$6,272,422); and more. Details are presented in Table 4-9 in the report.

## Section 5

### Tax on Beer in Alabama

Summarized below is a brief description of taxes that Alabama beer drinkers pay each year.

#### Tax Rates in Alabama

Taxes on beer in Alabama are levied in four different ways. One, which wholesale distributors play a key role in collecting, is the state excise tax at \$0.533 per gallon. Two others are \$0.52 per gallon statewide local tax, and optional local government tax. On top of the three, there is a general sales tax that applies to the price that already includes excise tax. (KMP, "Selected 2014 updates to: An analysis of the structure and administration of state and local taxes on the distribution and sale of beer," prepared for the National Beer Wholesalers Association, April 2014, p. 8; Alabama's total state, local and federal tax on beer is reported as \$158,907,639 in FY 2012 in William Lantham and Kenneth Lewis, "America's Beer Distributors: Fueling Jobs, Generating Economic Growth & Delivering Value to Local Communities," Center for Applied Business & Economic Research, University of Delaware, prepared for the National Beer Wholesalers Association, 2013, p. 20)

No matter how you look at it, beer drinkers in Alabama pay one of the highest taxes in the entire country. "Alabama's taxes on beer are higher than every state but one, according to an analysis by the Tax Foundation. According to a map created by the Washington, D.C.-based organization, Alabama's beer excise tax of \$1.05 per gallon is only 2 cents behind Alaska's, which is the nation's highest levy on beer. Georgia's beer tax of \$1.01 per gallon has the third place spot. The majority of states have beer taxes that are below 45 cents per gallon, according to the Tax Foundation's map, which is based on data from the Distilled Spirits Council of the United States as of Sept. 1, 2011." (Martin Swant, "Alabama beer tax is second highest in US," [http://blog.al.com/businessnews/2012/03/alabama\\_beer\\_tax\\_is\\_second\\_high.html](http://blog.al.com/businessnews/2012/03/alabama_beer_tax_is_second_high.html), March 10, 2012, accessed July 14, 2015)

Tax rates on beer by state as updated by Federation of Tax Administrators in February 2015 are quoted in Table 5-1.

Table 5-1. Tax Rates on Beer by State

<b>STATE TAX RATES ON BEER</b>			
(January 1, 2015)			
	EXCISE TAX RATES	GENERAL SALES TAX	
	(\$ per gallon)	APPLIES	OTHER TAXES
Alabama	\$0.53	Yes	\$0.52/gallon local tax statewide
Alaska	1.07	n.a.	
Arizona	0.16	Yes	
Arkansas	0.23	Yes	3% off- 10% on-premise tax
California	0.20	Yes	
Colorado	0.08	Yes	
Connecticut	0.24	Yes	
Delaware	0.16	n.a.	
Florida	0.48	Yes	
Georgia	0.32	Yes	\$0.53/gallon local tax
Hawaii	0.93	Yes	\$0.54/gallon draft beer
Idaho	0.15	Yes	over 4% - \$0.45/gallon
Illinois	0.231	Yes	\$0.29/gallon in Chicago and \$0.09/gallon in Cook County
Indiana	0.115	Yes	
Iowa	0.19	Yes	
Kansas	0.18	--	over 3.2% - {8% off- and 10% on-premise}, under 3.2% - 4.23% sales tax
Kentucky	0.08	Yes	11% wholesale tax (1)
Louisiana	0.32	Yes	\$0.048/gallon local tax
Maine	0.35	Yes	7% on-premise sales tax
Maryland	0.09	--	9% sales tax
Massachusetts	0.11		0.57% on private club sales
Michigan	0.20	Yes	
Minnesota	0.15	--	under 3.2% - \$0.077/gallon, 9% sales tax
Mississippi	0.4268	Yes	
Missouri	0.06	Yes	
Montana	0.14	n.a.	
Nebraska	0.31	Yes	
Nevada	0.16	Yes	
New Hampshire	0.30	n.a.	
New Jersey	0.12	Yes	
New Mexico	0.41	Yes	
New York	0.14	Yes	additional \$0.12/gallon in New York City
North Carolina	0.6171	Yes	
North Dakota	0.16	--	7% state sales tax, bulk beer \$0.08/gal.
Ohio	0.18	Yes	
Oklahoma	0.40	Yes	under 3.2% - \$0.36/gallon; 13.5% on-premise
Oregon	0.08	n.a.	
Pennsylvania	0.08	Yes	
Rhode Island (2)	0.11	Yes	\$0.04/case wholesale tax
South Carolina	0.77	Yes	
South Dakota	0.27	Yes	
Tennessee	1.29	Yes	Excise Barrelage Tax and Wholesale Tax
Texas	0.20	Yes	14.95% on-premise and \$0.05/drink on airline sales
Utah	0.41	Yes	over 3.2% - sold through state store
Vermont	0.265	Yes	more than 6% alcohol - \$0.55; 10% on-premise sales tax
Virginia	0.26	Yes	
Washington	0.26	Yes	
West Virginia	0.18	Yes	
Wisconsin	0.06	Yes	
Wyoming	0.02	Yes	
Dist. of Columbia	0.09	Yes	9% off- and on-premise sales tax
U.S. Median	\$0.20		

Source: Compiled by FTA from state sources.

Note: n.a. = not applicable. These 5 states do not have a general sales tax.

- (1) Kentucky wholesale GRT is scheduled to decrease to 10.75% on July 1, 2015.
- (2) Rhode Island tax rate is scheduled to decrease to 10c per gallon [\$3.00/bbl] on July 1, 2015.

## Beer Tax Collections in Alabama

Excise tax that wholesale distributors collect and submit to ABC Board for further distribution is summarized in Table 5-2. Table 5-3 demonstrates the large number of counties that receive money from state excise tax on beer, while additional local taxes that ABC collects and distributes to selected jurisdictions are shown in Table 5-4.

Table 5-2. Beer Tax Collected/Distributed to Other State Agencies FY 2012-13

Agency	Amount Distributed
General Fund	16,628,434.96
Department of Human Resources	11,085,622.59
Education Trust Fund	22,171,245.24
Grand Total	49,885,302.79

Source: Alabama Alcoholic Beverage Control Board, Annual Report FY 2012-13, p. 32.

Table 5-3. Distribution of Beer Excise Tax to Counties FY 2013

County	Excise Taxes
Autauga	118,168.95
Baldwin	118,168.95
Barbour	118,168.95
Bullock	118,168.95
Butler	118,168.95
Calhoun	118,168.95
Chambers	118,168.95
Choctaw	118,168.95
Cleburne	118,168.95
Colbert	118,168.95
Conecuh	118,168.95
Coosa	118,168.95

Covington	118,168.95
Crenshaw	118,168.95
Cullman	118,168.95
Dale	118,168.95
Dallas	118,168.95
DeKalb	118,168.95
Elmore	118,168.95
Escambia	118,168.95
Etowah	118,168.95
Greene	118,168.95
Hale	118,168.95
Henry	118,168.95
Houston	118,168.95
Scottsboro	2,730.91
Jefferson	118,168.95
Lauderdale	118,168.95
Lee	118,168.95
Lowndes	118,168.95
Macon	118,168.95
Madison	118,168.95
Marengo	118,168.95
Marshall	118,168.95
Mobile	118,168.95
Montgomery	118,168.95
Perry	118,168.95
Pike	118,168.95
Randolph	107,039.77
Russell	118,168.95
Shelby	118,168.95
St. Clair	118,168.95
Sumter	118,168.95
Talladega	118,168.95
Tallapoosa	118,168.95
Tuscaloosa	118,168.95
Wilcox	118,168.95
Grand Total	<u>5,542,811.47</u>

Source: Alabama Alcoholic Beverage Control Board, Annual Report FY 2012-13, pp. 20-31.

Table 5-4. Local Beer and Wine Taxes Collected and Distributed FY 2012-13

City/ County	Amount Distributed
Brundidge	45,638.23
Selma	320,284.56
Troy	296,510.80
Cleburne County	64,298.99
Montgomery County	182,871.42
Pike County	77,944.22
Grand Total	987,548.22

Source: Alabama Alcoholic Beverage Control Board, Annual Report FY 2012-13, p. 32.

Summary

Beer drinkers in Alabama pay the second highest tax rate on beer among the 50states, next to Alaska. During FY 2012-13, the amount of excise tax that wholesale distributors collected and submitted to ABC Board is \$49,885,302.79. Beer excise tax is distributed to 47 of 67 Alabama counties.

## Section 5

### Economic Functions of Beer Distributors

A good analysis on the role of beer distributors has been made by Lantham and Lewis in their report prepared for the National Beer Wholesalers Association. Presented in this section is their analysis regarding the role of beer wholesale distributors in the beer industry. (William Lantham and Kenneth Lewis, "America's Beer Distributors: Fueling Jobs, Generating Economic Growth & Delivering Value to Local Communities," Center for Applied Business & Economic Research, University of Delaware, prepared for the National Beer Wholesalers Association, 2013)

#### Two Figures

Two figures are copied from page 9 of their report. Figure 6-1 shows distribution without distributors and Figure 6-2 shows distribution with distributors.

Figure 6-1. Distribution without Wholesale Distributor

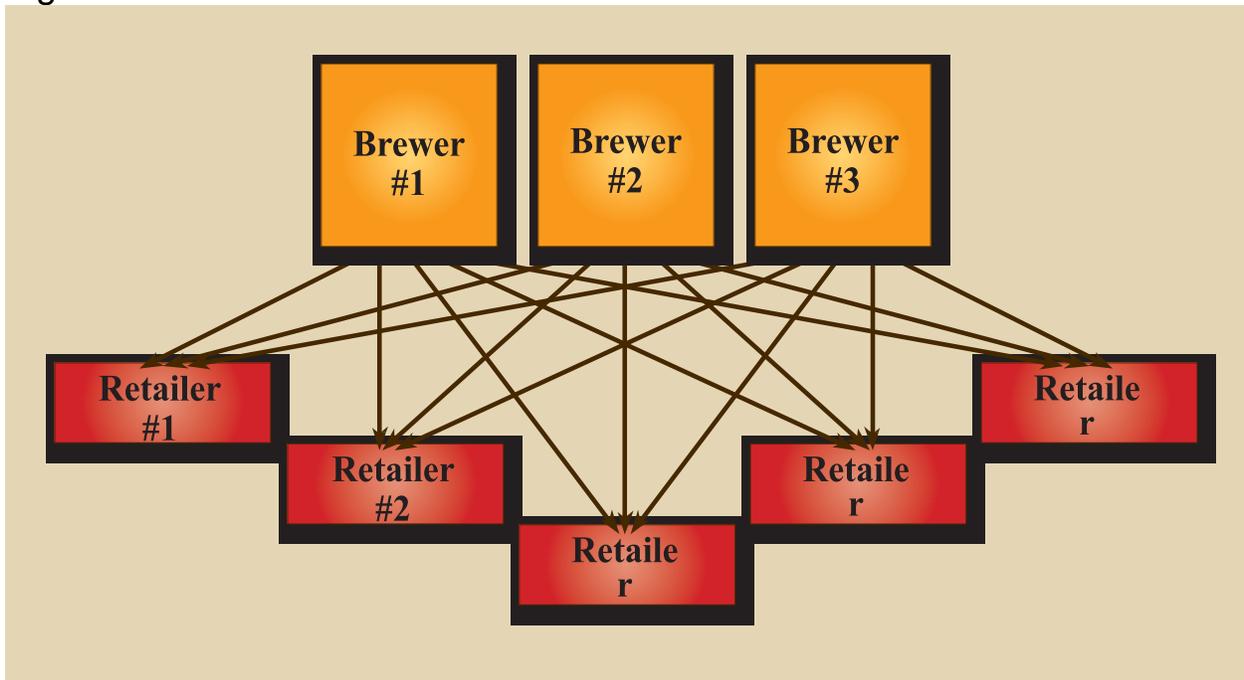
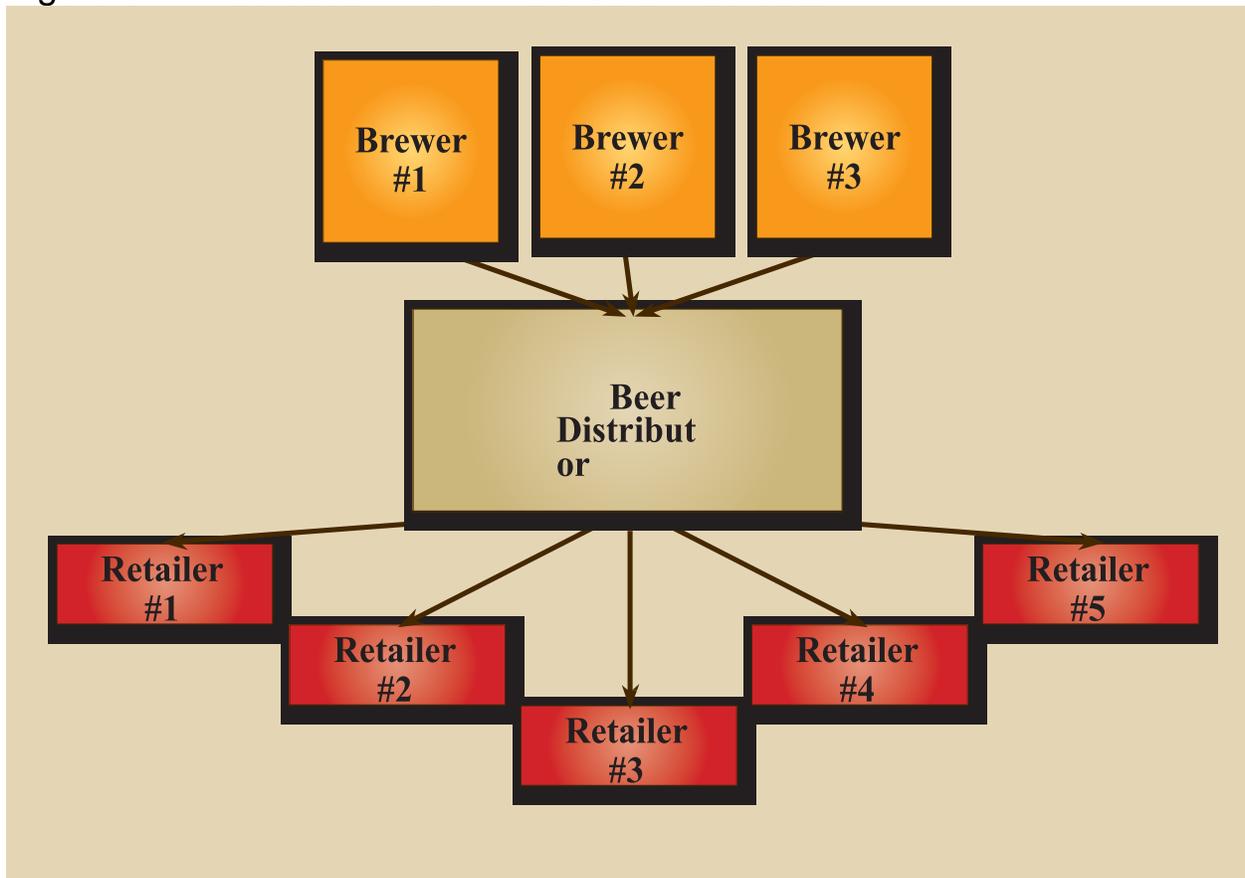


Figure 6-2. Distribution with Whole Sale Distributor



Note that without distributors in Figure 1, each brewer will have to contact all five retailers if the brewer wishes to reach all retailers. With distributors in Figure 2, each brewer needs to contact only one distributor to reach all five retailers. “The existence of the distribution tier in the beer industry produces significant efficiencies to the economy,” (p 8) by lowering the needs for transportation as well as reducing transaction costs.

Authors explain this way. “Figure 1 shows that, without a distribution tier, all three of the brewers would have to interact with each of the five retailers – 15 interactions in each delivery period. The interactions would have to include potentially separate ordering, marketing, merchandising, transporting and billing transactions – a total of 75 interactions. In Figure 2, the number of interactions falls dramatically as both brewers and retailers each only have to deal with a distributor. Because beer is perishable, without the refrigerated storage provided by distributors, the number of

delivery trips and related transactions would be even higher without the distributor tier”. (p. 10)

Importantly, the authors describe the importance of distributors to small brewers as follows: “The sort of distribution shown in Figure 1, direct from brewers to retailers, would not be possible for many of the smaller brewers (namely craft brewers). Many craft brewers could not achieve their current sales volumes without distribution. While all brewers benefit from the refrigerated distribution and warehousing provided by distributors, small brewers especially benefit. A larger number of brewers increases the range of beer choices provided to today’s consumers. The increased number of small brewers that provides consumers with a wider range of choices is possible only with distribution.” (p. 10)

Although it is not as clearly understood as the reduction in transaction costs, the existence of distributors is likely to slow down a greater market concentration by providing a greater number of choices to consumers. “Since 2009, more than 7 percent of the market has shifted from large brewers and importers to smaller brewers and importers. The continued growth in small upstart breweries makes the U.S. beer market a dynamic and competitive industry.” (<https://www.nbwa.org/resources/industry-fast-facts>, accessed July 7, 2015)

The market share trend in Alabama appears to follow, albeit slowly, the national trend. The market shares of top five brewers from 2010 to 2014 are shown below:

Table 6-1. Market Share of Top 5 Brewers in Alabama

	2010	2011	2012	2013	2014
Anheuser-Busch	59.5	59.0	58.2	57.5	56.9
MillerCoors	25.6	24.4	23.5	22.9	22.3
Pabst	1.0	0.9	0.8	0.7	0.8
Constellation	2.5	2.6	2.9	3.3	3.6
Heineken	1.5	1.6	1.7	1.8	1.8
All Others	10.0	11.5	13.0	13.7	14.7

Source: Beer Marketer’s INSIGHTS, 2015 Beer Industry Update, New York, 2015, p. 84.

The market share of beer in Alabama is dominated by Anheuser-Busch and MillerCoors, although their market shares have been declining a little in recent years. Credit should be given to these companies, however, in that each of the two companies produces numerous brands in efforts to meet diverse tastes that the marketplace demands. The market share of one particular brand such as Michelob Light is believed to be much smaller than the market share of the company itself, however.

### Summary

The existence of the distribution tier in the beer industry benefits brewers by lowering the needs for transportation as well as reducing transaction costs. This benefit is especially important to small brewers. The existence of the distribution tier in the beer industry benefits beer drinkers by making more choices available in the marketplace. The existence of distributors is likely to slow down a greater market concentration by providing a greater number of choices to consumers.