



Terry E. Branstad *Governor of Iowa*
Kim Reynolds *Lieutenant Governor*
Stephen Larson *Administrator*

MEMORANDUM

TO: Iowa General Assembly
FROM: Alcoholic Beverages Division
RE: Wine Gallonage Tax Collection, Direct Shippers
DATE: January 8, 2015

The Alcoholic Beverages Division Wine Gallonage Tax Collection bill makes technical changes that establish a new semi-annual filing frequency for Wine Direct Shipper License holders to report and remit wine gallonage taxes. This change does not eliminate the reporting requirement or the tax obligation for direct shippers. It will, however, create a more business-friendly reporting process for wineries that ship directly to consumers in Iowa and reduce the State's costs associated with processing the reports.

BACKGROUND:

The Wine Direct Shipper License was established in 2010 to allow wineries in Iowa and in other states to sell and ship wine directly to individual purchasers in Iowa. The license is available to native wineries and to wineries in other states, provided the fermentation process for the wine it sells takes place on the licensed manufacturing premises. Since the license was established, the Division has issued 695 Wine Direct Shipper Licenses; 26 to Iowa wineries.

A wine gallonage tax of \$1.75 per gallon is levied on all wine that is manufactured in Iowa for sale and sold at wholesale and on all wine that is imported into the state for wholesale distribution, including wine that is shipped directly to individuals. Under current law, all Class "A" Wine Permit holders and Wine Direct Shipper License holders are required to report and remit any wine gallonage tax owed by the 10th day of the month, based on the preceding month's sales. A ten percent penalty is assessed and collected on late reports. Wine Direct Shipper License holders are subject to the same filing frequency as the largest wine wholesalers, even though they may sell as little as a single bottle—or less, in a reporting period. (*Wine gallonage tax due on a single 750 ml bottle is approximately thirty five cents. A 12 bottle case of wine would generate approximately \$4.17 in wine gallonage tax.*)

Wine Direct Shipper License holders filed 9,551 wine gallonage tax reports in Fiscal Year 2014. Of these, 6,540 reports were for amounts less than \$10.00, with an average reported amount of \$1.17. The total wine gallonage tax collected from direct shippers in the same fiscal year was \$112,560. It cost the State \$11,232 to process the monthly reports in Fiscal Year 2014. (*Assumptions: 26 staff hours per month at a rate of \$36.00 for salary and benefits.*) Converting to a semi-annual filing frequency would reduce the State's cost to \$1,872, based on the above assumptions.

SECTION BY SECTION OVERVIEW OF THE BILL:

Section 1:

Amends Iowa Code § 123.184 to establish separate filing frequencies for reporting and remitting wine gallonage taxes, based on license type. Current statutory language becomes numbered subsection one to establish that the monthly filing frequency applies to Class “A” Wine Permit holders only. A new subsection two is created to establish a semi-annual filing frequency for Wine Direct Shipper License holders only. A ten percent penalty is assessed and collected on late reports, regardless of the filing frequency.

Section 2:

Amends Iowa Code § 123.187(4) “a” by making a conforming change to an existing Code citation which will direct the reader to the newly established semi-annual filing frequency for Wine Direct Shipper License holders.