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# Alcohol and Tobacco Taxes

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Dear Reader:

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We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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# Alcohol and Tobacco Taxes

Reference Number: CTAS-217

## Alcoholic Beverage Tax

Reference Number: CTAS-1626

*Authority.* T.C.A. §§ 57-3-301 through 57-3-308.

*Description.* This tax is on the sale or distribution by sale or gift of wine, beer and distilled spirits with an alcoholic content of more than 5 percent by weight. T.C.A. § 57-3-301.

*Rate:* \$1.21 per gallon (32 cents per liter) of wine and \$4.40 per gallon (\$1.17 per liter) of distilled spirits. T.C.A. § 57-3-302. Notwithstanding T.C.A. § 57-3-302, the state tax on intoxicating liquor or alcoholic beverages with an alcoholic content of seven percent (7%) or less shall be one dollar and ten cents (\$1.10) per gallon and no identification stamps shall be required to be fixed to the retail container of such alcoholic beverage. T.C.A. §§ 57-3-303(l) and 57-3-308.

*Distribution.* The tax is distributed as follows:

1. Any county where a distillery is located receives four cents (4¢) per liter of the tax imposed on the sale of distilled spirits.
2. Except for the distribution as provided in (1), eighty-two and one-half percent (82.5 %) of the proceeds of this tax to the state general fund.
3. Except for the distribution as provided in (1), seventeen and one-half percent (17.5%) of the proceeds of this tax to counties (general fund) as follows:
  - a. Seventy-five (75%) percent of this amount is apportioned according to county population.
  - b. Twenty-five percent (25%) of this amount is apportioned according to county area.
  - c. However, thirty percent (30%) of the amount distributed to counties with a population of more than 250,000 is distributed to cities in the county with population over 150,000. T.C.A. § 57-3-306.

## Mixed Drink Tax (Liquor-by-the-Drink Tax)

Reference Number: CTAS-1627

*Authority.* T.C.A. §§ 57-4-301 through 57-4-308.

*Description.* Two related taxes are considered together under this topic. Both taxes are on the privilege of selling alcoholic beverages at retail in this state for consumption on the premises. The first tax is an annual fixed amount based on the type and size of the business; the second tax is a percentage levy fifteen percent (15%) based on the sales price of alcoholic beverages sold for consumption on the premises. T.C.A. § 57-4-301.

*Distribution.* These two taxes are distributed as follows:

1. The fixed annual tax goes to the state general fund for state purposes. T.C.A. § 57-4-301.
2. The gross receipts tax is distributed in accordance with T.C.A. § 57-4-306 as follows:
  - a. Fifty percent (50%) to the state general fund to be earmarked for educational purposes.
  - b. Fifty percent (50%) to local political subdivisions:
    - (1) Fifty percent (50%) for education, in accordance with the statutory formula.
    - (2) Fifty percent (50%) divided as follows:
      - (a) Collections in unincorporated areas, to the county general fund.
      - (b) Collections in municipalities, to those municipalities.

Special provisions apply in Sevier, Hamilton, and Bradley counties.

## Beer Tax (Barrels Tax)

Reference Number: CTAS-1628

*Authority.* T.C.A. §§ 57-5-201 through 57-5-208.

*Description.* The beer tax is a privilege tax paid by every person, firm, corporation, joint stocks company,

syndicate or association in this state storing, selling, distributing or manufacturing beer and alcoholic beverages of less than eight percent (8%) alcoholic content by weight. T.C.A. § 57-5-201. The beer tax is a state tax and no county or municipality may levy any like tax. Individuals or businesses that sell or distribute beer collect this tax and pay over the sums collected to the Department of Revenue on or before the 20th day of the month following the month in which the tax accrues. T.C.A. §§ 57-5-201, 57-5-202, 57-5-203.

*Rate.* \$4.29 per barrel. T.C.A. § 57-5-201.

*Distribution.* The beer tax is distributed as follows:

1. \$3.79 of the \$4.29 tax rate is distributed:
  - a. Up to 4 percent to the Department of Revenue to defray the expenses of administration of this tax. T.C.A. § 57-5-202.
  - b. Of the remainder
    - (1) 10.05 percent to the several counties equally for general purposes.
    - (2) 10.05 percent to the incorporated municipalities according to population for general purposes.
    - (3) 0.41 percent to the Department of Mental Health and Mental Retardation to assist municipalities and counties in carrying out the provisions of the Comprehensive Alcohol and Drug Treatment Acts of 1973.
    - (4) The remainder (or 79.49 percent) to the state general fund. T.C.A. § 57-5-205.
2. \$0.50 of the \$4.29 tax to the state highway fund to be used to fund programs for the prevention and collection of litter and trash. T.C.A. § 57- 5-201.

## Wholesale Beer Tax

Reference Number: CTAS-1629

*Authority.* T.C.A. §§ 57-6-101 through 57-6-118.

*Description.* This is a state-levied tax on the sale of beer and similar alcoholic beverages of not more than eight percent (8%) alcoholic content by weight, wine excepted, at wholesale. T.C.A. § 57-6-102.

*Rate.* Thirty-five dollars and sixty cents (\$35.60) per barrel of thirty-one gallons (31 gals.) of beer sold. Barrels containing more or less than thirty-one gallons (31 gals.) shall be taxed at a proportionate rate. T.C.A. § 57-6-103(a).

*Distribution.* The tax collected is distributed to the county or municipality of the retailer's place of business, less ninety-two cents (92¢) of the gross tax owed per barrel retained by the wholesaler or manufacturer operating as a retailer and seventeen cents (17¢) of the gross tax owed per barrel remitted to the Department of Revenue for administration of the tax. The tax is remitted to the municipality if retailer's place of business is within the city's or town's boundary; otherwise, the tax is remitted to the county of the retailer's place of business. T.C.A. § 57-6-103.

In 1998, the General Assembly passed Public Chapter 1101, which was a major reform of the annexation and incorporation laws having a great impact upon the way the wholesale beer tax is distributed among cities and counties. T.C.A. § 6-51-115. It included a "hold harmless" provision to protect county revenue sources. When a city annexes territory or a new city incorporates, revenue amounts generated in that area by the wholesale beer tax that had been received by the county prior to the annexation or incorporation continue to go to the county for 15 years after the date of the annexation or incorporation. During that time, any increase in the situs based portion of the revenues generated in the area would be distributed to the annexing or incorporating municipality. If commercial activity in the annexed area decreases due to business closures or relocations, a city may petition the Department of Revenue to adjust the payments it makes to the county.

## Beer Permit Privilege Tax

Reference Number: CTAS-1630

*Authority.* T.C.A. § 57-5-104.

*Description.* This is an annual privilege tax in the amount of \$100 paid by any person, firm, corporation, joint-stock company, syndicate or association engaged in selling, distributing, storing or manufacturing beer. The tax is to be paid on January 1 to the county or city in which the business is located. For businesses located in the county outside any incorporated municipality the tax is collected by the county

clerk, and for businesses located inside a municipality the tax is collected by the official designated by the city. The county or city may use these funds for any public purpose. T.C.A. § 57-5-104.

## Tobacco Tax

Reference Number: CTAS-1631

*Authority.* T.C.A. §§ 67-4-1001 through 67-4-1033.

*Description.* This is a special state-levied privilege tax imposed on every dealer or distributor of cigarettes and other tobacco products. T.C.A. § 67-4-1002. However, the tax is passed on to the consumer. T.C.A. § 67-4-1003. Most of the revenue from this tax is earmarked for public education, grades one through twelve. T.C.A. § 67-4-1025(b).

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