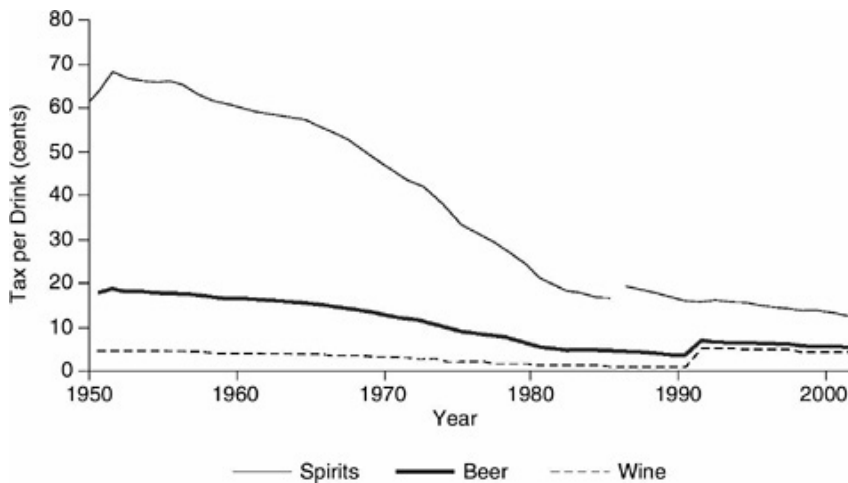


## The Case for Alcohol Excise Tax Increases

### Alcohol Taxes in the U.S. are Low and Lag Far Behind Inflation

The average cost of alcoholic beverages has remained low relative to other consumer goods. In the last 50 years, taxes on alcoholic beverages have fallen dramatically with inflation. For example, had the beer tax merely kept up with inflation, it would be more than three times today's rate of \$18 per barrel; the liquor tax would be more than five times its current rate of \$13.50 per proof gallon. Effective tax rates have dwindled because those taxes are not a constant percentage of price, but a flat amount. As prices rise, the relative importance of the taxes falls, unless Congress raises them. In fact, beer and wine taxes have been raised only once in the past 55 years, liquor taxes only twice. As a result, tax revenues that accounted for 12 percent of the sales of alcohol in 1980 now amount to only 7 percent of total sales. The result is a de facto subsidy on drinking and extra profits for alcohol manufacturers at the expense of taxpayers.

### Declining Value of Federal Alcohol Excise Taxes, 1950-2002, with tax per drink in 2002 dollars



SOURCE: Institute of Medicine, National Research Council, *Reducing Underage Drinking: A Collective Responsibility*. Graph adapted from the Bureau of Alcohol, Tobacco, and Firearms Web site (2003) and the Bureau of Labor Statistics Web site (2003).

### Alcohol-Tax Increases Have Been Rare and Modest

The tax on distilled spirits remained at \$10.50 per proof gallon between 1951 and 1985, when it rose to \$12.50. Under the *Revenue Reconciliation Act of 1990*, liquor taxes again went up in 1991 to \$13.50 per proof gallon, their current rate. Under the same Act,

federal beer taxes rose for the first time in 40 years to \$18.00 per 31-gallon barrel of beer (up from \$9.00 per barrel) and wine taxes increased to \$1.07 per gallon of wine (up from \$0.17 per gallon). Thus, the Federal excise tax rates resulting from the 1991 tax increase are approximately 10 cents, 7 cents, and 21 cents per ounce of pure alcohol for beer, wine, and distilled spirits, respectively. As illustrated above, with the exception of wine, those tax increases failed miserably to account for the effects of inflation in the last half century. Since the last increase in 1991, inflation has further eroded the value of those already low taxes. For example, in order to offset inflation just since 1991, the tax on distilled spirits would have to increase to approximately \$20 per proof-gallon today and the tax on beer would have to increase to more than \$26.50 per barrel.

### **Costs of Alcohol Use Already Far Exceed Alcohol Tax Revenue**

The federal government pulled in about \$8.9 billion from alcohol excise taxes in 2005. By comparison, the economic and social costs of drinking far exceed alcohol tax revenues, burdening society with an estimated \$184 billion per year in health care, criminal justice, social services, property damage, and loss of productivity expenses.<sup>1</sup> According to the Centers for Disease Control and Prevention, alcohol causes as many as 85,000 deaths annually in the United States and contributes to a wide array of health problems and human suffering. Those include various cancers, liver disease, alcoholism, brain disorders, motor vehicle crashes, violence, crime, spousal and child abuse, drownings, and suicides.<sup>2</sup>

### **Most Drinkers Don't Drink Much and Alcohol Taxes Don't Burden Them**

The top 20 percent of drinkers consume some 85 percent of all alcoholic beverages.<sup>3</sup> Therefore, the remaining 80 percent of moderate drinkers consume, on average, relatively little alcohol and pay a negligible amount of alcohol taxes. Heavy and addicted drinkers, for instance – who account for most of the alcohol consumption in the U.S. – rightly pay most in taxes since their drinking imposes the greatest costs on society. A look at beer consumption demonstrates how the few pay much and the many pay very little in taxes. At the current federal rate of \$18.00 per barrel, and assuming that the consumption of beer mirrors how alcohol overall is consumed, beer-tax payments would be distributed as follows:

- 35 percent of adults pay nothing at all.
- 80 percent of drinkers pay **at most** \$26.50 per year, about 7¢ per day.
- Half of beer drinkers pay **at most** a penny a day.
- The heaviest drinkers (top 5%), who average some 11 beers per day, pay on average \$215 a year, about 60¢ per day.<sup>4</sup>

### **Public Opinion Supports an Alcohol Tax Increase – Not a Cut**

By a two to one margin, Americans oppose rolling back the federal excise tax on beer, according to a 2001 national poll conducted for the Center for Science in the Public

Interest and Mothers Against Drunk Driving.<sup>5</sup> The vast majority of Americans – 71 percent – would support *increasing* the national beer tax a few cents per bottle to equal the tax on liquor, if the funds were used for substance abuse prevention. The same poll also found that 75 percent of Americans believe that a beer-tax cut would benefit the beer industry more than consumers. About 77 percent of *drinkers* agreed.

### **An Alcohol Tax Increase Would Benefit Public Health and Safety and Help Reduce Underage Drinking**

According to research reported by the National Institute on Alcohol Abuse and Alcoholism, increasing beer prices – by raising taxes -- is an effective means of reducing alcohol problems. Higher alcohol taxes lead to reductions in the levels and frequency of drinking and heavy drinking among youth,<sup>6</sup> lower traffic crash fatality rates (especially among young drivers),<sup>7</sup> and reduced incidence of some types of crime.<sup>8</sup> Logically, lower beer taxes will likely lead to higher levels and frequency of drinking among youth and add to traffic crash fatalities. Researchers at the National Bureau of Economic Research estimate that if alcohol taxes had kept pace with inflation since 1951, the number of youth who drink beer would have declined by 24 percent.<sup>9</sup>

Recognizing that cheap alcohol puts it in easier reach of kids, the National Academy of Sciences recommended alcohol tax increases, especially on beer. The U.S. Surgeon General, in a March 2007 “Call to Action on Underage Drinking,” implicitly echoed that recommendation, supporting any measure that decreases the availability of alcohol to underage youth, and so raises the cost of getting it.<sup>10</sup> A 2005 petition to Congress from 60 of America’s leading economists, including 4 Nobel prize winners, agreed that an alcohol tax increase is overdue and justified.

### **An Alcohol Tax Increase Could Provide Much-Needed Revenue to Help Meet Budget Goals**

A tax increase of five cents per drink would yield more than \$20 billion in new revenue over the next five years. A Congressional Budget Office (CBO) option for increasing alcohol taxes, which would standardize the base on which the federal excise tax is levied, would boost federal revenues by about \$4.5 billion in the first year and generate a total of almost \$28 billion in new revenues over five years. Indexing the tax to inflation would avoid erosion of the value of the tax over time.

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- <sup>9</sup> A barrel contains 31 gallons.
- <sup>10</sup> "The Surgeon General's Call to Action to Prevent and reduce Underage Drinking," U.S. Department of Health and Human Services (March, 2007).

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