

# CENTER FOR SCIENCE IN THE PUBLIC INTEREST

## Alcohol Policies Project

December 2008

### Sample Proposals for Increasing Federal Alcohol Excise Taxes

Options	Beverage	Current Tax Rate (per Gallon)	Proposed Tax Rate (per Gallon)	Actual 2007 Revenues (millions)	Projected Revenue (millions)	Projected One-Year Revenue Gain (millions)
<b>Indexed for inflation since last increase (1991)</b>	Beer	\$0.58	\$0.92	\$3,745	\$5,940	\$2,195
	Wine*	\$1.07	\$1.70	\$874	\$1,123	\$249
	Liquor (80 proof)	\$10.80	\$17.18	\$4,728	\$6,679	\$1,950
	<b>TOTAL</b>			<b>\$9,348</b>	<b>\$13,743</b>	<b>\$4,395</b>
<b>Nickel per drink increase</b>	Beer	\$0.58	\$1.11	\$3,745	\$6,260	\$2,515
	Wine	\$1.07	\$2.35	\$874	\$1,716	\$842
	Liquor (80 proof)	\$10.80	\$15.07	\$4,728	\$6,014	\$1,285
	<b>TOTAL</b>			<b>\$9,348,</b>	<b>\$13,991</b>	<b>\$4,643</b>
<b>CBO Option: equalized at \$16/proof gallon</b>	Beer (9 proof)	\$0.58	\$1.44	\$3,745	\$9,188	\$5,442
	Wine	\$1.07	\$3.52	\$874	\$2,351	\$1,477
	Liquor (80 proof)	\$10.80	\$12.80	\$4,728	\$5,251	\$522
	<b>TOTAL</b>			<b>\$9,348</b>	<b>\$16,791</b>	<b>\$7,443</b>
<b>CBO-type option: equalized at \$20.25/proof gallon</b>	Beer (9 proof)	\$0.58	\$1.82	\$3,745	\$11,510	\$7,765
	Wine	\$1.07	\$4.46	\$874	\$2,718	\$1,844
	Liquor (80 proof)	\$10.80	\$16.20	\$4,728	\$6,343	\$1,614
	<b>TOTAL</b>			<b>\$9,348</b>	<b>\$20,572</b>	<b>\$11,224</b>

\* There are five categories of wine, each taxed at different rates. However, wine tax collections are reported as a whole in available summaries from the Alcohol & Tobacco Tax and Trade Bureau. Since regular table wine (0-14%), taxed at \$1.07 per gallon, constitutes about 91% of total wine consumption, we have created this proposal under the assumption that all wine is taxed at this rate. Thus the revenue projections for wine are an approximation and slight underestimation, because other types of wine are taxed at higher rates.

**FORMULA:**

STEP 1: Percentage Price Increase = ((Proposed Tax Rate - Current Tax Rate) x (1 + Markup)) / (Current Avg. Retail Price per Gallon)

STEP 2: Decrease in Consumption = ((Percentage Price Increase) x (Elasticity)) x (Consumption)

STEP 3: Consumption at Proposed Rate = (Consumption) + (Decrease in Consumption)

STEP 4: Projected Revenues = (Consumption at Proposed Rate) x (Proposed Tax Rate)

STEP 5: Projected Revenue Gain = (Projected Revenues) - (Actual 2007 Revenues)

**Assumptions:**

Markup = 0.075

Current Avg. Retail Price per Gallon = Beer: \$14.22, Wine: \$38.84, Liquor: \$138.28

Elasticity = Beer: -0.30, Wine: -1.00, Liquor: -1.50. Based on Leung & Phelps (1993).