

# Alcohol Taxes: What They Can Do, and What We've Done with Them

William R. Ponicki  
Prevention Research Center, Berkeley, CA  
September 16, 2009

Research for and preparation of this presentation was supported by  
NIAAA Center Grant P60 AA 006282

# Key Points

1. Real value of Federal and state alcohol taxes has been falling for decades
2. Raising alcohol taxes reduces drinking and related problems
3. There is considerable variation in findings within the research literature
4. Some arguments against raising alcohol taxes are debatable

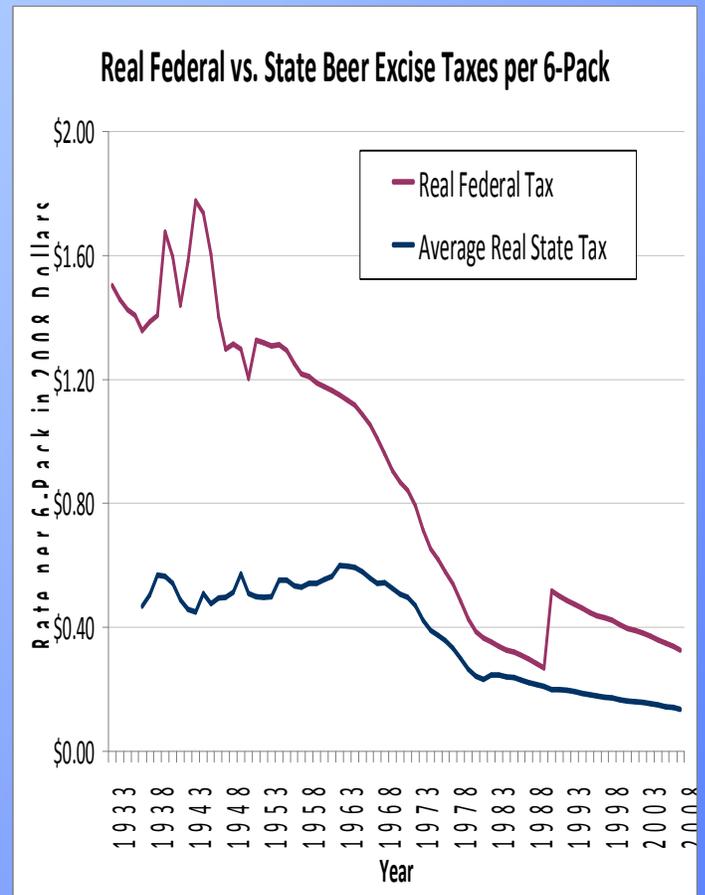
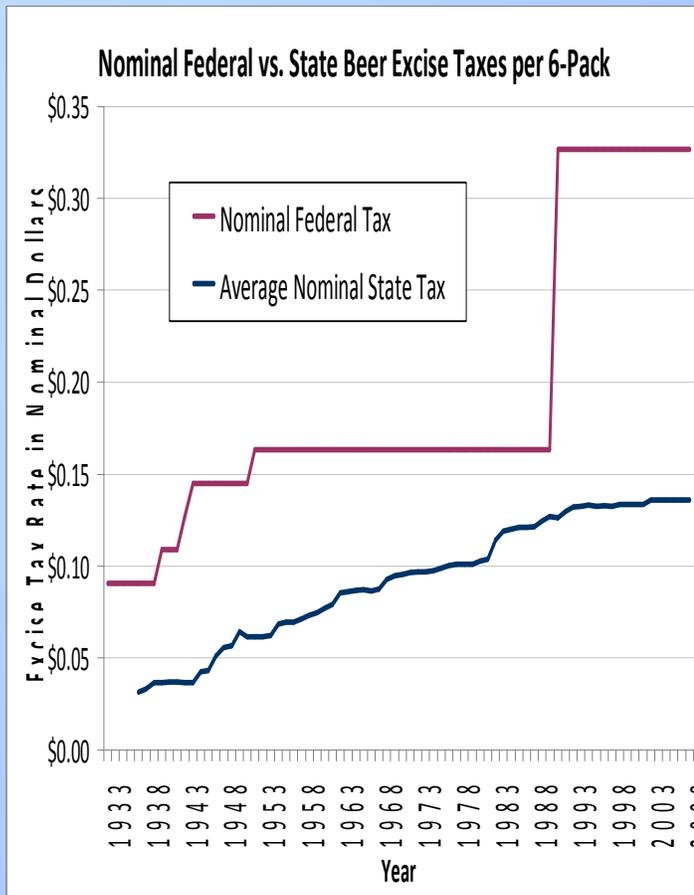
# Key Points

1. Real value of Federal and state alcohol taxes has been falling for decades
2. Raising alcohol taxes reduces drinking and related problems
3. There is considerable variation in findings within the research literature
4. Some arguments against raising alcohol taxes are debatable

# Are beer taxes rising or falling?

Nominal view:

Inflation-adjusted view:



“Beer taxes just keep going up”

“Beer taxes just can’t keep up with inflation”

“Federal tax doubled in 1991”

“1991 Federal increase only got us back to 1978 level”

# Why do real tax rates keep falling?

Two kinds of alcohol tax legislation:

(1) “Percent of value”:

*“Tax is 20% of sales price until further notice.”*

These taxes rise automatically with inflation

(2) “Per unit volume”:

*“Tax is \$0.33 per six pack until further notice.”*

These taxes are gradually eroded by inflation until increased legislatively

U.S. alcohol taxes are mostly “per unit volume”

# Federal Alcohol Taxes Today

- Spirits: about 8 cents a drink
- Wine: about 4 cents a drink
- Beer: about 5 cents a drink

**All rates unchanged since  
January, 1991**

**Real values dropped 37%  
since 1991**

## Federal Beer Excise Tax since Prohibition

From	To	Tax Per Barrel
April 7, 1933	January 10, 1934	\$500
January 11, 1934	June 30, 1940	\$500
July 1, 1940	October 31, 1942	\$600
November 1, 1942	March 31, 1944	\$700
April 1, 1944	October 31, 1951	\$800
November 1, 1951	December 31, 1990	\$900
January 1, 1991	Present	\$1800

***Just one tax hike in the last 58 years***

# State Beer Taxes, 1970 to 2008 ...

- Average state's nominal tax rose 43%
- Average state's real tax dropped 74%
- States averaged just 1 tax hike every 20 years
- 14 states didn't raise taxes at all during these 38 years (*so real rates dropped 82%*)
- Wyoming hasn't raised beer taxes since 1933 (*and actually reduced them in 1963*)
- **The real beer tax rate dropped in every state over this period**

# COMPARISON: Cigarette Taxes, 1970 to 2009 ...

- Average state's nominal tax rose 1,156% (from \$0.10 per pack to \$1.19)
- Average state's real tax increased 128%
- Only 9 states let real prices decline
- Biggest real increase: DC, up 807%
- Biggest real drop: SC, down 79%
- Federal rate rose from \$0.16 per pack in **1990** to \$2.21 in April 2009 (a 744% real increase)

# State Beer Taxes in 2008

<b>State Beer Tax (Cents per 6 pack)</b>	<b>States in this range</b>
<b>50 - 54.9 cents</b>	<b>AK, AL</b>
<b>40 - 49.9 cents</b>	<b>HI</b>
<b>30 - 39.9 cents</b>	<b>SC, FL</b>
<b>25 - 29.9 cents</b>	<b>NC</b>
<b>20 - 24.9 cents</b>	<b>GA, MS, UT, NM, OK</b>
<b>15 - 19.9 cents</b>	<b>ME, LA, NE, NH</b>
<b>10 - 14.9 cents</b>	<b>SD, VT, WA, VI, AR, MI, CA, CT</b>
<b>7.5 - 9.9 cents</b>	<b>TX, IA, IL, KS, OH, WV, AZ, NV, ND, DE, ID</b>
<b>5 - 7.4 cents</b>	<b>MN, MT, TN, NJ, IN, NY, PA, MA</b>
<b>2.5 - 4.9 cents</b>	<b>RI, DC, MD, OR, KY, CO, WI, MO</b>
<b>0 - 2.4 cents</b>	<b>WY (1 cent per 6 pack, not raised since 1933)</b>

# Other kinds of state alcohol taxes

In addition to the per-drink taxes above ...

- Some states collect percent-of-value surtaxes (AR, KY, TN, WA for beer)
- Monopoly states (with state stores) may also have percent-of-value markups on wine and spirits
- States with general sales taxes usually apply them to alcohol (adopted in 2009 in MA, KY)

# State & local alcohol taxes can be complicated

- Some states have extra taxes for beer sold on-premise (DC, FL, MA, ME, VT)
- Some localities have extra taxes (e.g., Chicago, NYC, Cuyahoga County OH)
- Tax rates may differ by how packaged (e.g., 12 vs. 16 ounce beer bottles in FL)

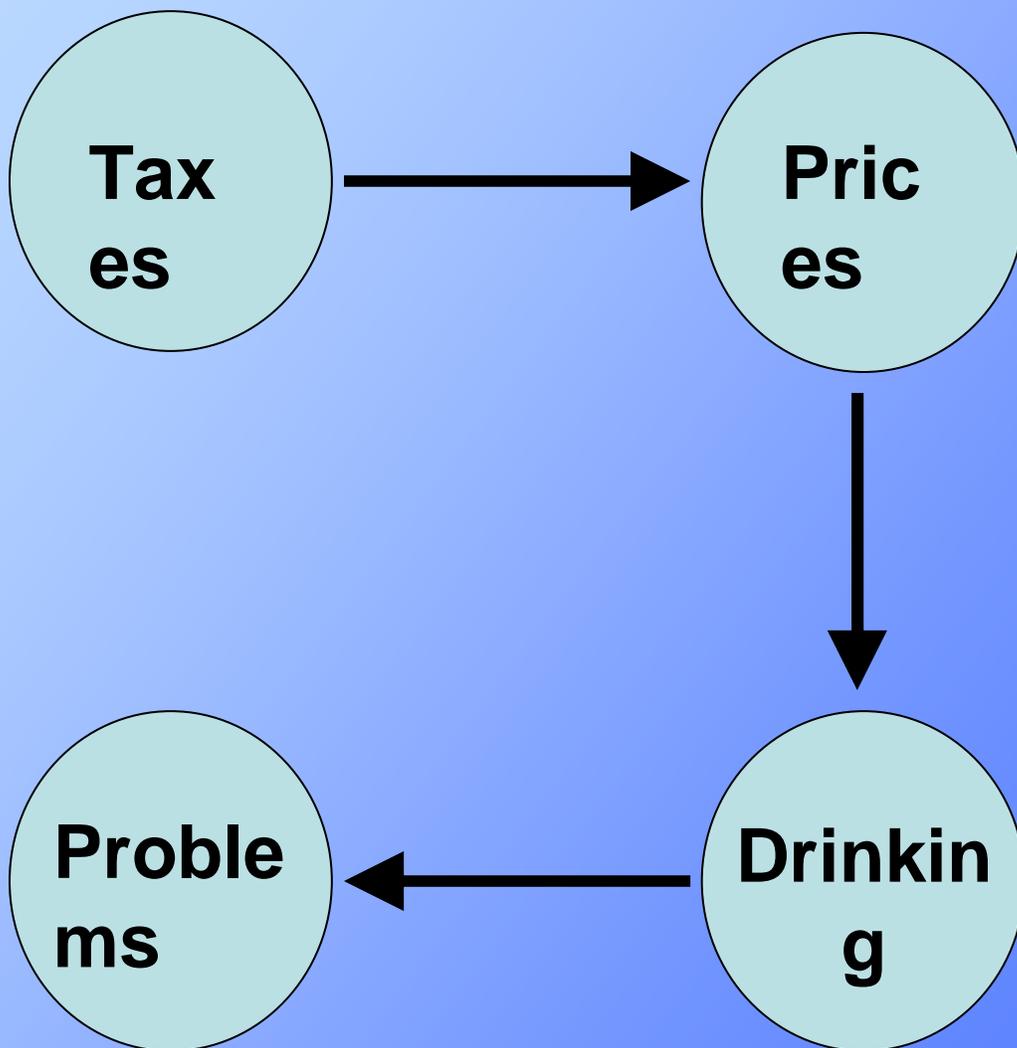
Okay, so alcohol  
taxes are low and  
falling.

Why might we want  
them to go up?

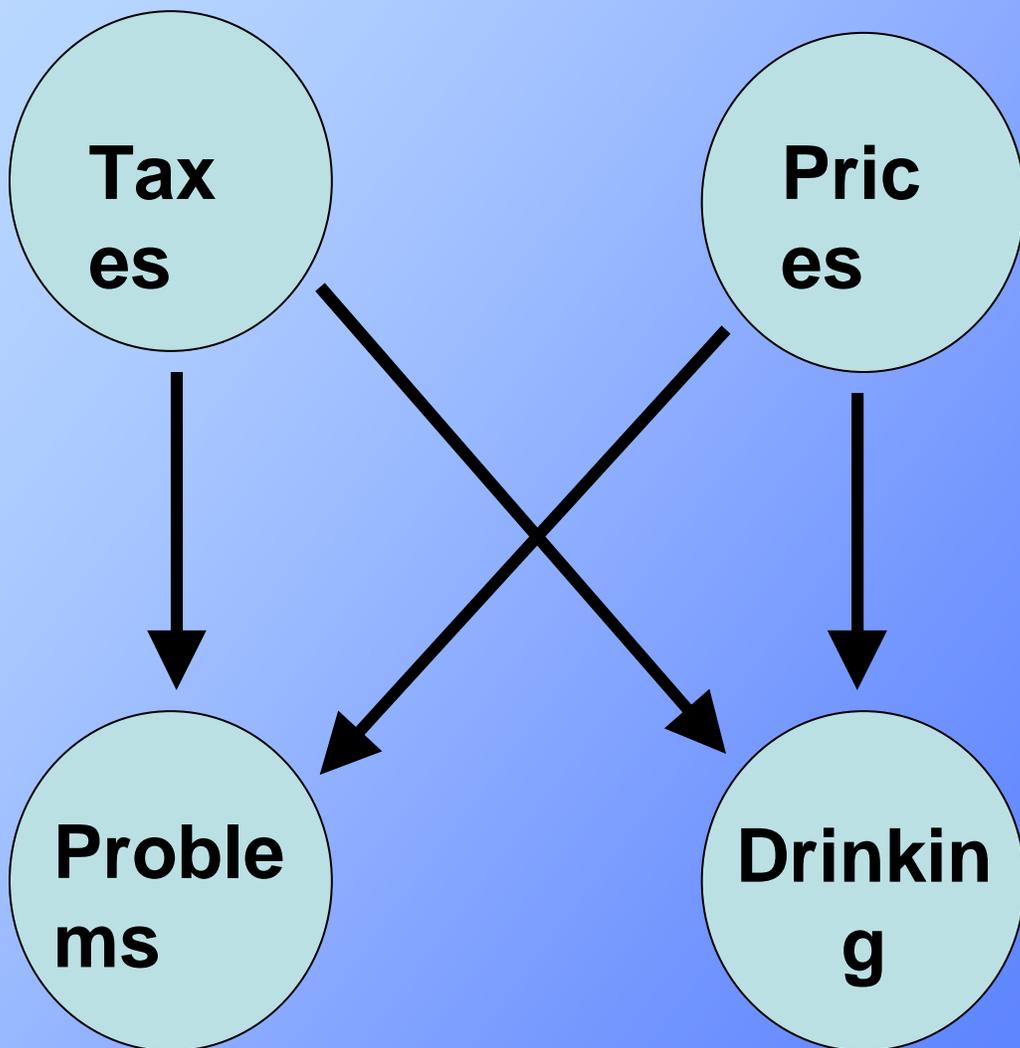
# Key Points

1. Real value of Federal and state alcohol taxes has been falling for decades
2. Raising alcohol taxes reduces drinking and related problems
3. There is considerable variation in findings within the research literature
4. Some arguments against raising alcohol taxes are debatable

# How taxes affect drinking & problems



Most studies just look at one aspect, not all at once



# How much would a tax hike reduce drinking?

Averaging the results of 112 empirical studies, a 10% price or tax increase would reduce ...

... beer sales by about 5%

... wine sales by about 7%

... spirits sales by about 8%

... total alcohol sales by about 5%

... self-reported heavy drinking by ~ 3%

# Evidence that Raising Taxes Reduces Problematic Drinking

- Decreased traffic fatalities  
(esp. youth)

(Chaloupka et al., 1993; Ruhm, 1996, Ponicki et al., 2007)

- Decreased youth suicide  
(Carpenter, 2004)

- Decreased youth binge  
drinking

(Chaloupka, 1993)

(Laixuthai &

- Decreased cirrhosis mortality  
(Grossman, 1993)

- Increased schooling

(Cook and Moore, 1993)

# Evidence that Raising Taxes Reduces Problematic Drinking (Continued)

- Decreased alcohol abuse  
(Farrell et al. 2003)
- Decreased sexually transmitted diseases (Chesson et al. 2000)
- Decreased risky sexual behavior (Markowitz, Kaestner, and Grossman, 2005)
- Decreased physical child abuse (Markowitz and Grossman 2000)
- Decreased violence on college campuses (Grossman and Markowitz, 1999)

# Key Points

1. Real value of Federal and state alcohol taxes has been falling for decades
2. Raising alcohol taxes reduces drinking and related problems
3. There is considerable variation in findings within the research literature
4. Some arguments against raising alcohol taxes are debatable

# Findings do differ across studies

- The great majority of empirical estimates suggest that higher taxes or prices will reduce drinking
- Yet some studies fail to find significant effects
- And about 1 in 20 significant price effects are actually positive

# Why do empirical results vary?

Different studies ...

- are based on different places or individuals
- cover different time periods
- use different statistical methodology (e.g., controlling for effects of other policies)

All statistical estimates involve random error, so aberrant findings can happen just by chance

# Maybe price & tax effects really vary over places and times ...

- Alcohol policies like DUI penalties can raise people's "full price of drinking"
- Taxes are a smaller part of the full price of drinking where alcohol control policies are strong
- Recent studies find that tax/price effects are smaller where other alcohol policies are stronger
- This might help explain why studies using more-recent data tend to find smaller tax/price effects

# Key Points

1. Real value of Federal and state alcohol taxes has been falling for decades
2. Raising alcohol taxes reduces drinking and related problems
3. There is considerable variation in findings within the research literature
4. Some arguments against raising alcohol taxes are debatable

# Criticism #1: Job Losses

*“If we raise alcohol taxes, we’ll put thousands of people out of jobs.”*

THE TRUE PART: higher taxes reduce drinking, so the alcohol industry will lose jobs

WHAT GETS IGNORED:

- People will shift spending to other products, creating jobs in those industries
- Tax revenues get spent, creating more jobs

# Criticism #2: Regressive Taxes

*“Alcohol tax increases especially hurt the poor.”*

THE TRUE PART: raising per-unit-volume taxes will increase prices most for cheap brands

WHAT GETS IGNORED:

- It's fair to make drinkers pay for harms to others (“externalities”), which are proportional to ethanol – so tax should be proportional to number of drinks
- On average, alcohol is less than 1% of spending even among low-income households

# Criticism #3: Cross-Border Buying

*“If our state raises taxes, our citizens will just cross the border to buy where taxes are lower.”*

THE TRUE PART: some small states (NH) keep alcohol tax low to “poach” sales & revenues from high-population neighbors (MA)

WHAT GETS IGNORED:

- Tax Foundation says that high-tax states lose \$18.8 million in tax revenues from this – that’s just 0.3% of all states’ alcohol tax revenues

# Criticism #4: Taxes aren't focused on problem drinking

*“Don't tax responsible drinkers – punish those who cause problems.”*

THE TRUE PART: Increased DUI penalties and enforcement would be more targeted than taxes

## WHAT GETS IGNORED:

- Higher prices are obvious to drinkers, but many people don't know the local fines for DUI
- Chronic heavy drinkers impose burdens on the health care system, but how do you target that sort of drinking?

Questions or  
comments?

Bill Ponicki  
[bponicki@prev.org](mailto:bponicki@prev.org)