Federal alcohol taxation: Is it time for a national campaign?

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A federal alcohol tax increase is long overdue.

- Just ONE federal excise tax increase since 1951 for beer and wine (1991), and two for liquor (1985, 1991)
- Tax rates are NOT adjusted for inflation, and have eroded 41% since 1991

<table>
<thead>
<tr>
<th></th>
<th>Current tax rate (1991)</th>
<th>Value in 2013 dollars</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Per liquid gallon</td>
<td>Per serving</td>
</tr>
<tr>
<td>Beer</td>
<td>$0.58</td>
<td>$0.05</td>
</tr>
<tr>
<td>Wine</td>
<td>$1.07</td>
<td>$0.04</td>
</tr>
<tr>
<td>Liquor</td>
<td>$10.80*</td>
<td>$0.13</td>
</tr>
</tbody>
</table>

*Equivalent liquid gallon rate per one 80-proof gallon; actual tax rate is $13.50 per 100-proof gallon.
Erosion has shrunk tax revenues by billions.

**REVENUE LOST, 1992 through 2012:**
$64.8 BILLION

Revenue if indexed to inflation:
$251.2 billion

Treasury now losing
$7 billion annually

Total revenue collected:
$186.4 billion

Federal alcohol tax revenue has dropped from 10.2% of alcohol sales in 1991 to just 6.0% in 2011.

Retail sales of alcoholic beverages increased 129% between 1991 and 2011...

...while federal excise tax revenues increased just 40%.

Sources: Alcohol and Tobacco Tax and Trade Bureau; USDA Economic Research Service
Alcohol-related harm costs the government far more than tax revenues collected.

- **$223.5 BILLION** annually in alcohol-related harm due to excessive consumption—lost productivity, health care, injuries, crime

- ***$94.2 BILLION annually** in costs borne directly by government; that’s $0.80 per standard drink.

- Another $92 billion is borne by excessive drinkers and their families.

- Federal and state alcohol and sales / retail taxes comprise just 10%-15% of retail sales.

- Federal tax revenues cover just **10.7%** of the $94 billion that excessive consumption costs the government.

The price we **really** pay for a drink...

Federal excise tax: $.04-.13  
State excise tax: $.03-.04  
State sales/retail tax: $.08-.09  

THE ALCOHOL INDUSTRY GETS THE REST.

THE GOVERNMENT PAYS THE DIFFERENCE.

$0.80  
DIRECT COST TO GOVERNMENT (HEALTH CARE, INJURIES, CRIME)

BEER: $1.50  
WINE: $1.68  
SPIRITS: $1.79  
RETAIL PRICE PER DRINK
Options for Congress to recoup the cost of alcohol-related harm and generate revenue

1. Simple index inflation
2. Equalize beer and wine to a proof gallon rate based on alcohol volume (not liquid volume)
3. Increase proof gallon rate from $13.50 to $16.00 (Congressional Budget Office 2011)
4. Increase proof gallon rate to $24.16 per gallon (Alcohol Justice recommendation)

How much revenue are we talking about?
Methods we used to project revenues and consumption for hypothetical tax increases

- Consumption and sales data
  - Beverage Information Group
  - TTB collections
- *Elasticity by beverage type:
  - Beer -.46
  - Wine -.69
  - Spirits -.80
- **Assume industry will pass 100% of tax increases along to consumers


Potential revenue from a tax increase is substantial.

<table>
<thead>
<tr>
<th>Estimated Revenues Under Various Tax Increase Options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initial Increase Per Drink</strong></td>
</tr>
<tr>
<td>Beer</td>
</tr>
<tr>
<td>Current rate (baseline)</td>
</tr>
<tr>
<td><strong>Option 1:</strong> Baseline rate + annual inflation indexing</td>
</tr>
<tr>
<td><strong>Option 2:</strong> Equalize beer and wine to current volumetric spirits rate ($13.50/proof gallon); annual inflation indexing</td>
</tr>
<tr>
<td><strong>Option 3: (recommended)</strong> Equalize beer and wine; increase rate to $24.16/proof gallon; annual inflation indexing</td>
</tr>
</tbody>
</table>
Recommendations

- **Index** federal excise tax rates to inflation going forward
- **Equalize** tax across beverage type (tax beer and wine at the same volumetric proof gallon rate as spirits)
- **Increase** the tax rate to $24.16 per proof gallon for all beverage types (a 10¢-per drink increase on current spirits tax)

Source: “Alcohol Tax Scenarios to Address the Fiscal Cliff. November 2012, Alcohol Justice.”
While the impact of an equalized $24.16 proof gallon rate on consumers is minimal...

<table>
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<th>Average annual per capita tax increase</th>
<th>Average reduction in consumption</th>
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<tbody>
<tr>
<td></td>
<td>4 or fewer drinks/week</td>
<td>5 or more drinks/week</td>
</tr>
<tr>
<td>Beer</td>
<td>$16.20</td>
<td>$72.00</td>
</tr>
<tr>
<td>Wine</td>
<td>$19.44</td>
<td>$86.40</td>
</tr>
<tr>
<td>Liquor</td>
<td>$10.08</td>
<td>$47.38</td>
</tr>
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</table>
the potential impact on public health is substantial.

Increasing alcohol taxes is one of the most effective policy options to reduce alcohol consumption and related harm, particularly among youth.

Doubling alcohol taxes would reduce:

- alcohol-related mortality by an average of 35%,
- traffic crash deaths by 11%,
- sexually transmitted disease by 6%,
- violence by 2%, and
- crime by 1.4%.

Sources:
Strategies for moving forward with a campaign

- Build a coalition of public health, religious, commercial organizations to advocate for a federal tax increase
- LOBBY Congress
- More research
- Media advocacy
- Take the fight to the states