

State Alcohol Taxes in the U.S.: Types, Amounts, and Comparison to Alcohol-Related Costs

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As required by the Alcohol Policy 18 Conference,
I/we have signed a disclosure statement and note the
following conflict(s) of interest:

None.



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Background: Alcohol Consumption

- 106,000 deaths annually, 88,000 due to excessive drinking
- \$249 billion in costs annually in the U.S.; ~\$750 per adult per year, \$2 per drink
- “Second-hand” health and economic effects, (i.e., problems borne by society and not by alcohol companies and the drinker)
- 3 factors above justifications for taxation

Background: Alcohol Taxes

- Taxes effective for reducing excessive drinking among adults, youth drinking
- Taxes effective for reducing harms:
 - car crashes
 - other injuries
 - violence
 - cirrhosis
- Raise revenues for government

Taxes, cont.

- Those drinking excessively pay 5x as much
- Those with higher household incomes pay more
- Racial minorities pay less than Whites
- Employed pay more than non-employed

- Across all sectors of the economy, increased taxes increase jobs

However ...

- Tax increases are rare, face substantial political and industry opposition
- People, policymakers unaware of current alcohol tax magnitudes
 - Taxes based on weird units of measurement
 - For percentage-based, prices vary
- Objective: describe distribution of tax types in states, quantify tax magnitude on a per-drink basis, compare to costs

Tax Types

- Specific excise taxes (i.e., excise tax)
 - Fixed amount per unit volume
 - Levied in arcane units (i.e., \$18/barrel of beer)
 - Incorporated into the shelf life
- Ad valorem taxes
 - Percentage of price, may be wholesale or retail
 - Prices vary widely, on- vs. off-premises
- Sales taxes
 - Percentage of retail price
 - Not product specific

Methods: Excise Tax Values and Excise Tax Erosion

- Tax Data Sources
 - Alcohol Policy Information System (APIS)
 - Tax Foundation
- Inflation-adjusted to 2015
- Assessed taxes by beverage type (beer, spirits, wine)
- Study restricted to beverages not subject to state alcohol monopolies

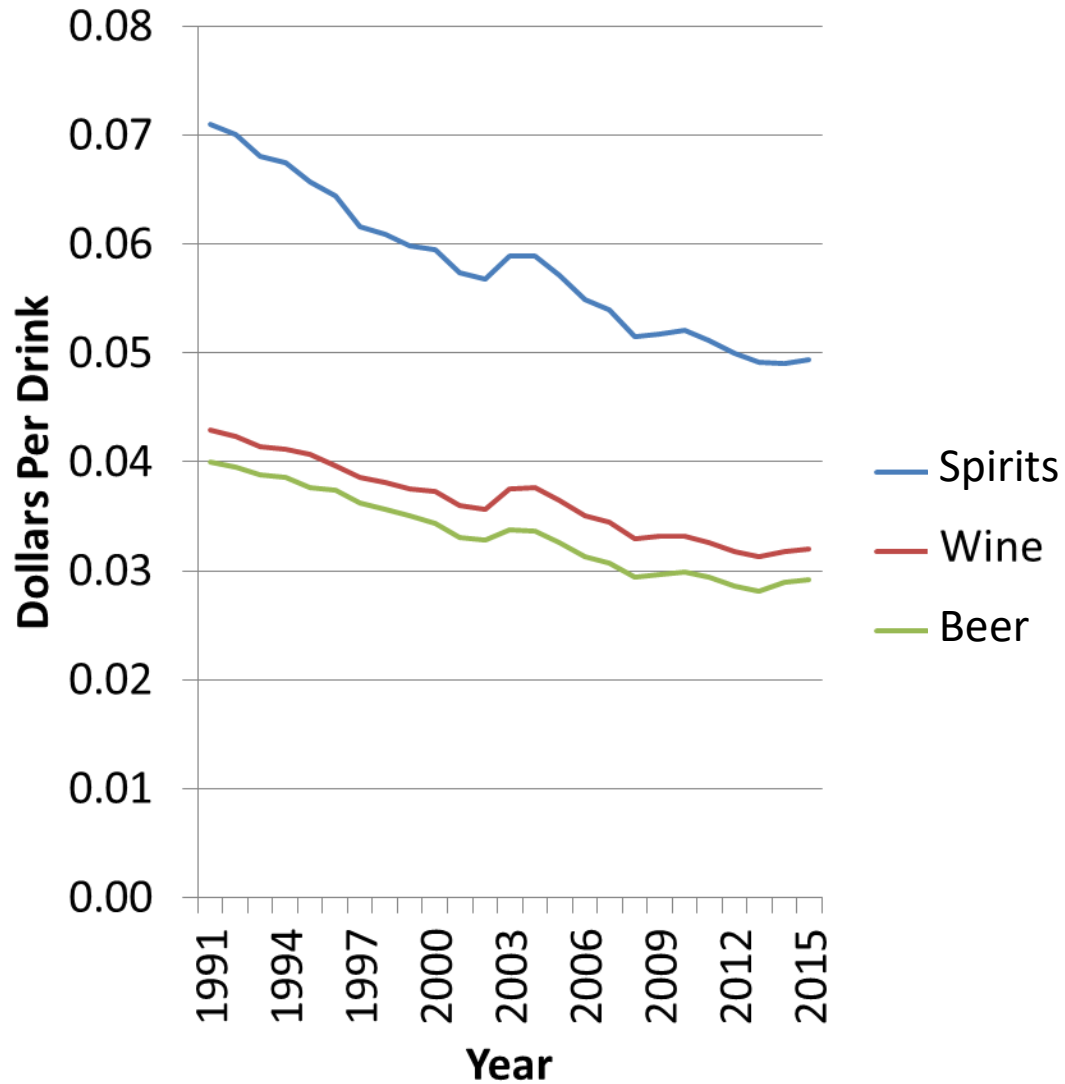
Results:

**Current Excise Taxes,
Excise Tax Erosion**

State alcohol excise taxes in 2015, and changes in inflation-adjusted excise taxes since 1991, by beverage type

	Beer ^a		Spirits ^{b, e}		Wine ^{c, e}	
	2015 Tax Rate (\$ per drink)	% Change Since 1991 ^d	2015 Tax Rate (\$ per drink)	% Change Since 1991 ^d	2015 Tax Rate (\$ per drink)	% Change Since 1991 ^d
State average	0.03	-30%	0.05	-32%	0.03	-27%
Alabama	0.10	-42%	N/A	N/A	N/A	N/A
Alaska	0.10	77%	0.15	32%	0.10	70%
Arizona	0.02	-42%	0.04	-42%	0.03	-42%
Arkansas	0.02	-42%	0.03	-42%	0.03	-42%
California^f	0.02	-42%	0.04	-42%	0.01	-42%

Mean of state alcohol excise tax values by beverage type, 1991-2015



Results, cont.

- Beer excise tax: 16 of 50 states have a tax of 1 cent per drink or less
- Of the 5 states that increased beer taxes during the past 25 years, the average tax is still only 6 cents per drink
- 13 of 32 states have a wine tax of 2 cents per drink or less
- Of the 6 states that have increased wine taxes during the past 25 years, average tax 6 cents
- Of 3 of 32 states that have increased spirits tax, average tax is 10 cents

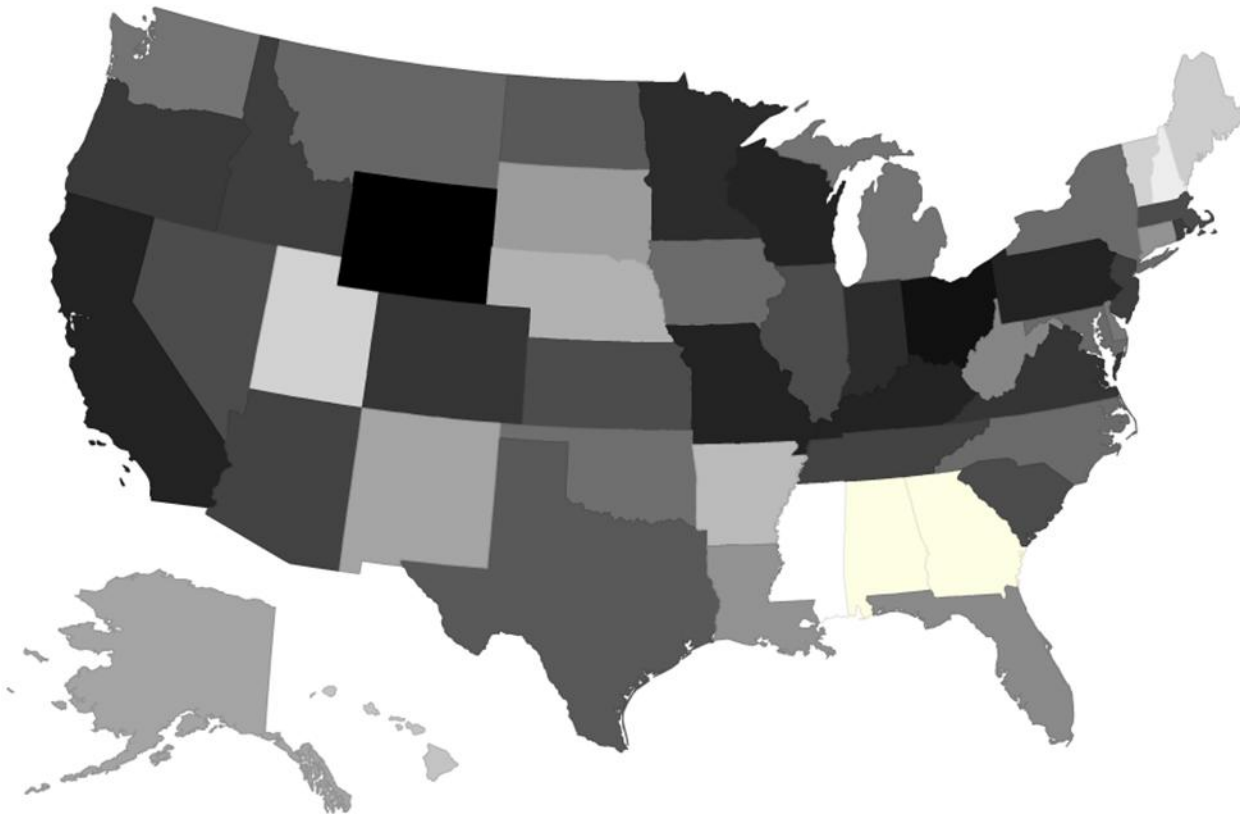
Year of tax inception, inflation-adjusted rate at inception, and inflation-adjusted change in value of state alcohol specific excise taxes from inception, by beverage type

	Beer ^a			Spirits ^b			Wine ^c		
	Year of inception	Rate at Inception (Inflation Adjust)	% Change	Year of inception	Rate at Inception (Inflation Adjust)	% Change	Year of inception	Rate at Inception (Inflation Adjust)	% Change
All States	1933	0.08	-64%	1935	0.15	-67%	1934	0.11	-70%
Alabama	1937	0.08	27%	N/A	N/A	N/A	N/A	N/A	N/A
Alaska	1933	0.08	21%	1937	0.10	54%	1933	0.03	182%
Arizona	1933	0.08	-82%	1933	0.17	-79%	1934	0.17	-80%
Arkansas	1934	0.05	-55%	1935	0.08	-62%	1935	0.03	-10%
California	1933	0.03	-44%	1935	0.16	-76%	1934	0.01	-44%

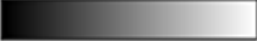
Results, cont.

- Since inception:
 - 4/50 states have raised taxes
 - 4/32 states have raised wine taxes
 - 1/32 states has raised sprits taxes

Percent decline in value of beer excise tax since inception of the tax



Percent

-97  -40

* Alabama and Georgia have increased in value

Methods:

Tax Types, Total Tax Magnitude, Comparison to Costs

- Tax Data Sources as above; federal excise taxes: beer (\$0.05), distilled spirits (\$0.16), wine (\$0.04)
- Price estimates from Impact Databank (beverage specific, on-premise vs. off-premise)
- State-specific consumption, by beverage type, from Alcohol Data Epidem. System (ADES)
- Assumed 75% of alcohol consumed off premise to develop a weighted average price per drink

Methods, cont.

- Taxes were inflation-adjusted to 2010 to match cost data
- Cost estimates included costs from legal system, criminal justice system, medical care expenditures, lost productivity
- Costs allocated by state on a per-drink basis, based on per capita sales data from ADES

RESULTS:

Tax Types in States

Magnitude of Total Taxes

Comparison with Costs

Total state alcohol taxes by beverage type, and proportion from excise tax, United States, 2010

States	Sales Tax	Ad Valorem Taxes	Beer		Wine		Spirits		All Types
			Total Tax (\$/drink)	Proportion from Excise Tax	Total Tax (\$/drink)	Proportion from Excise Tax	Total Tax (\$/drink)	Proportion from Excise Tax	Proportion from Excise Tax
Median			0.10	19.0%	0.18	13.3%	0.15	28.6%	20.1%
Alabama	*		0.15	65.6%	n/a	n/a	n/a	n/a	n/a
Alaska			0.10	100.0%	0.10	100.0%	0.15	100%	100.0%
Median	*		0.10	14.9%	0.18	18.1%	0.14	25.3%	19.6%
Arkansas	*	*	0.18	12.8%	0.32	9.5%	0.27	11.2%	11.5%
California	*		0.13	14.9%	0.19	4.0%	0.17	23.0%	15.9%

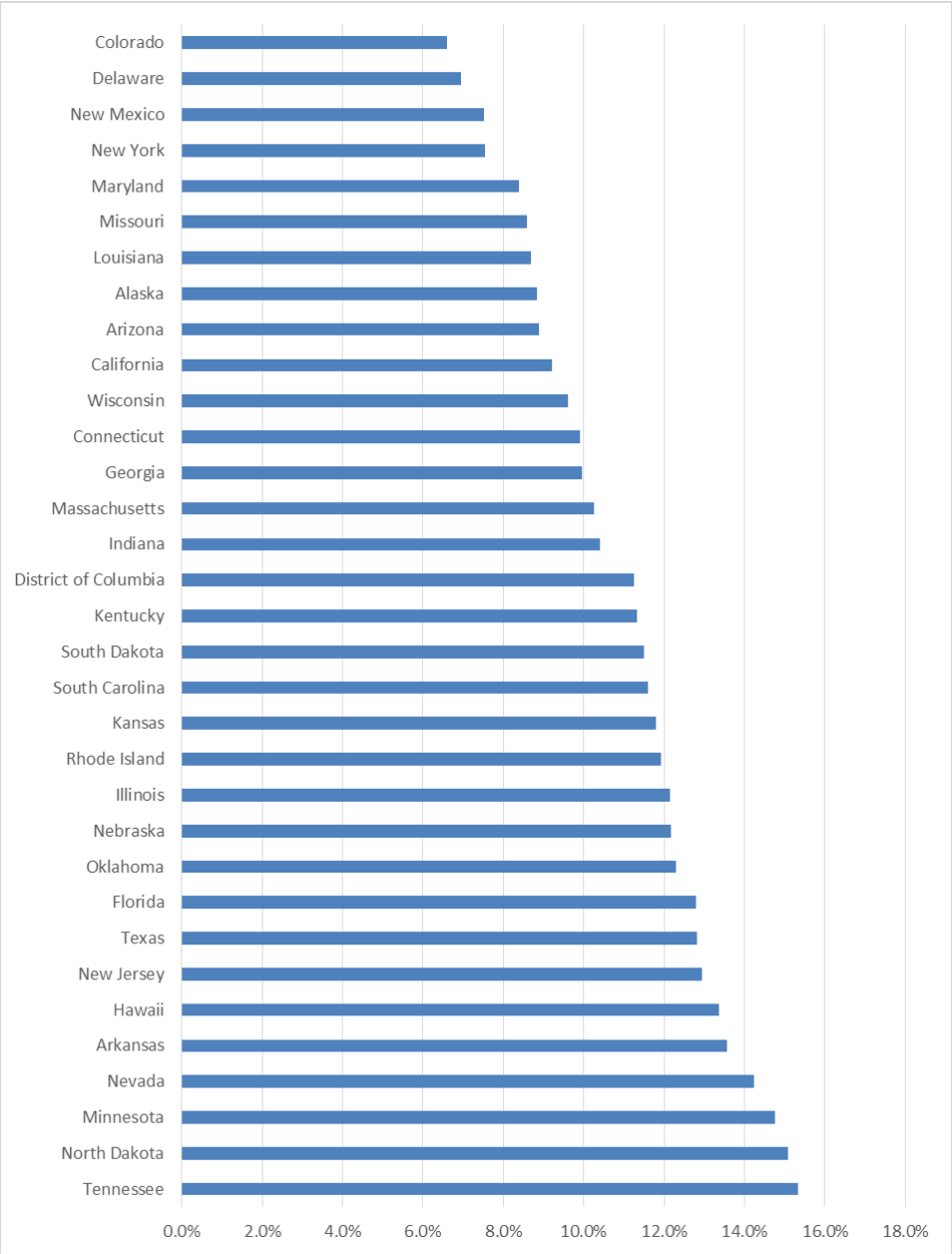
Results, cont.

- 43 states apply sales tax (not AK, DE, DC, KS, MT, ND, NH, OR)
- 16 apply ad valorem taxes
- States that apply *neither* sales or ad valorem: AK, DE, MT, OR (MA)
- States that get >50% of tax revenue from excise taxes have lower total taxes

State and federal alcohol taxes compared to costs for excessive drinking, United States, 2010

States	Average State Alcohol Tax for All Beverage Types (\$ per drink),	Average Federal Plus State Alcohol Tax for All Beverage Types (\$ per drink)	Cost of Excessive Drinking (\$/drink)	Federal plus State Tax per drink as a % of Total Cost
Median	0.13	0.21	2.05	10.3%
Alabama	n/a	n/a	2.27	n/a
Alaska	0.12	0.20	2.25	8.8%
Arizona	0.13	0.20	2.27	8.9%
Arkansas	0.23	0.31	2.27	13.6%
California	0.15	0.23	2.44	9.2%

Proportion of alcohol-related costs accounted for by alcohol taxes on a per-drink basis among the 32 license (non-monopoly) states in the United States, 2010



Caveats, Limitations

- Lack of state-specific price data, had to rely on national estimates, to calculate value-based taxes
- Cost estimate did not include intangible effects
- Sales tax not product-specific, perhaps should not be “counted” when assessing the coverage of costs by alcohol taxes

Summary

- Current state excise taxes are low, 5 cents per drink or less for all beverage types
- State excise taxes have declined c/w historical levels (similar federally since 1991)
- Considering all tax types, the magnitude of state plus federal taxes does not cover the economic costs of alcohol, including the costs to government (i.e., taxpayers)
- This amounts to a subsidy of alcohol consumption