

ALCOHOL TAX SCENARIOS TO ADDRESS THE FISCAL CLIFF

November 2012

Federal alcohol taxes were last raised in 1991, more than 20 years ago.

Our recommended increase would generate an additional \$182.5 billion in federal revenue by 2022.

Recommendations:

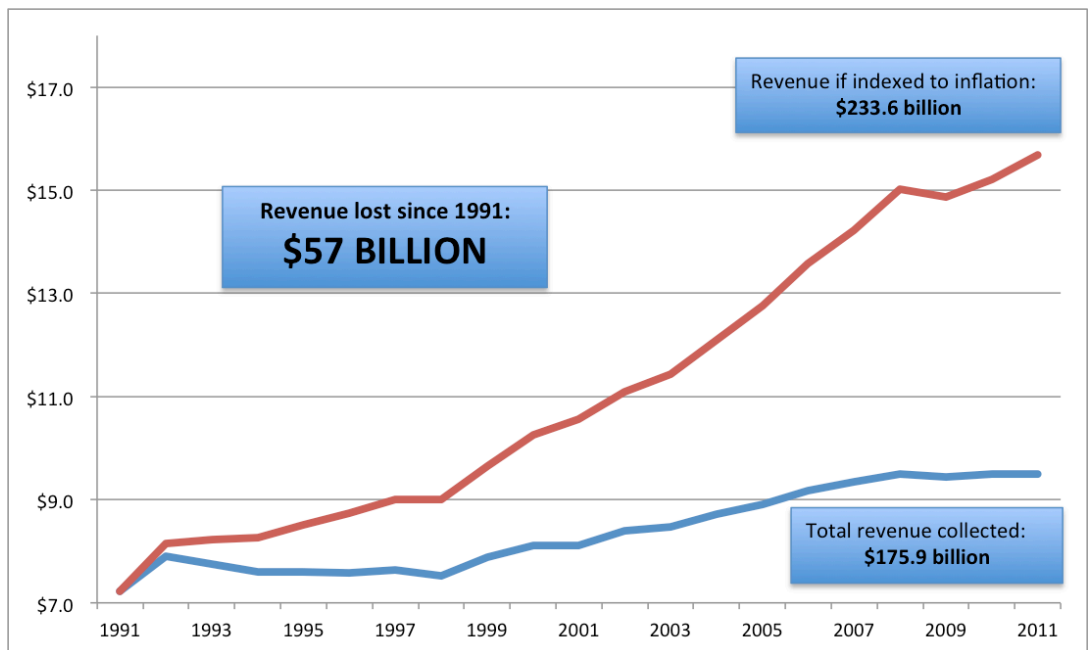
- 1) *Index tax rates to inflation going forward*
- 2) *Tax beer and wine at the same volumetric proof gallon rate as spirits*
- 3) *A tax increase to \$24.16 per proof gallon for all beverage types (a 10¢-per drink increase on current spirits tax)*

Facing the “fiscal cliff” crisis that threatens continued economic recovery, the Obama administration has proposed raising \$1.5 trillion in additional revenue over the next 10 years to reduce the federal deficit. Raising the alcohol excise tax is a timely, fair, and reasonable way to increase revenue by up to **\$182.5 billion** over the next decade. This represents 11.8% of the desired \$1.5 trillion needed to avoid more onerous taxes or spending cutbacks.

Recommendation 1:

Alcohol taxes should be indexed to inflation going forward.

The federal tax was last increased in 1991, more than 20 years ago, An increase is long overdue. The current rates are \$0.58 cents per gallon of beer, \$1.07 per gallon of wine and \$13.50 per proof gallon of spirits. Since then, the real value of the tax has eroded due to inflation, costing the U.S. government more than **\$57 billion** in lost revenue.



Federal alcohol tax revenue collected and potential revenue had taxes increased with inflation since 1991 (in billions)

Excessive alcohol consumption costs federal, state and local governments \$94 billion a year.

Beer and wine are currently under-taxed and should be taxed at the same volumetric proof gallon rate as spirits.

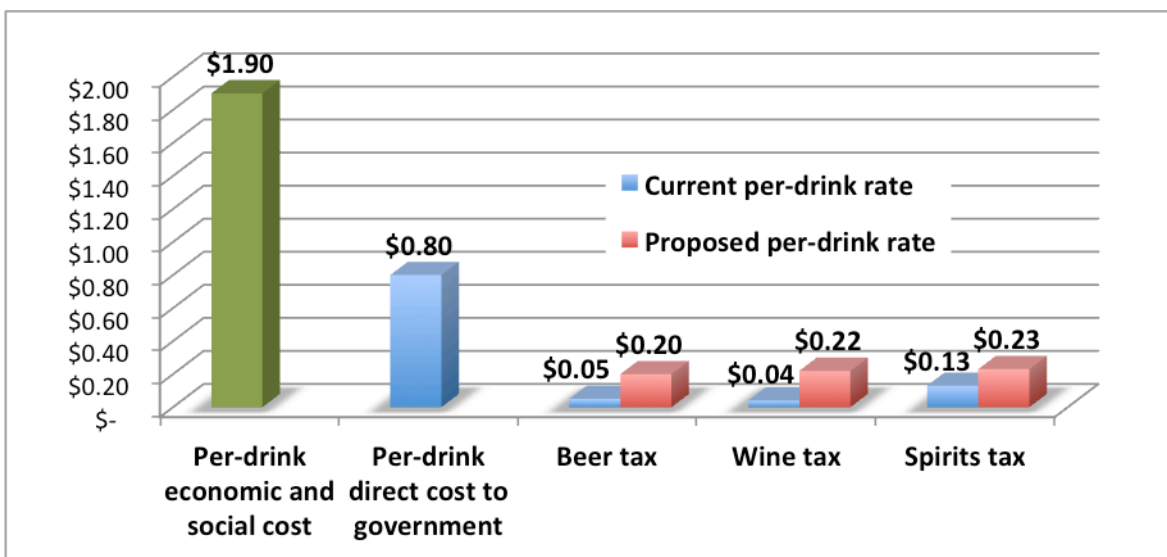
Recommendation: Tax all beverage types at a uniform proof gallon rate of \$24.16, equivalent to 20¢ per 12-oz beer, 22¢ per 5-oz glass of wine, and 23¢ per 1.5-oz of spirits.

Current alcohol tax rates do not reflect the economic and social costs of excessive alcohol consumption in the U.S.

Alcohol is unlike other commodities because it causes harm to the general public and costs to government in its consumption. According to the Centers for Disease Control and Prevention (CDC), excessive alcohol consumption causes 79,000 deaths annually in the U.S., and \$223.5 billion in economic losses from health care, criminal justice and lost productivity (in 2006)--about \$1.90 per drink consumed. The direct cost to government is estimated at \$94 billion per year, or \$0.80 per drink consumed. The current federal excise tax collected per drink of \$0.05 (beer), \$0.04 (wine), and \$0.13 (spirits) does not begin to cover the costs of these externalities.

Recommendation 2: Alcohol tax should be levied by proof gallon to equalize the rates among beer, wine and spirits.

The current tax rate applied to spirits is based on a proof gallon, the amount of ethyl alcohol by volume. This rate should be applied equally to beer and wine, which are currently taxed at far lower rates, and are taxed according to fluid volume, regardless of alcohol content. It is the consumed ethyl alcohol in beer and wine that causes economic and health damage, regardless of the additional volume of water.



Economic cost to government and current federal tax rate by alcoholic beverage type calculated per-drink

Recommendation:
Scenario 4, which increases the proof gallon tax to \$24.16, taxes all alcoholic beverages at that rate, and increases the rate for inflation each year.

This scenario generates \$182.5 billion in additional federal revenue through 2022.

A moderate increase in spirits rate and substantial increase in beer and wine rates would generate up to \$182.5 billion in revenue over the next decade.

Alcohol Justice projected potential tax revenues from 2013-2022 based on four alcohol tax increase scenarios and a baseline.

Baseline:

No increase to current tax rates (baseline revenue). Without any increases, total tax revenue will be \$97.0 billion over ten years, adding no net contribution to deficit reduction.

Scenario 1:

Inflation Indexing to the Baseline

Indexing current tax rates to inflation would net \$11.9 billion of new revenues over 10 years, .77% of the \$1.55 trillion deficit reduction goal.

Scenario 2: No increase on spirits tax; raise beer and wine taxes volumetrically to spirits level; index all to inflation.

Current volumetric tax on spirits stays the same; tax on beer and wine is increased to the equivalent of the spirits tax based on ethyl alcohol by volume (ABV), and baseline and new tax rates all adjust annually for inflation. Beer taxes are raised \$0.06 and wine taxes \$0.08 to the equivalent volumetric rate in the first year. Over the next ten years, Scenario 2 nets \$65.0 billion in new revenues.

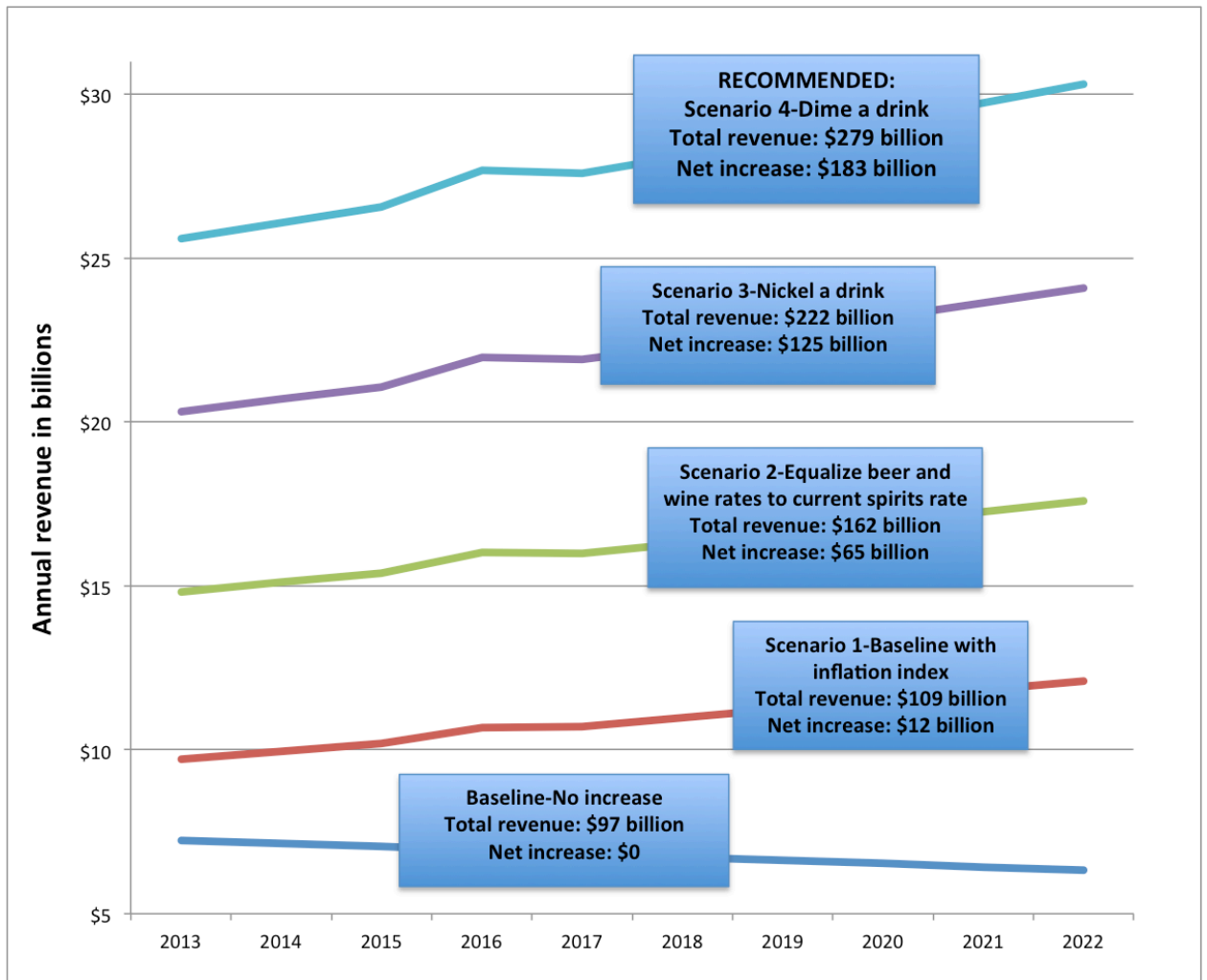
Scenario 3: Increase spirits tax \$.05 drink; raise beer and wine taxes volumetrically to spirits level; index all to inflation.

Current volumetric tax on spirits is increased by \$0.05 per drink (from \$13.50 per proof gallon to \$18.84 per proof gallon); beer taxes are raised \$0.11 and wine taxes \$.13 to the equivalent volumetric rate. Over the next ten years, Scenario 3 nets \$124.9 billion in new revenues.

Scenario 4: Raise spirits tax \$.10 drink; raise beer and wine taxes volumetrically to spirits level; index all to inflation.

Current volumetric tax on spirits is increased by \$0.10 per drink (from \$13.50 per proof gallon to \$24.16 per proof gallon); beer taxes are

raised \$0.15 and wine taxes \$0.18 to the equivalent volumetric rate. Over the next 10 years, Scenario 4 nets \$182.5 billion in new revenues, 11.8% of the Administration's increased revenue goal. By 2022, the federal government will collect over \$30 billion annually in alcohol tax revenue.



Federal alcohol tax revenue generated from 2013 through 2022 under various scenarios (in billions)

Recommendation 3:

We strongly recommend Scenario 4, which increases the proof gallon tax to \$24.16, taxes all alcoholic beverages at that rate, and increases the rate for inflation each year.

Scenario 4 incorporates a substantial increase in volumetric tax, equalization of the tax rate among all beverage types, and increases the tax rate each year according to inflation. Scenario 4 generates a substantial contribution of additional revenue over the next 10 years,

Increasing alcohol taxes reduces underage drinking, traffic crashes and fatalities, and alcohol-related illness and injuries.

Only those who consume alcohol would be burdened by an increase in alcohol tax. One third of Americans do not drink at all, and more than half drink sparingly.

contributing \$182.5 billion, 11.8% of the needed \$1.5 trillion in revenue to avoid the so-called “fiscal cliff.”

Our recommended per-drink tax increase to \$0.20 (per 12-oz beer), \$0.22 (per 5-oz wine), and \$0.23 (per 1.5-oz spirits) would help the U.S. bear the cost of alcohol-related harm and equalize the cost among beverage types.

Increasing alcohol taxes will improve public health and safety.

Studies have shown repeatedly that raising alcohol excise taxes reduces underage drinking, traffic crashes and fatalities, and alcohol-related injuries.

Alcohol taxes have strong public support, and most Americans would not be burdened by a tax increase.

Public opinion polls consistently find strong support for increasing alcohol taxes, particularly when given a choice between an alcohol tax increase and cuts to social programs such as Medicare. Given the current challenge Congressional leaders face in raising the proposed \$1.5 trillion in revenue, an alcohol tax increase is a strongly justifiable alternative to spending cuts and tax increases that would affect a large number of struggling middle-class Americans.

Furthermore, an alcohol tax is fair because it only affects those who consume alcohol. The 55 percent of Americans who drink sparingly, including the one-third who do not drink at all, would not be burdened by the increase. Ultimately, the burden of alcohol taxation falls on the producers, wholesalers, retailers and consumers, with the heaviest consumer burden on heavy drinkers.

The President and Congressional leaders could act now to support our recommended tax changes:

- 1) Increase the alcohol excise tax rate to \$24.16 per proof gallon**
- 2) Tax all alcoholic beverages at the same uniform volumetric rate**
- 3) Index the tax rate to inflation on a yearly basis**

Addendum:
Alcohol Tax Scenarios for Deficit Reduction

	Total Tax Revenue (Billions) 2013-2022	New Revenue (Billions) 2013-2022	Percent of \$1.55 Trillion
Baseline No increases	\$97.02	\$0.00	0.00%
Scenario 1: Baseline Inflation indexing	\$108.93	\$11.91	0.77%
Scenario 2: No spirits increase Beer up \$.06 / drink Wine up \$.08 drink Inflation indexing	\$161.99	\$64.97	4.19%
Scenario 3: Spirits up \$.05 drink Beer up \$.11 / drink Wine up \$.13 drink Inflation indexing	\$221.93	\$124.91	8.06%
Scenario 4: Spirits up \$.10 drink Beer up \$.15/ drink Wine up \$.18 drink Inflation indexing *RECOMMENDED*	\$279.52	\$182.50	11.77%

Vision Alcohol Justice envisions healthy communities free of the alcohol industry's negative impact.

Mission Alcohol Justice, the industry watchdog, promotes evidence-based public health policies and organizes campaigns with diverse communities and youth against the alcohol industry's harmful practices.

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