Increasing Alcohol Taxes – Reality vs. Industry Myths

ALCOHOL JUSTICE
The Industry Watchdog

The Problem

Big Alcohol's arguments against tax increases are often self-serving, exaggerated, and erroneous. Raising taxes is one of the most effective policy measures available to curb excessive consumption and related harm, and to raise significant amounts of revenue.[1, 2] Industry arguments are easily countered and should not provide policymakers with convenient excuses to disregard an effective policy solution.

Higher taxes are not regressive, and will not hurt the mythological "Joe Six Pack"

- People who drink excessively, and whose drinking causes the most harm, will be significantly impacted by higher alcohol taxes.
- Research shows that people with higher incomes are more likely to drink than those with less disposable income. Alcohol excise tax increases are actually progressive, and cost non-excessive drinkers with college education and higher incomes more.[3] In addition, a third of the population does not drink at all, while the majority of drinkers consume relatively little.
- The alcohol industry regularly raises prices and pockets the profits. Industry objects to higher government taxes to fund alcohol prevention or treatment programs, but what corporations really object to is any interference with their ability to make even greater profits.

Higher alcohol taxes will help, not hurt, the economy

- Published economic analysis predicts a ten-cent per drink tax or fee will reduce consumption by 3.3% for beer, 4.4% for wine, and 4.7% for spirits, resulting in corresponding drops in revenue.[4] But this does not tell the whole story...
- Economic research also shows that the industry passes on more than 100% of the increase to drinkers, from 1.6 to 2.1 times the amount of the tax.[5] The additional increase in retail price more than compensates for lost revenue and enables industry to maintain pre-tax profit levels. Some sectors may even make more money after a tax increase.
- Corporations may claim dramatic job losses from tax increases so that they can raise prices, lay off workers to cut expenses, and use the government as a convenient scapegoat. In reality, revenue and profits will adjust to remain at pre-hike levels (or become higher), so that unnecessarily trimming the workforce only increases profits further.[6]
- Alcohol taxes and fees can raise millions, and potentially billions, of new revenue for states and the federal government, through which many new jobs can be created – jobs that will promote health and wellbeing for all residents.
- The relatively minor drops in consumption from higher taxes can save government money in costs (such as health care) from the problems caused by alcohol use.
- The Maryland legislature voted to increase the retail sales tax on alcoholic beverages from 6% to 9%, starting in July 2011. Despite claims by the Distilled Spirits Council of the United States (DISCUS), the tax increase did not cause a substantial drop in consumption. The net increase in tax revenue, even with the minor drop in consumption resulting from the tax increase, is estimated at $38 million annually.[7, 8]

Industry does not pay its fair share

- Industry claims to be harmed by excise taxes.[9, 10] According to the industry, of all the taxes on a glass of beer, 89% are federal and state business taxes along with state sales taxes. But these are general business taxes that all businesses pay, not just alcohol companies. Beer excise taxes make up the remaining 11%, with 3% going to the state and 8% going to federal excise tax.
- While the industry complains that alcohol is overtaxed in the United States, state and federal excise taxes comprise only 10%-15% of retail alcohol sales.
- Alcohol-related harm directly costs federal, state and local governments an estimated $94 billion annually, about $0.80 per drink.[11]
- A federal 25 cents per drink increase would generate an additional $16 billion in annual tax revenue.
- Beer taxes are 5-7 times higher in the United Kingdom and Sweden than in the U.S., even including the average state tax rate.
- Due to inflation, alcohol taxes continue to decline in real value year after year. Federal excise taxes have declined 41% in real value since the last time they were raised in 1991 because they have not been adjusted for inflation.[12] This decline costs the federal government approximately $7 billion each year.

Bottom Line

The economic sky will not fall from relatively minor increases in alcohol taxes. Alcohol taxes will lower consumption, while providing revenue for much-needed government programs to mitigate harm. Higher alcohol tax increases are a win-win policy solution.

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