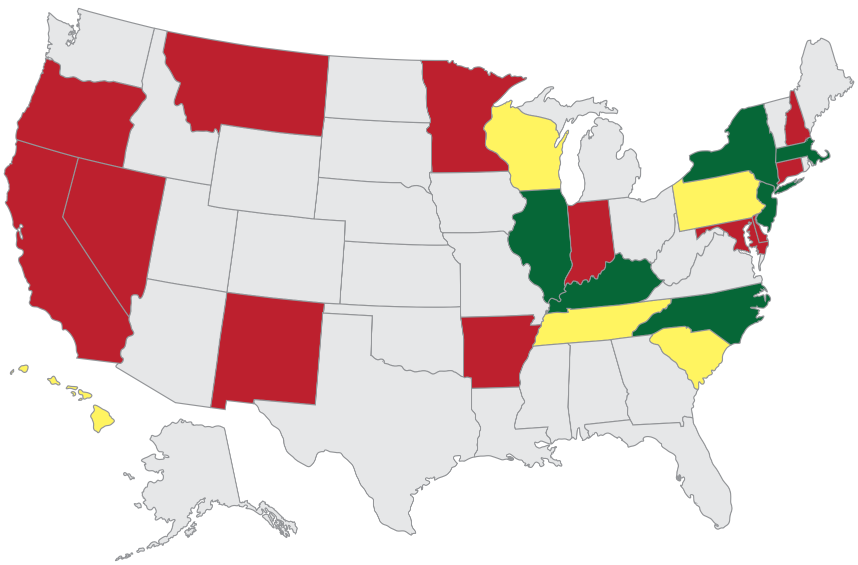
In the Red

Alcohol Revenue and State Budgets in Crisis



Marin Institute Report

November 2009

Marin Institute
alcohol industry watchdog

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Executive Summary

As states struggled to reduce looming deficits and find revenue sources in 2009, 25 legislatures introduced bills to increase alcohol revenue. Raising alcohol taxes is one of the most effective strategies to decrease underage drinking, as well as adult over-consumption, and the related harm. Thus increasing alcohol taxes serves two important purposes: generating additional revenue and decreasing harm.

The purpose of this report is to assess the 2009 legislative session for how successful states were in passing alcohol tax bills. In doing so, we have used standard economic analysis to estimate how much revenue was gained, and how much potentially lost.

Of the 25 states with one or more proposals for increased alcohol taxes in 2009, six successfully raised taxes and can expect additional revenue from alcohol sales. The grand total increase in annual revenue for these states (Illinois, Kentucky, Massachusetts, New Jersey, New York, and North Carolina) is $340 million. Meanwhile, proposals for alcohol tax increases in fourteen states died this year, leaving between $2.57 and $2.74 billion of potential state revenue on the table.

Ten states still have alcohol tax legislation pending as of November 2009. For example, California's Assembly Bill 1019 would impose a fee upon alcoholic beverages to be used exclusively for alcohol-related service programs to mitigate harm caused by alcohol products. The estimated annual revenue from AB 1019 is $1.4 billion.

Trends from alcohol tax legislation in 2009 include directing revenue towards specific alcohol-related programs; levying the tax in unconventional ways; and a consistent lack of indexing the alcohol tax rate to the inflation rate, a measure that would avoid losing real value over time. In light of these trends, Marin Institute recommends:

- Legislators and state advocates should revisit alcohol tax rates in their states, and consider introducing new legislation to increase alcohol taxes and "charge for harm" to hold the alcohol industry accountable for its products.
- In new legislation to increase alcohol taxes, policymakers should:
  - Allocate revenue to programs and services that address underage and excessive drinking and various types of alcohol-related harm.
  - Index the tax rate to inflation, so the real value does not decrease over time.
  - Make the tax increases permanent, not on an "emergency" basis.

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Introduction

Since December 2008 the United States has been mired in what may be the worst economic times since the Great Depression. State incomes have plummeted and basic, necessary public health programs are being slashed as needs for government assistance skyrocket in both urban and rural communities across the nation.

Meanwhile, states scrape for money to pay bills and balance their gaping budgets for the immediate and future fiscal years, while the real value of their alcohol tax revenue continues to diminish over time. Most alcohol taxes in the U.S. are based on the volume of alcohol sold, and do not adjust with inflation. As a result, in 2008 U.S. state and federal treasuries lost an estimated $5.87 billion[1] in real beer tax revenue alone.

The purpose of this report is to assess the 2009 legislative session for how successful states were in passing alcohol tax bills. In doing so, we have used standard economic analysis to estimate how much revenue was gained, and how much potentially lost.

Alcohol tax revenue has long been a reliable income source for states, and increasing alcohol taxes to help close budget gaps is widely favored by voters.[2] Alcohol taxes allocated to treatment or prevention programs are particularly well-supported,[3] especially given that taxpayers generally foot the bill for alcohol-related harm (e.g. police, traffic accidents, and public health costs).[4] Yet state and federal governments remain hesitant to keep alcohol tax rates up to date.

The intersection of these issues is a ticking time bomb. Economics research shows that a decrease in the real value of alcoholic beverage taxes and prices will exacerbate the problems associated with alcohol.[5] Thus, as states continuously lose revenue because their alcohol taxes are not indexed to inflation, the costs of the negative consequences of drinking increase. By leaving alcohol taxes alone, legislators are foregoing valuable revenue and contributing to the gap between the cost of alcohol-related harm and our ability to pay for it.

In dire economic need, numerous states attempted to increase alcohol tax revenue in 2009. Backing these initiatives is a flurry of recent studies confirming the social and economic benefits of alcohol tax increases, along with strong public support for new alcohol taxes and fees. However, Big Alcohol lobbied hard against new alcohol tax legislation. Only a few states will see new revenue from alcohol taxation, and of those, only one or two will see significant revenue. A great deal of money was left on the table.

Methods

State and federal taxes and fees on alcohol are assessed at the retail and wholesale level and are based either on the volume of alcohol sold (e.g. a five-cent excise tax per drink) and/or the sales price (e.g. a five percent sales and use tax). Revenue estimates for bills that proposed changes to the sales tax rate on alcohol were based on a straight calculation of:

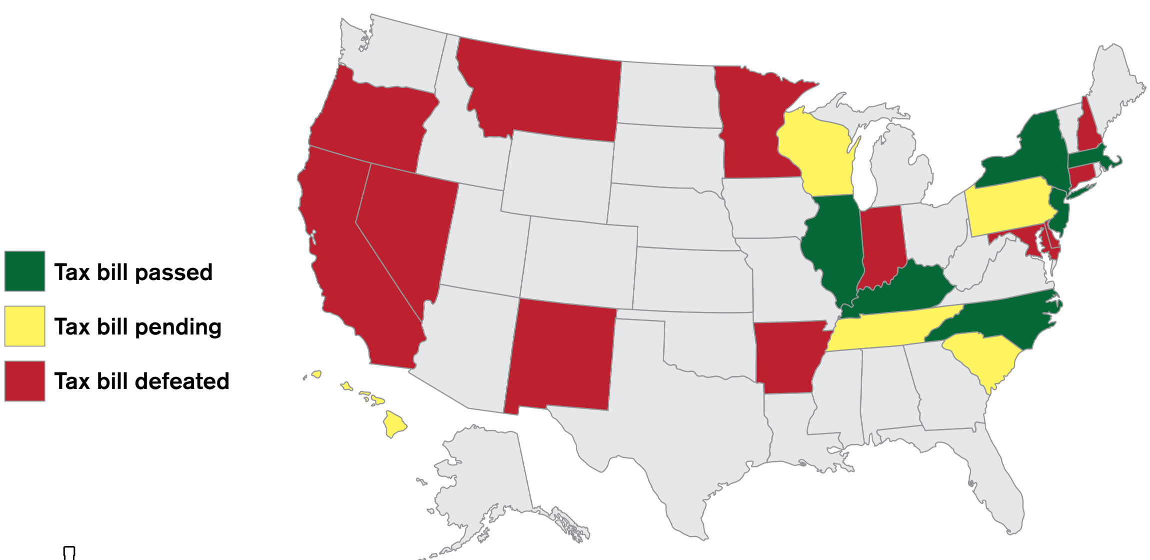
Number of Gallons Sold x Average Sales Price per Gallon x the Change in the Sales Tax Rate

Revenue estimates for changes to excise tax rates were made by entering the proposed increases into the Marin Institute Tax Calculator.[6] Because alcohol companies historically have passed on more than the full amount of an excise tax increase to drinkers,[7] the resulting higher retail prices are expected to increase state sales tax revenue. Changes in sales tax collections are included in the total excise tax revenue estimates for those states that levy sales tax on alcohol.

Alcohol taxes and fees can also be levied on wholesaler gross receipts (though this practice is less common). Revenue estimates for these types of taxes were again based on results from the Marin Institute Tax Calculator but also took into account the price multiplier predicted by econometric studies.

All revenue estimates are annualized for purposes of comparison and simplicity.[8] The grand total of new revenue generated by all the bills passed in 2009 was calculated by adding the revenue estimates for each bill together. In the group of bills that did not pass, some states had more than one proposed bill to raise excise tax rates. Subsequently, the revenue total is given as a range. The low end of the range includes the lower revenue estimate for states that had two excise tax bills. The high end of the range was determined by adding the higher expected revenue figure. Also, revenue from a fee bill was considered additive to excise tax revenue estimates.

Revenue calculations in this report may differ from any given state's own calculations due to differences in underlying assumptions and forecasting complexity. Some states may also have used fiscal data not made available to the public to determine their revenue calculations.



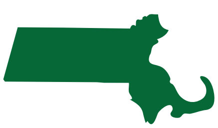
Good News

As of November 2009, six states – Illinois, Kentucky, Massachusetts, New Jersey, New York, and North Carolina – passed increases in state alcohol taxes for fiscal year 2009-2010, for a grand total of more than $340 million additional revenue.

New Revenue for States that Passed Alcohol Tax Bills	
State	**Annualized Revenue**
Illinois	$105.3 million
Kentucky	$97.3 million
Massachusetts	$78.3 million
New Jersey	$23.0 million
New York	$16.7 million
North Carolina	$19.8 million
Total	**$340.4 million**

Illinois **Revenue Gained: $105.3 million**
Senate Bill 349 and House Bill 255 increased the tax on alcohol manufacturers and importing distributors beginning September 1, 2009. The wine tax was raised from $.73 to $1.39 per gallon, the spirits tax from $4.50 to $8.55 per gallon, and the beer tax from $.185 to $.231 per gallon.

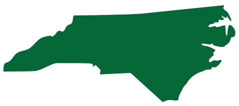
Kentucky **Revenue Gained: $97.3 million**
House Bill 144 temporarily lifted the six percent sales and use tax exemption on packaged beer, wine and spirits intended for off-premise consumption. The temporary exemption lasts from April 1, 2009 through June 30, 2010.



Massachusetts **Revenue Gained: $78.3 million**
The 2010 budget ended the sales tax exemption for alcoholic beverages. Alcohol is now subject to the state's new 6.25 percent sales tax, effective July 1, 2009.

New Jersey **Revenue Gained: $23.0 million**
Senate Bill 2013 and Assembly Bill 4104 increased the tax on spirits, wine, vermouth, sparkling wine, and hard cider by 25 percent. Twenty-two million dollars of the tax raised will be deposited into the Health-Care Subsidy Fund.

New York **Revenue Gained: $16.7 million**
The 2009-2010 Executive Budget increased the excise tax on wine from $.1893 to $.30 per gallon, and beer from $.11 to $.14 per gallon.



North Carolina **Revenue Gained: $20.3 million**
The 2009-2010 Budget increased the excise tax on beer from $.53 to $.617 per gallon and the wine tax from $.21 to $.264 cents per liter.

Total Revenue Gained: $340 million

Bad News

Big Alcohol lobbied against and defeated most of the proposed alcohol tax increases. More than two billion dollars in revenue was left on the table with the defeat of these bills.

Potential New Revenue Lost	
State	**Annualized Revenue**
Arkansas	$30.5 million
California	$751.2 million
Connecticut	$11.5 million
Delaware	$7.2 – $8.6 million
Indiana	$107.7 - $120.1 million
Kentucky	$10.5 million
Maryland	$48.6 - $86.3 million
Minnesota	$313.3 million
Montana	$6.8 million
Nevada	$79.5 million
New Hampshire	$4.2 million
New Mexico	$112.5 - $138.1 million
New York	$959.8 million
Oregon	$127.1 - $218.0 million
Total	**$2.57 - $2.74 billion**

Arkansas **Lost Revenue: $30.5 million**
Senate Bill 90 would have levied a five percent excise tax on the sale of liquor and wine by a distributor or manufacturer to a retailer, with the proceeds divided among the Drug and Alcohol Prevention and Treatment Fund, Domestic Abuse Services, and other funds.

California **Lost Revenue: $751.2 million**

2009-2010 Budget Proposal. California's governor proposed a tax increase of $.05 per drink on beer, wine, and spirits to help close the state's $41.6 billion General Fund budget gap. The proposal would have raised beer taxes from $.20 to $.73 per gallon, wine taxes from $.20 to $1.48 per gallon, and spirits taxes from $3.30 to $7.57 per gallon.

Connecticut **Lost Revenue: $11.5 million**

Senate Bill 930 would have raised excise tax rates on beer from $.20 to $.25 per gallon, wine from $.60 to $.75 per gallon, spirits from $4.50 to $5.65 per gallon, as well as increased rates on liquor coolers, alcohol in excess of 100 proof, ciders, low alcohol liquor, and other still wines.

Delaware **Lost Revenue: $7.2 million**

Budget Reconciliation. Delaware's governor proposed raising alcohol excise taxes by fifty percent, with proceeds going to pay for the state child health insurance program.

Delaware **Lost Revenue: $8.6 million**

House Bill 212 would have raised $8.5 million for the state general fund by increasing the beer tax by two-cents a serving, the wine tax by three-cents a serving, and the spirits tax by fifteen-cents a 750ml bottle.

Indiana **Lost Revenue: $107.7million**

House Bill 1295 would have increased the beer tax from $.115 to $.41 a gallon, the wine tax from $.47 to $1.68 a gallon, and spirits from $2.68 to $9.59 a gallon. The new revenue would have supported health care.

Indiana **Lost Revenue: $120.1 million**

Senate Bill 1613 would have increased the beer and cider excise tax from $.115 to $.65 per gallon, the wine excise tax from $.47 to $2.07 per gallon, and the liquor excise tax from $2.68 to $6.95 per gallon. The bulk of the revenue would go to the state general fund, with provisions that each special fund currently receiving excise taxes would receive the same percentage of the new rates as it does under the existing rates.

Kentucky **Lost Revenue: 10.5 million**

House Bill 237 would have increased excise tax on distilled spirits from $1.92 to $2.00 per wine gallon, on beer from $2.50 to $6.20 per barrel, and would have limited the credit to each brewer producing malt beverages in the state to fifty percent of the first $2.50 of tax imposed on each barrel of malt beverages sold in the state, up to 300,000 barrels annually. (This bill also would have stopped the sales and use tax exemption of off-premise alcohol sales, but that part of HB 237 was passed by HB144.)

Maryland **Lost Revenue: $86.3 million**
House Bill 791 and Senate Bill 729 would have generated new revenue to be used only for special services. The bill would have raised spirits taxes from $1.50 to $6.00 per gallon, beer taxes from $.09 to $.36 per gallon, and wine from $.40 to $1.60 per gallon.

Maryland **Lost Revenue: $48.6 million**
House Bill 1160 would have increased the state tax rates for alcoholic beverages from $1.50 to $4.00 per gallon of distilled spirits, from $.40 to $1.00 per gallon of wine, and from $.09 to $.25 per gallon of beer. It would have distributed tax revenue to be used only for specified services from the Developmental Disabilities Administration and for victims of domestic violence, sexual assault, and sexual or physical child abuse.

Minnesota **Lost Revenue: $236.6 million**
House Bill 1896 would have imposed a 2.5 percent fee on the gross receipts of each Minnesota liquor retailer for the sales of liquor; an additional fee on alcoholic beverages including $12.86 per gallon of distilled spirits, $0.53 per gallon of wine, and $6.61 per 31-gallon barrel of beer. Funds would have gone to a health and judicial impact fund. Small brewers would have received tax credits.

Minnesota **Lost Revenue: $76.7 million**
House Bill 2323 would have increased the spirits excise tax from $5.03 to $9.31 per gallon, the wine excise tax from $.30 to $.81 per gallon, and the beer tax from $4.60 to $12.87 per barrel, along with similar increases for subcategories of wines, ciders, etc. Small brewers would have received a tax credit.

Montana **Lost Revenue: $6.8 million**
Senate Bill 501 would have imposed a tax of $.05 per one fluid ounce of liquor, eight fluid ounces of table wine, and 12 fluid ounces of beer sold at on-premises retailers, with revenue to fund scholarships and local alcohol treatment, prevention, education, and enforcement programs.

Nevada **Lost Revenue: $79.5 million**
Assembly Bill 277 would have raised the spirits excise tax from $3.60 to $7.87 per gallon, the wine excise tax from $1.30 to $3.43 per gallon, and the beer tax from $.16 to $.69 per gallon. Half of revenue would have gone to specialty court programs and the other half to genetic marker testing.

New Hampshire **Lost Revenue: $4.2 million**
House Bill 166 would have increased the beer excise tax by $.10 per gallon, with the increase going to the alcohol abuse prevention and treatment fund.

New Mexico **Lost Revenue: $112.5 million**

House Bill 528 would have increased state alcohol tax rates on spirituous liquors from $1.60 to $4.98 per liter, beer from $.41 to $1.85 per gallon, wine from $.45 to $1.46 per liter; and fortified wine from $1.50 to $2.77 per liter.

New Mexico **Lost Revenue: $0 - $25.6 million**

Senate Bill 487 would have authorized each county to impose a local liquor surtax not to exceed $0 .99 per liter for spirituous liquor, $.25 per gallon of beer, and $.28 per liter for wine. The proceeds would have been used exclusively for the prevention and treatment of alcohol and drug abuse. The bill included tax breaks for small brewers and vintners and special taxes for other alcoholic products such as cider. If all counties had levied the maximum amount allowed in the bill, they would have raised an estimated total of $25.6 million. The law would have expired after 3 years.

New York **Lost Revenue: $959.8 million**

Assembly Bill 2454 would have increased the excise tax for all alcohol by $.25 a bottle, to fund chemical dependency services.

Oregon **Lost Revenue: $0 to $90.9 million**

Senate Bill 768 would have allowed each county to impose a fee of $.10 per 12-ounce beer ($.05 for small brewers) with revenues used to defray the cost of harm due to alcohol and drug addiction. The fee would have adjusted for inflation.

Oregon **Lost Revenue: $127.1 million**

House Bill 2461 would have imposed a tax of $41.61 per barrel on malt beverages to be used for alcohol and drug abuse prevention, treatment, and recovery.

Total Lost Revenue: $2.57 to $2.74 billion

(Total may not equal sum of individual components due to rounding.)

Bills in Limbo

As of November 2009, ten states had alcohol tax bills pending in legislatures that remain in session through 2010. On the positive side, these bills represent opportunities to increase revenue. However, these states are also giving up valuable revenue with every month that the bill does not pass.

For example, California's Assembly Bill 1019 would impose a mitigation fee upon alcoholic beverages at the following rates: beer, $1.07 per gallon; wine with not more than 14 percent alcohol by volume, $2.56 per wine gallon; wine with more than 14 percent alcohol by volume, $4.27 per wine gallon; and all distilled spirits, $8.53 per wine gallon. The fee would be collected at the wholesale level, with funds used exclusively for alcohol-related programs to mitigate the harm caused by alcohol products.[9]

Trends in Alcohol Tax Legislation

The number of alcohol revenue bills introduced this year is a clear reflection of states' grim fiscal outlook and urgent need for new revenue. Forty-eight states are facing budget deficits for fiscal year 2010 that total $178 billion dollars, or 26 percent of state budgets.[10] To make matters even worse, as revenues continue to drop during the recession, economic projections for 2011 state budget shortfalls could top $180 billion.

Yet, there also was a marked trend in 2009 among states to attempt to direct new revenue to pay for alcohol-related harm. This trend highlights various survey findings that show alcohol taxes and fees garner more support when they are allocated to pay for alcohol-related harm.

Another notable trend was the variety of ways new taxes were levied. Several bills broke away from standard excise tax revenue increases in favor of fees, ad valorem taxation (e.g. lifting alcohol's exemption from the state's sales and use tax), or taxing at the wholesale rather than retail level.

Traditional increases in excise tax were common in legislation that was defeated, while nearly all of the bills that are still pending have dedicated revenue lines. Several pending bills also have non-traditional ways of raising revenue, including lifting sales tax exemptions or imposing fees on alcohol to raise money to help defray costs of alcohol.

Sadly, several bills to reduce alcohol taxes were also introduced in 2009. There are two anti-tax bills pending in New York: One aims to repeal the modest alcohol tax increase passed in 2009, while the other attempts to exempt wine from sales and use taxes. At the federal level, even as alcohol revenues were briefly considered in the Senate Finance Committee health care reform financing package, the annual "beer tax rollback" bill has gained some traction in the House of Representatives.

A glaring missing element in nearly every bill is the critical policy to tie excise taxes to inflation. In addition, too many bills attempt to treat alcohol tax increases as a temporary fix — the term "emergency" tax came up more than once while several bills included end dates or fixed time periods for new tax hikes.

Excise taxes have the expected advantage of reducing excessive drinking and alcohol-related harm. While many bills attempted to allocate new tax revenue to programs that mitigate the various harm from alcohol, excise tax bills did not see much legislative success in 2009. Also, despite the fact that alcohol taxes lose a significant portion of their value to inflation over time, very little attempt was made to correct this problem.

Recommendations

- Legislators and state advocates should revisit alcohol tax rates in their states, and consider introducing new legislation to increase alcohol taxes and "charge for harm" to hold the alcohol industry accountable for its products.
- In new legislation to increase alcohol taxes policymakers should:
    - Include dedicated funding for programs and services that address underage and excessive drinking and various types of alcohol-related harm.
    - Index the tax rate to inflation, so the real value does not decrease over time.
    - Make the tax increases permanent, not on an "emergency" basis.

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8. Because some of the alcohol legislation listed here is temporary (e.g. Kentucky's HB144 is a 15-month emergency measure) and the bills have various effective dates, a one-year period of expected revenue generation provides a useful standard of comparison. It does not imply that legislation labeled as temporary/emergency would continue to take in revenue after their expiration date. The annualized figure also does not predict the amount of revenue generated during the first fiscal year, as a bill's effective date may be different from the first day of a state's fiscal year.

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