

## Policy Summary

# Alcohol Taxes

This policy summary is excerpted from:

**The 2012 Report to Congress on the Prevention and Reduction of Underage Drinking**

submitted to Congress by The U.S. Department of Health and Human Services.

To obtain more information and a copy of the full Report to Congress go to:

<https://www.stopalcoholabuse.gov>

## Alcohol Pricing Policies

### Alcohol Taxes

#### Policy Description

There is ample evidence that the “economic availability” of alcoholic beverages (i.e., retail price) has an impact on underage drinking and a wide variety of related consequences. The *Surgeon General’s Call to Action* includes economic availability as a strategy in the context of increasing the cost of underage drinking, which includes the price, time, effort, and resources required for young people to obtain alcohol as well as penalties associated with its use.

Chaloupka and colleagues (2002) report effects of price on underage drinking, college drinking, and binge drinking (including drinking among youth who show signs of alcohol use disorders). They also report significant effects on youth traffic crashes, violence on college campuses, and crime among people under 21. Although alcohol taxes are an imperfect index of retail prices, tax rates are relatively easy to measure and provide a useful proxy for economic availability.

Based on this and other research, the National Research Council/IOM Report, *Reducing Underage Drinking: A Collective Responsibility*, made the following recommendation: “[S]tate legislatures should raise excise taxes to reduce underage consumption and to raise additional revenues for this purpose.”

This policy addresses beer, wine, and distilled spirits taxes. Although some states have separate tax rates for other alcoholic products (e.g., sparkling wine and flavored alcohol beverages), these account for a small market share and are not addressed.

State alcohol taxes fall into four main categories. The names applied to these categories may vary by jurisdiction, but the following terms are commonly used:

- *Specific excise taxes*: Taxes applied per gallon at the wholesale or retail level.
- *Ad valorem excise taxes*: Value-based taxes, usually levied as a percentage of the alcoholic product’s retail price (which may also be referred to as gross receipts, gross proceeds, retail receipts, or retail proceeds). Different ad valorem excise tax rates may apply to on- and off-premises sales.
- *Sales tax*: A value-based tax that is not typically specific to alcoholic beverages.
- *Sales tax adjusted retail ad valorem excise tax*: In some states, ad valorem excise taxes are levied in lieu of sales tax (see Exhibit 4.3.43). In these cases, an accurate index of the actual tax reflected in the retail price requires that the retail ad valorem excise tax be adjusted to reflect the fact that sales taxes are not levied. The sales tax adjusted retail ad valorem excise tax = the retail ad valorem excise tax minus the (unlevied) sales tax. As shown in Exhibit 4.3.43, the trade-off between retail ad valorem excise tax and sales tax is not uncommon.

#### Status of Alcohol Taxation

As of January 1, 2012, all license states have an excise tax for beer, wine, and spirits. The federal government also levies an excise tax of \$0.58/gallon for beer, \$1.07/gallon for wine, and \$13.50/gallon for spirits.

**Exhibit 4.3.43: Number and Percentage of States that Levy an Ad Valorem Excise Tax but Do Not Apply General Sales Tax**

Beverage type	Type of ad valorem excise tax	Number of states that levy this ad valorem excise tax	Number of states that do not apply general sales tax when the ad valorem excise tax is levied	Percentage of states that do not apply general sales tax when the ad valorem excise tax is levied
Beer	Ad valorem excise tax: onsite	9	6	66
	Ad valorem excise tax: offsite	8	4	50
Wine	Ad valorem excise tax: onsite	9	5	55
	Ad valorem excise tax: offsite	8	4	50
Spirits	Ad valorem excise tax: onsite	12	5	42
	Ad valorem excise tax: offsite	8	4	50

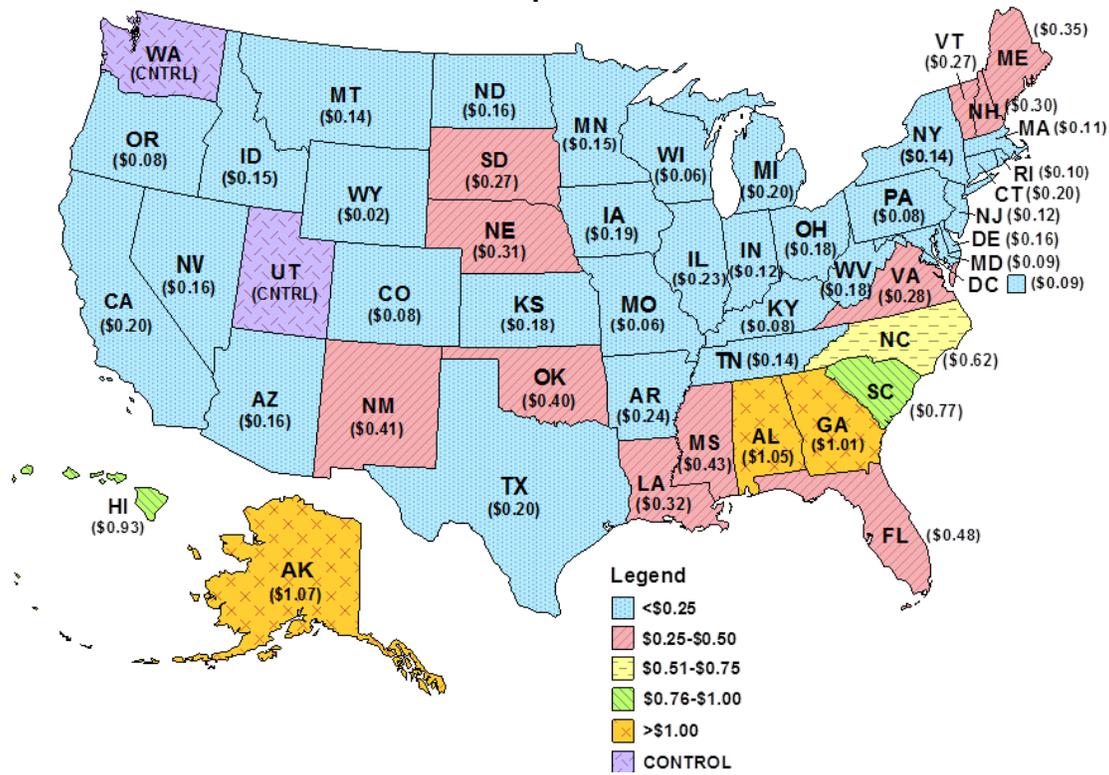
Like the federal excise tax, state excise taxes are generally highest for spirits and lowest for beer, roughly tracking the alcohol content of these beverages. Beer excise taxes range from \$0.02 to \$1.07/gallon, wine excise taxes range from \$0.11 to \$2.50/gallon, and spirits excise taxes range from \$1.50 to \$12.80/gallon. The states with the highest excise tax for one beverage may not be the states with the highest excise taxes for other beverages. States may control for one, two, or three categories (beer, wine, spirits).

Exhibits 4.3.44 through 4.3.46 show the levels of excise taxes for beer, wine, and spirits across the 50 states and the District of Columbia. Exhibit 4.3.47 shows the ad valorem excise tax or sales tax adjusted ad valorem excise tax rates for license states that have ad valorem excise taxes. These may be levied at on- or off-sale outlets and may be for beer, wine, and/or spirits. Beer ad valorem excise tax rates range from 1 to 17 percent for on- and/or off-premises sales. Wine rates range from 1.7 to 15 percent for on- and/or off-premises sales. Distilled spirit rates range from 1.7 to 15 percent for on- and/or off-premises sales.

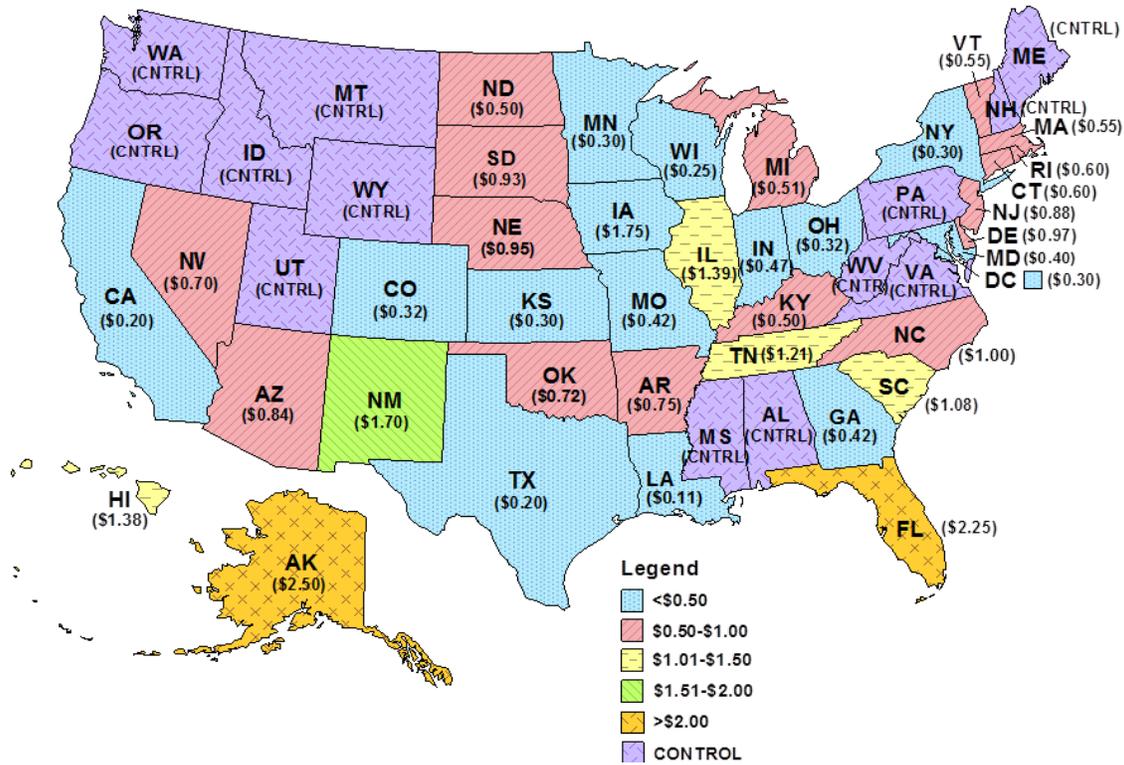
### Trends in Alcohol Taxes

Alcohol taxes have remained relatively constant for several decades. As can be seen in Exhibit 4.3.48, there have been limited tax increases or decreases in beer, wine, or spirits excise taxes since 2003. During this period there have been 28 tax rate increases across all jurisdictions. Eight of these increases occurred from 2011 to 2012, indicating that the rate of increases may be accelerating. Tax rate decreases across all jurisdictions remained stable from 2011 to 2012 (no additional decreases in 2012 were noted).

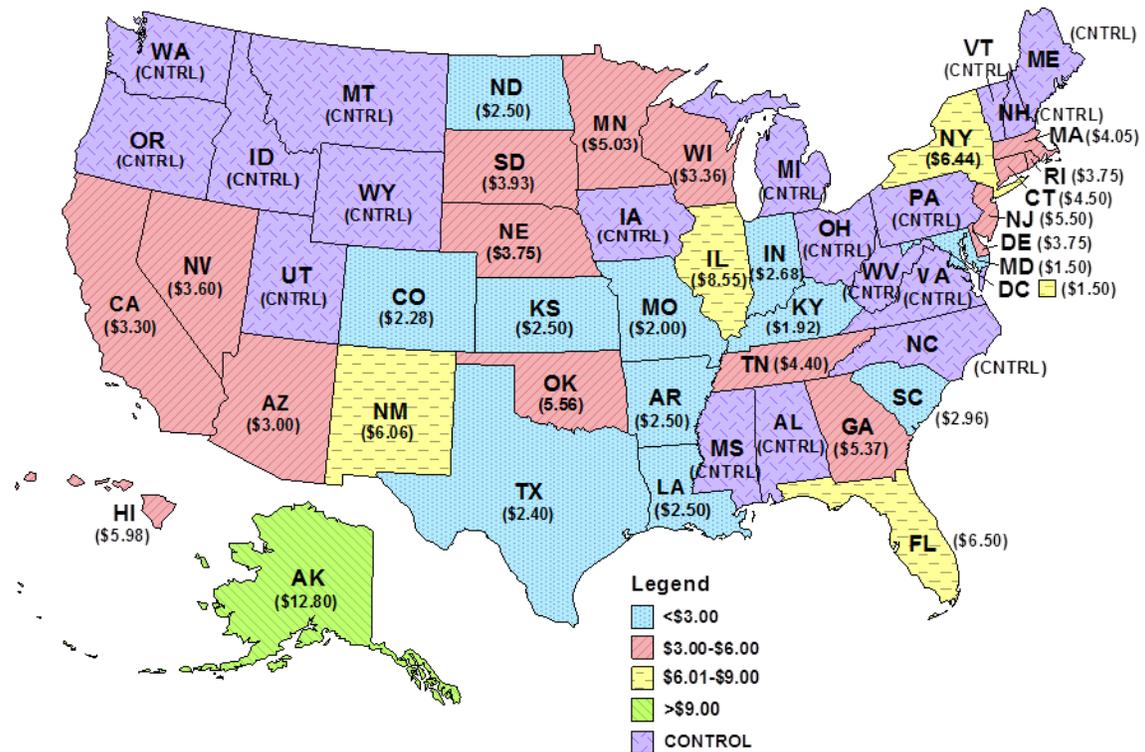
### 4.3.44: Beer-Specific Excise Tax



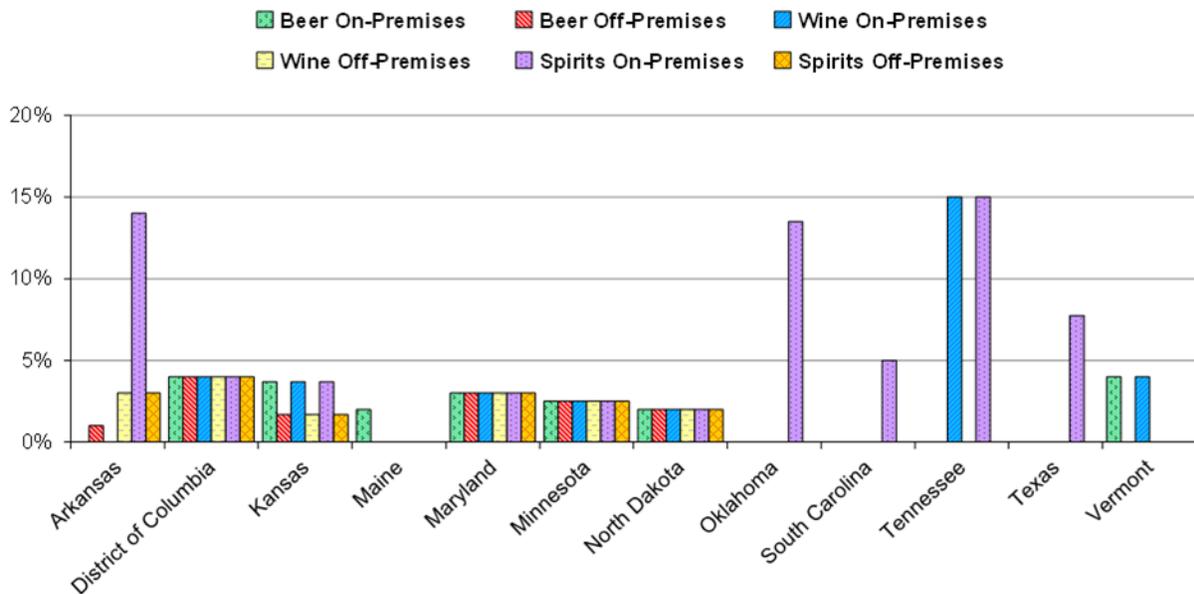
### Exhibit 4.3.45: Wine-Specific Excise Tax



**Exhibit 4.3.46: Spirits-Specific Excise Tax**



**Exhibit 4.3.47: Ad Valorem Excise Tax or Sales Tax Adjusted Ad Valorem Excise Tax Rates as of January 2012**



**Exhibit 4.3.48: Alcohol Tax Changes 2003–2011**

		Beer		Wine		Spirits		Total
		Specific excise tax	Ad valorem excise tax	Specific excise tax	Ad valorem excise tax	Specific excise tax	Ad valorem excise tax	
Number of jurisdictions that:	Increased rates	6	2	7	3	6	4	28
	Decreased rates	1	3	1	3	1	3	13

### References and Further Information

Legal research and data collection for this topic are planned and managed by SAMHSA and conducted under contract by The CDM Group, Inc. To see definitions of the variables for this policy, go to Appendix B. For further information and background see:

Chaloupka, F., Grossman, M., & Saffer, H. (2002). The effects of price on alcohol consumption and alcohol-related problems. *Alcohol Research & Health*, 26.

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Elder, R.W., Lawrence, B., Ferguson, A., Naimi, T.S., Brewer, R.D., Chattopadhyay, S.K., Toomey, T.L., & Fielding, J.E. (2010). The effectiveness of tax policy interventions for reducing excessive alcohol consumption and related harms. *American Journal of Preventive Medicine*, 38, 217–229.

National Research Council and Institute of Medicine. (2003). *Reducing underage drinking: A collective responsibility*. Washington, DC: National Academies Press.