

Policy Summary

Alcohol Taxes

This policy summary is excerpted from:

The December 2015 Report to Congress on the Prevention and Reduction of Underage Drinking

Alcohol Pricing Policies

Alcohol Taxes

Policy Description

There is ample evidence that the “economic availability” of alcoholic beverages (i.e., retail price) impacts 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. Taxes are a major way that alcohol prices are manipulated by policymakers.

The effects of price on reducing underage drinking, college drinking, and binge drinking (including drinking among youth who show signs of alcohol use disorders) are considerable. There are also 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 2004 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.

Status of Alcohol Taxation

As of January 1, 2014, all license states have a specific excise tax for beer, wine, and spirits. The federal government also levies a specific excise tax of \$0.58/gallon for beer, \$1.07/gallon for wine, and \$13.50/gallon for spirits.⁸⁰

Like the federal-specific excise tax, state-specific excise taxes are generally highest for spirits and lowest for beer, roughly tracking the alcohol content of these beverages. Beer-specific excise taxes range from \$0.02 to \$1.29/gallon, wine-specific excise taxes range from \$0.11 to \$2.50/gallon, and spirits-specific excise taxes range from \$1.50 to \$14.25/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, and spirits).

Exhibits 4.3.43 through 4.3.45 show the levels of excise taxes for beer, wine, and spirits across the 50 states and the District of Columbia. Exhibit 4.3.46 shows the ad valorem excise tax or sales tax adjusted ad valorem excise tax rates⁸¹ for license states that have ad valorem excise

⁸⁰ “Spirits are taxed at the rate of \$13.50 on each proof gallon and a proportionate tax at the like rate on all fractional parts of a proof gallon. A proof gallon is one liquid gallon of spirits that is 50 percent alcohol at 60 degrees F. Distilled Spirits bottled at 80 proof (40 percent alcohol) would be 0.8 proof gallons per gallon of liquid and taxed at a rate of \$10.80 per gallon. Distilled Spirits bottled at 30 proof (15 percent alcohol) would be 0.3 proof gallons per gallon of liquid and taxed at a rate of \$4.05 per gallon.”

⁸¹ The retail ad valorem excise tax minus the sales tax. Applicable only to states in which sales tax does not apply to alcoholic beverages in order to reflect the actual taxation rate.

Exhibit 4.3.43: Specific Excise Tax per Gallon on Beer as of January 1, 2014

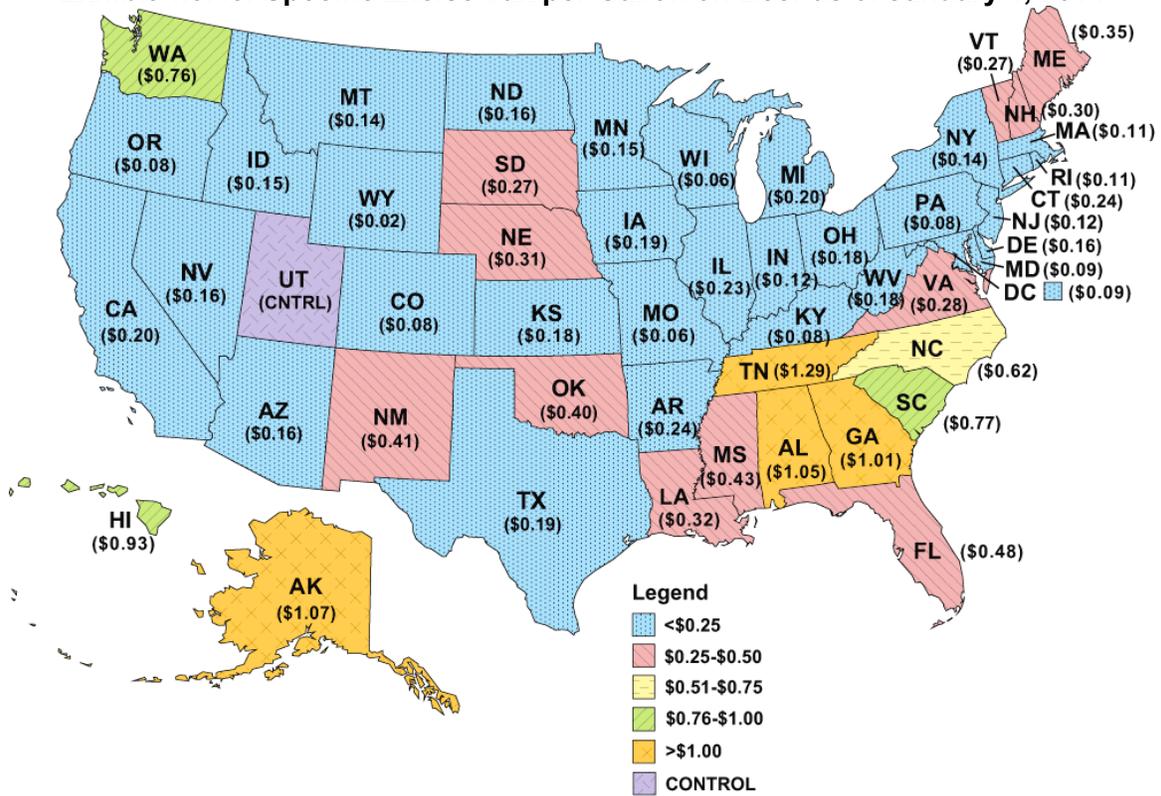


Exhibit 4.3.44: Specific Excise Tax per Gallon on Wine as of January 1, 2014

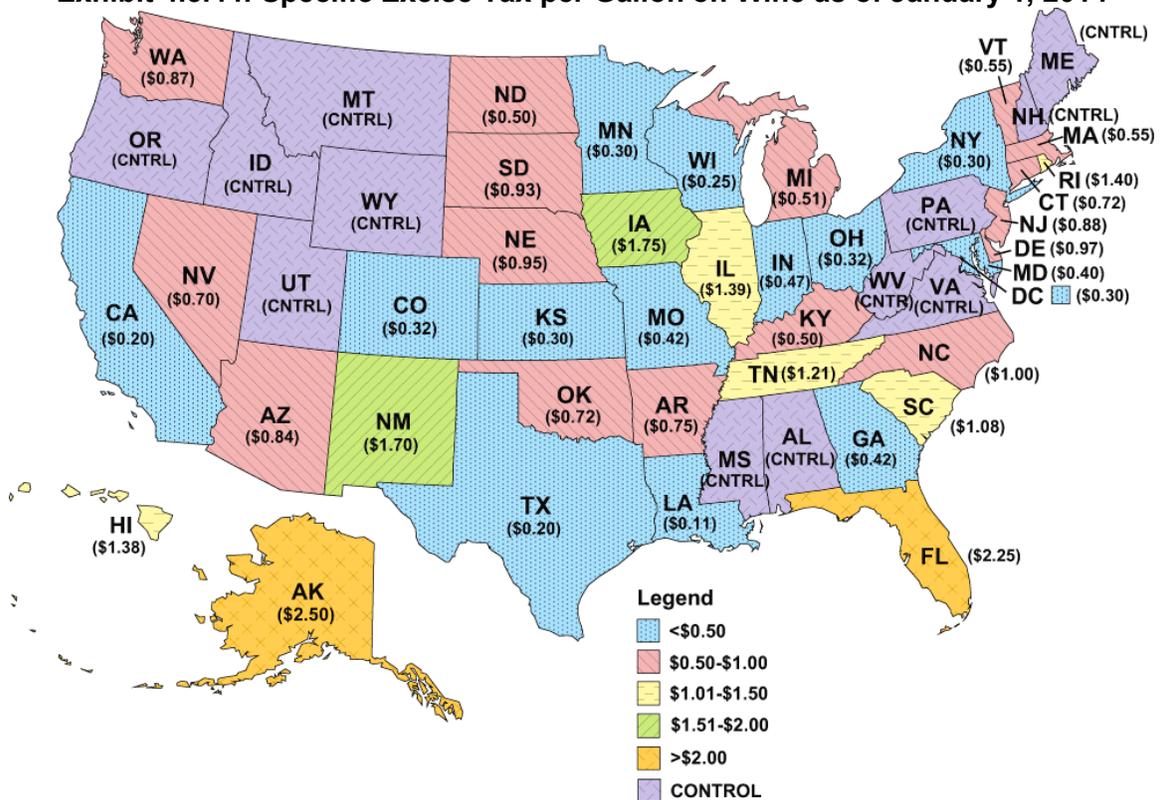


Exhibit 4.3.45: Specific Excise Tax per Gallon on Distilled Spirits as of January 1, 2014

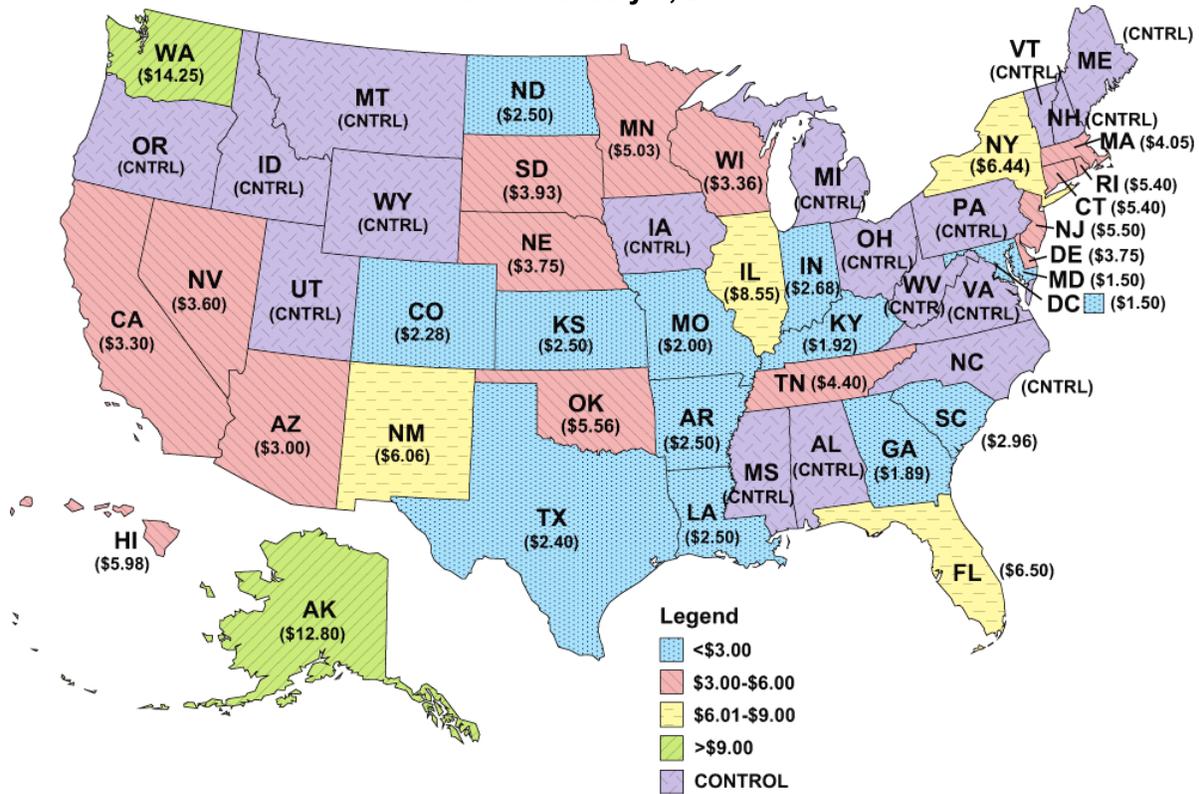


Exhibit 4.3.46: Sales Tax Adjusted Retail Ad Valorem Excise Tax Rates in License States as of January 1, 2014

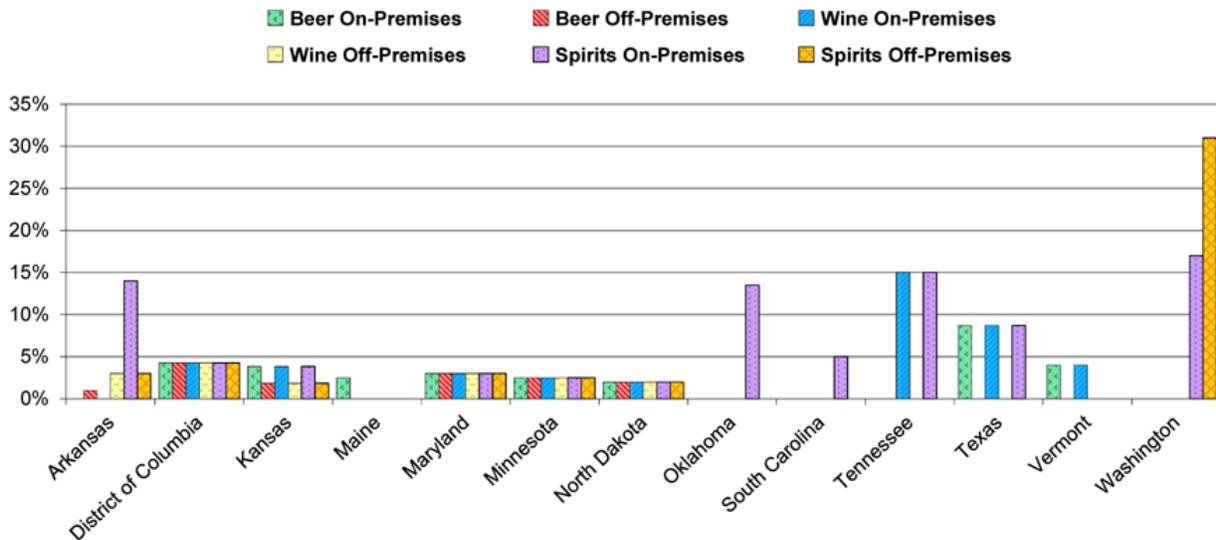


Exhibit 4.3.47: Number and Percentage of States that Levy an Ad Valorem Excise Tax but Do Not Apply General Sales Tax

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	7	78
	Ad valorem excise tax: offsite	7	4	57
Wine	Ad valorem excise tax: onsite	10	6	60
	Ad valorem excise tax: offsite	9	4	44
Spirits	Ad valorem excise tax: onsite	13	5	39
	Ad valorem excise tax: offsite	9	5	56

taxes. These may be levied at on- or off-sale outlets and may be for beer, wine, and spirits. Beer ad valorem excise tax rates range from 1 to 17 percent for on- and off-premises sales. Wine rates range from 1.7 to 15 percent for on- and off-premises sales. Distilled spirit rates range from 2 to 31 percent for on- and off-premises sales. As shown in Exhibit 4.3.47, the trade-off between retail ad valorem excise tax and sales tax is not uncommon.

Additionally, in 2011, voters in Washington approved Initiative Measure 1183, privatizing all aspects of the wholesale distribution and retail sale of beer, wine, and distilled spirits. The Initiative added a new section to the state's statutes on alcohol sales, which includes permitting retail licensees to sell spirits in original containers to consumers for off-premises consumption, and to licensees to sell spirits for on-premises consumption. It ended government involvement in beer and wine distribution and sales. Thus, Washington is no longer a control state.

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. These changes do not reflect increases or decreases as a result of changes in sales tax adjusted ad valorem excise tax rates (see Note 1 above). During this period there have been 37 tax rate increases across all jurisdictions.

Exhibit 4.3.48: Alcohol Tax Changes 2003–2014

		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	9	4	9	4	7	4	37
	Decreased rates	1	2	1	1	0	1	6

References and Further Information

All data for this policy were obtained from APIS at <http://www.alcoholpolicy.niaaa.nih.gov>. Follow links to the policies titled “Alcohol Beverage Taxes – Beer,” “Alcohol Beverage Taxes – Wine,” and “Alcohol Beverage Taxes – Distilled Spirits.” APIS provides further descriptions of this policy and its variables, details regarding state policies, and a review of the limitations associated with the reported data. To see definitions of the variables for this policy, go to Appendix B.

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