Chapter 2: Policies, Programs, and Practices for Underage Drinking Prevention

Policies Affecting Alcohol Pricing

Alcohol Taxes

Policy Description
There is ample evidence that the “economic availability” of alcoholic beverages (i.e., retail price) affects 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 (HHS, 2007). Taxes are a major way that alcohol prices are amended by policymakers, and increasing alcohol taxes has been recommended by the U.S. Community Preventive Services Task Force for effectively reducing excessive drinking, including among adults and underage drinking.26

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 NRC/IOM report, Reducing Underage Drinking: A Collective Responsibility (NRC & IOM, 2004), made the following recommendation: “[S]tate legislatures should raise excise taxes to reduce underage consumption and to raise additional revenues for this purpose.” However, alcohol excise taxes have not kept up with inflation, reducing their value since the 1970s because of insufficient tax increases and infrequent tax increases (Blanchette et al., 2020).

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.27

Status of Alcohol Taxation
As of January 1, 2020, 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.28

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–$1.29/gallon, wine-specific excise taxes range from $0.20–$2.50/gallon, and spirits-specific excise taxes range from $1.50–$14.25/gallon. The states with

27 Note that throughout this chapter, “states” refers to the 50 states and the District of Columbia.
28 “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°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.”
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 2.27–2.29 show the levels of excise taxes for beer, wine, and spirits in each state. Beer ad valorem excise tax rates range from 1 percent to 14.95 percent for on- and off-premises sales. Wine rates range from 1.5 percent to 15 percent for on- and off-premises sales. Distilled spirit rates range from 1.5 percent to 37.50 percent for on- and off-premises sales.

### Trends in Alcohol Taxes

Exhibit 2.30 shows the number of tax increases or decreases in beer, wine, or spirits excise taxes since 2003. These changes do not reflect increases or decreases in sales tax adjusted ad valorem excise tax rates that were caused only by a state’s change to its general sales tax. Changes also do not include the initial tax changes that occurred in 2011 when Washington changed from a control state to a license state. During this period, there have been 42 tax rate increases and 10 decreases across all states. One study noted that, measured in real-dollar terms to account for inflation, state alcohol excise taxes have declined about 30 percent since 1991 and now average about 5 cents per drink (Naimi et al., 2018). As a result, considering all types of taxes on alcohol, total alcohol taxes in 2010 accounted for just one-tenth of the costs due to excessive drinking in the U.S. (Blanchette et al., 2019).

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29 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 2.27: Specific Excise Tax Per Gallon on Beer as of January 1, 2020

Exhibit 2.28: Specific Excise Tax Per Gallon on Wine as of January 1, 2020
Chapter 2: Policies, Programs, and Practices for Underage Drinking Prevention

Exhibit 2.29: Specific Excise Tax Per Gallon on Distilled Spirits as of January 1, 2020

Exhibit 2.30: Alcohol Tax Changes 2003–2020

<table>
<thead>
<tr>
<th>Number of states that:</th>
<th>Beer</th>
<th>Wine</th>
<th>Spirits</th>
</tr>
</thead>
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<tr>
<td>Increased rates</td>
<td>Specific excise tax</td>
<td>Ad valorem excise tax</td>
<td>Specific excise tax</td>
</tr>
<tr>
<td>11</td>
<td>7</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Decreased rates</td>
<td>1</td>
<td>6</td>
<td>0</td>
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</table>

Data Sources and Citations

All data for the three components of the “Alcohol Beverages Taxes” policy were obtained from the APIS websites: https://alcoholpolicy.niaaa.nih.gov/apis-policy-topics/beer/30; https://alcoholpolicy.niaaa.nih.gov/apis-policy-topics/wine/32; and https://alcoholpolicy.niaaa.nih.gov/apis-policy-topics/distilled-spirits/31. 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.


