

A series of technical assistance  
manuals for community coalitions

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# STRATEGIZER

## INCREASING ALCOHOL TAXES TO FUND PROGRAMS TO PREVENT AND TREAT YOUTH-RELATED ALCOHOL PROBLEMS

**CSPI** Center for  
Science in the  
Public  
Interest  
non-profit  
publisher of *Nutrition Action Healthletter*





# Increasing Alcohol Taxes to Fund Programs to Prevent and Treat Youth-Related Alcohol Problems

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*Written and Developed by Community Anti-Drug Coalitions of America in Cooperation with the Center for Science in the Public Interest*

## INTRODUCTION

Alcohol is a major contributor to an array of economic costs and social problems in the United States. These include lost productivity, health-care expenditures, motor vehicle accidents, fetal deformities, spousal and child abuse, violence, crime, accidental falls, fires, drownings and suicides.

In addressing alcohol problems, policy makers have promoted a variety of education, law enforcement and treatment programs that concern a few highly visible alcohol issues, such as drinking and driving, youth alcohol use, and alcohol dependence. They have largely ignored a policy measure that could help reduce many alcohol problems and provide substantial revenues for alcohol prevention, treatment and law enforcement programs. That measure is raising alcohol taxes.

Numerous economic studies indicate that increasing alcohol excise taxes is one of the most effective means of saving young lives and reducing the incidence of chronic liver disease and cirrhosis mortality. Other studies suggest that alcohol price increases are related to an increase in college graduation rates and reduced crime. Some studies find that tax hikes reduce alcohol consumption among young people more effectively than increases in the minimum drinking age. Despite this evidence, efforts to increase alcohol taxes have been far less successful

than similar attempts to raise taxes on tobacco products, an effective policy to reduce teen smoking.

Since 1983, the Center for Science in the Public Interest (CSPI) and other health-conscious organizations have campaigned to raise alcohol excise taxes at the federal and state levels. Those efforts contributed to increases in federal liquor taxes in 1986 and 1991 and an increase in beer and wine taxes in 1991. Despite those tax hikes, the current rates remain far too low.

This *Strategizer* offers information for you to begin the debate on raising alcohol excise tax rates at the state and local levels. Adjusting state and local level tax rates makes sense because states and localities bear most of the burden of alcohol-related problems in costs associated with law enforcement, emergency medical services, health care, homeless services, etc. Despite this burden, states and localities rarely revisit their static alcohol tax rates. Unlike at the federal level, where earmarking tax revenues is rare, using alcohol taxes to fund alcohol prevention and treatment programs has substantial precedents in the states. In addition to laying out the public health case for higher alcohol taxes, this *Strategizer* also provides responses to common smokescreens used by the alcohol industry and its supporters to block any tax hikes.

# QUESTIONS AND ANSWERS ABOUT ALCOHOL EXCISE TAXES

## Why is there an excise tax on alcohol?

Historically, alcohol has been subject to excise taxes for two reasons:

- To reduce alcohol consumption and alcohol-related problems
- To raise revenue for public purposes

## Historical Overview

The first internal revenue measure enacted by the U.S. Congress was a liquor tax in 1791. Since that time, Congress has looked to liquor, beer and wine for revenue to support government programs while promoting moderation. When Prohibition ended in 1933, the federal government and states developed various complementary systems of distribution and taxation in order to maintain control over alcohol sales. Each state has at least one agency overseeing the

regulation of alcoholic beverages. Eighteen states control the sale of alcohol, either at the wholesale or retail levels (or both) and the others license distributors and retailers to manage the flow of alcoholic beverages. Control states typically impose a percentage mark-up on wholesale prices, a “tax” that tax automatically adjusts for inflation. License states typically impose a set amount of tax on a given volume of alcoholic beverages, usually a gallon.

## AVERAGE TOTAL ALCOHOL TAXES PER DRINK (2001)

	Federal Tax Rates	Avg. State Tax Rates	Total Avg. per drink
<b>Beer</b>	\$18.00 per barrel \$.05 per 12 oz. serving	\$0.24 per gallon \$.023 per 12 oz. serving	7¢ per 12 oz. drink
<b>Wine</b>	\$1.07 per gallon \$.04 per 5 oz. serving	\$0.74 per gallon \$.029 per 5 oz. serving	7¢ per 5 oz. drink
<b>Distilled Spirits</b>	\$13.50 per proof gallon \$.12 per 1.5 oz. serving	\$3.62 per gallon \$.042 per 1.5 oz. serving	16¢ per 1.5 oz. drink

# INCREASING ALCOHOL TAXES TO FUND PROGRAMS TO PREVENT AND TREAT YOUTH-RELATED ALCOHOL PROBLEMS

## Why increase alcohol excise taxes?

Higher alcohol taxes decrease alcohol consumption (and its related problems) while providing revenue, either for general state services or for alcohol prevention and treatment and related programs. The revenue collected from federal, state and local alcoholic-beverage sources totaled approximately \$17 billion in 1999. Yet, this amount doesn't come close to matching the economic and social costs of alcohol consumption: 105,000 Americans die each year from alcohol-related causes and, according to the National Institute on Alcohol Abuse and Alcoholism, the economic costs to the nation exceed \$185 billion, in emergency and long-term medical expenses, lost productivity, and crime and property damage as well as police and court costs.

Some of the disparity between revenue and costs can be attributed to the static nature (at the federal level and in license states) of alcohol tax rates. Unlike sales taxes, which are based upon a product's value, alcohol taxes are set at a specific dollar amount per volume, usually a gallon, of an alcoholic beverage. Most states have only infrequently raised alcohol taxes, and as a result, the value of the revenues has dwindled dramatically with inflation. For example, a bottle of beer that cost 25 cents in 1947, including 2 cents in state taxes (an 8 percent tax

rate), might cost \$1.80 today and be taxed 4 cents (an effective tax rate of just over 2 percent). Although total actual revenue to the state may have increased, the real revenue will have decreased dramatically with inflation. Ironically, the more expensive a beverage, the lower the effective tax rate on the product. The tax on \$35 bottle of wine is the same as that on a bottle of rot-gut.

Because the tax rates on alcohol are revisited infrequently, the impact of these taxes, both as a controlling factor on consumption and as a revenue source, has greatly diminished. The last federal tax increase on alcohol occurred in 1991. For beer and wine, this increase was the first since 1951. By 1991, inflation had reduced the value of tax rates to less than 20 percent of their value in 1951. Moreover, since 1991, inflation has decreased the tax rates by another 12 percent, in relative terms. The value of state and federal alcohol tax collections, despite an increase in absolute terms, has also eroded significantly due to inflation. Although state alcohol excise tax rates have increased, the real value of the taxes declined by over 50 percent between 1966 and 1995. Had federal and state tax rates kept up with inflation, alcohol tax revenues would have increased by tens of billions of dollars.

### DECLINE IN EFFECTIVE AVERAGE STATE TAX RATES SINCE 1966 (IN \$ PER GALLON)

	Avg. state tax 1966	Avg. state tax 2001	Median state tax 2001	Current tax in 1966 dollars	Decline in effective tax
<b>Beer</b>	\$0.12	\$0.24	\$0.19	\$0.05	-58%
<b>Wine</b>	\$0.37	\$0.74	\$0.60	\$0.14	-62%
<b>Distilled Spirits</b>	\$2.03	\$3.62	\$3.30	\$0.68	-67%



## What effects can one expect from a tax increase?

Increases in alcohol excise tax rates affect:

- Alcohol prices
- Alcohol sales
- Alcohol tax revenues
- Alcohol problems

CSPI is developing a multileveled model, using variables for each state, to assist users to determine the effects of a tax increase in each state. This information will be available on CSPI's Web site at [www.cspinet.org/booze](http://www.cspinet.org/booze).

## How will a tax increase affect alcohol price?

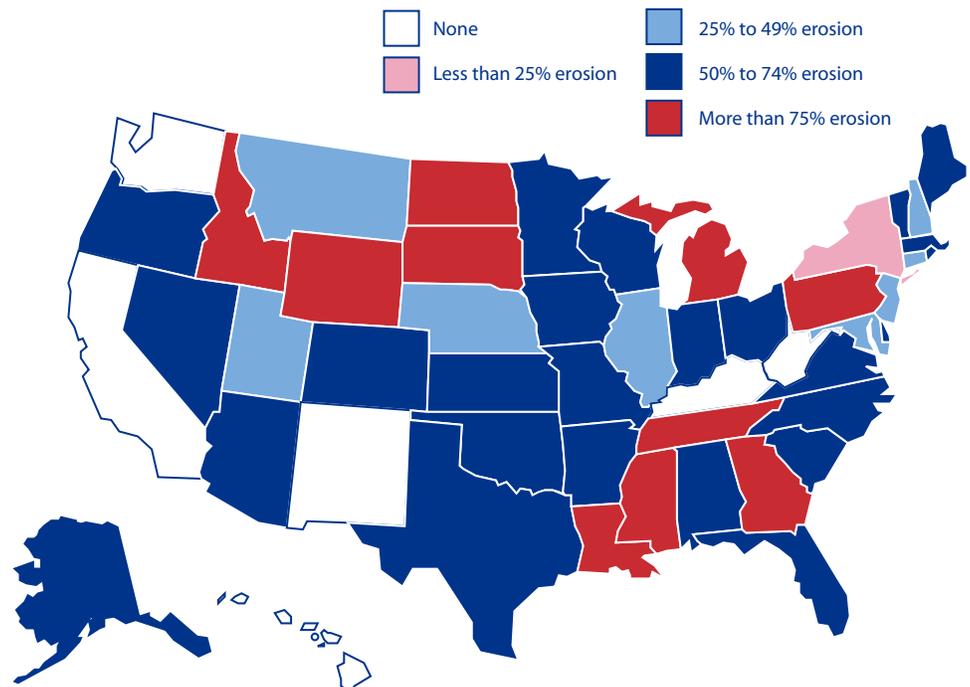
Generally, higher taxes cause price increases, although in certain circumstances sellers might absorb some or all of the tax. Analysts disagree on how much a tax increase will affect the retail price of alcoholic beverages. If the industry tries to maintain profits, the cost of alcoholic beverages will increase by more than the tax increase. If a producer is concerned about the possible reduction in demand due to higher prices, it may absorb some of the tax increase and only raise prices slightly. The best assumption to make is that prices will go up at least slightly.

## How will higher alcoholic beverage taxes affect sales?

Almost all analysts agree that a price increase will reduce alcoholic-beverage sales and consumption. Many individuals will drink less frequently; switch to lower-proof liquor and cheaper soft drinks and other non-alcoholic beverages; or drink less on each drinking occasion.

Studies indicate that a 10 percent rise in beer prices would cause a 3 to 4 percent drop in sales, with a slightly bigger drop for a similar price increase for wine and liquor. Larger reductions in sales seem unlikely to occur given that drinking is a deeply ingrained habit, and some eight million Americans are addicted to alcohol. Consequently, the projections of price elasticity we use in this guide are rather conservative.

## Erosion of Beer Excise Tax 1968 - 2000 (adjusted for inflation)



*Alcohol Epidemiology Program, "Alcohol policies in the United States: Highlights from the 50 states." University of Minnesota, 2000*

# INCREASING ALCOHOL TAXES TO FUND PROGRAMS TO PREVENT AND TREAT YOUTH-RELATED ALCOHOL PROBLEMS

## How will reduced sales affect alcohol problems?

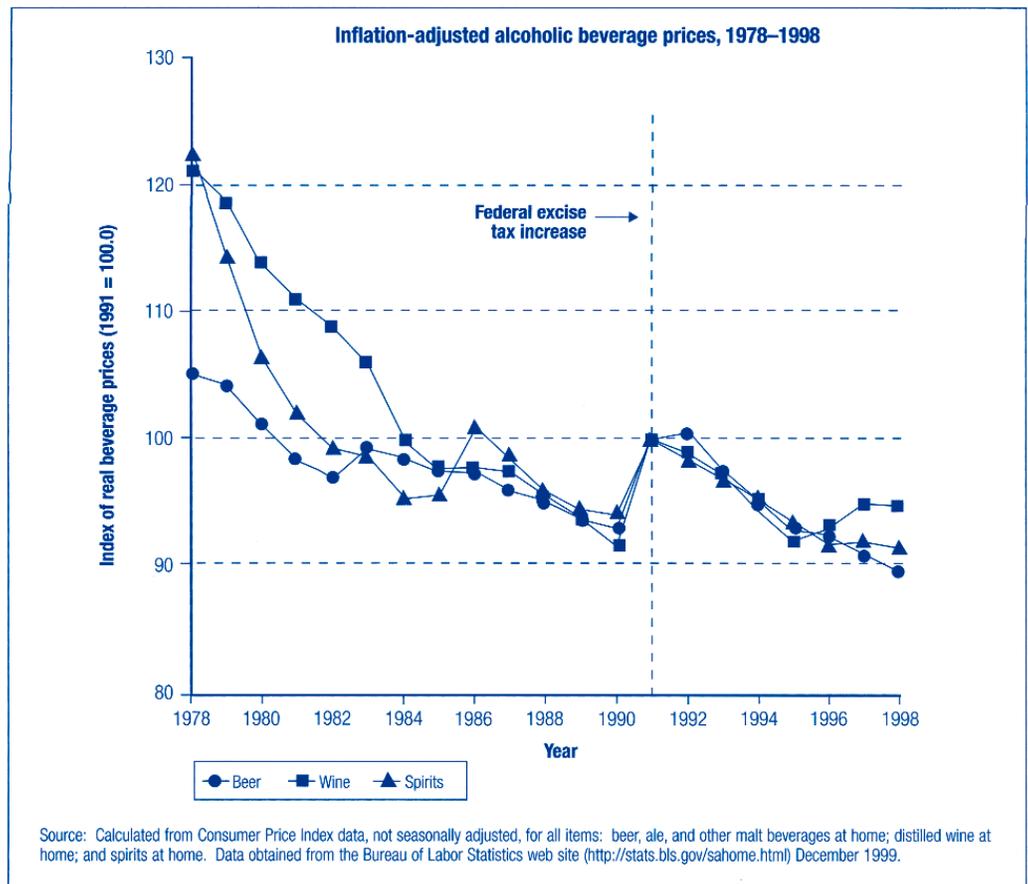
Predicting the effect of reduced consumption on alcohol problems is difficult and cannot be done with absolute precision. The alcoholic-beverage industry claims that higher taxes deter drinking by moderate consumers, but fail to discourage drinking by those who abuse alcohol. However, a National Academy of Sciences panel found that light and moderate drinkers, who comprise 90 percent of all drinkers, account for about half of all alcohol-related damage. Therefore, reductions in consumption among those drinkers should decrease problems as well. Furthermore, Duke University researchers have demonstrated a link between state liquor tax increases and reductions in liver cirrhosis and drinking and driving crash deaths, suggesting that at least some heavier drinkers will be influenced by tax-induced price increases.

Additional studies indicate that affluent drinkers will consume about the same amount of alcohol regardless of the cost, while younger and low-income people will decrease their consumption. Younger people are generally more price sensitive, so higher prices should help delay and reduce drinking within this group. A study by the National Bureau of Economic Research concluded the even a modest tax increase of 30 cents for a

bottle of liquor and 10 cents for a six-pack of beer would decrease drinking among young people as much as raising the drinking age by one year.

## How can alcohol tax revenues be used?

Generally alcohol tax revenues flow into states' general funds; however, some states have earmarked alcohol tax revenues specifically to address alcohol problems through treatment, prevention and law enforcement. Other states allocate all or part of the revenue for programs such as alcohol research, alcoholic-beverage control offices, local governments, state building construction, pension relief, transportation and, ironically, the state grape industry.



Department of Health and Human Services, "10th Special Report to the US Congress on Alcohol and Health." National Institute on Alcohol Abuse and Alcoholism, June 2000

# EFFECT OF INFLATION ON FEDERAL ALCOHOL TAXES SINCE LAST ADJUSTMENT IN 1991

## WINE

CURRENT TAX RATE = \$1.07 PER GALLON

Year	Actual value of tax after inflation	If indexed to inflation, tax would be
1992	\$1.04	\$1.10
1993	\$1.01	\$1.14
1994	\$0.98	\$1.16
1995	\$0.96	\$1.20
1996	\$0.93	\$1.23
1997	\$0.91	\$1.26
1998	\$0.89	\$1.28
1999	\$0.87	\$1.31
2000	\$0.85	\$1.35
2001	\$0.83	\$1.38

## DISTILLED SPIRITS

CURRENT TAX RATE = \$13.50 PER PROOF GALLON

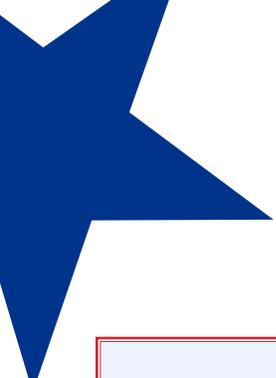
Year	Actual value of tax after inflation	If indexed to inflation, tax would be
1992	\$13.11	\$13.91
1993	\$12.72	\$14.32
1994	\$12.41	\$14.69
1995	\$12.06	\$15.11
1996	\$11.72	\$15.55
1997	\$11.46	\$15.91
1998	\$11.28	\$16.16
1999	\$11.04	\$16.51
2000	\$10.68	\$17.07
2001	\$10.50	\$17.36

## BEER

CURRENT TAX RATE = \$18.00 PER BARREL  
(BARREL = 31 GALLONS)

Year	Actual value of tax after inflation	If indexed to inflation, tax would be
1992	\$17.47	\$18.54
1993	\$16.97	\$19.10
1994	\$16.54	\$19.59
1995	\$16.09	\$20.14
1996	\$15.63	\$20.74
1997	\$15.27	\$21.21
1998	\$15.04	\$21.58
1999	\$14.72	\$22.02
2000	\$14.24	\$22.76
2001	\$14.00	\$23.14





# INCREASING ALCOHOL TAXES TO FUND PROGRAMS TO PREVENT AND TREAT YOUTH-RELATED ALCOHOL PROBLEMS

## INDUSTRY CLAIMS AND HOW TO COMBAT THEM

Despite powerful arguments in favor of increasing alcohol excise taxes, the alcoholic-beverage industry has been successful in thwarting most such attempts. Here are some of the arguments you are likely to hear from the industry and its supporters together with suggested responses; be sure that the responses are relevant to your state before using them.

*Industry Assertion: Increasing alcohol excise taxes punishes moderate and responsible consumers and will not affect the drinking habits of alcohol abusers.*

According to a 1992 Anheuser-Busch/Roper poll, more than 80 percent of beer drinkers reported drinking once a week or less. Only the 10 percent of drinkers who drink every day or every other day, or binge on weekends, would pay more than a few cents in additional tax per week. Even raising the beer tax rate from the lowest state rate of two cents per gallon to the highest state rate of \$1.05 (an action that is highly unlikely) would cost an average consumer of two beers a week only an additional 19 cents in taxes.

As the only ones who would pay significantly more in taxes, heavier (if not the heaviest) drinkers will be more likely to cut back (or switch to less expensive products) than other consumers. However, because drinking is so deeply ingrained in our culture, small tax increases will probably not affect consumption patterns dramatically. In the aggregate, though, these tax hikes would help reduce some abusive

drinking (affecting the quantity and frequency of drinking), especially among young, price-sensitive drinkers.

*Industry Assertion: Increasing alcohol taxes, particularly the beer tax, is regressive and disproportionately affects middle- and working-class Americans.*

Alcohol is a discretionary item, not a necessity. Increasing taxes on alcohol is more equitable than increasing gasoline, phone service or general sales taxes. Increases in alcoholic-beverage excise taxes would primarily be felt by those who drink heavily.

The money spent on alcohol represents only a small portion of an individual's or family's expenditures. The Congressional Budget Office found in a 1990 report on tobacco, alcohol and gasoline taxes that expenditures on these items represented similar percentages of total family expenditures across income classes. Additionally, the CBO found that the alcoholic-beverage expenditures tend to rise as a percentage of total family expenditures as family income increases, if adjustments are made for family size. Also, abstinence rates among low-income people, particularly among African Americans, are higher than among the more well-to-do. Therefore, many low-income people would be spared the effects of a tax increase.

*Industry Assertion: Alcohol taxes are already too high.*

The relative cost of alcoholic beverages and state taxes have dramatically declined in the past 50 years. Even with a federal increase in 1991, the average price of beer and wine has fallen by more than 25 percent



relative to the Consumer Price Index; the price of liquor has fallen almost 50 percent. Federal excise taxes on beer and wine have increased only once since 1951 and taxes in most states have lagged far behind inflation. As a result, state revenues have declined dramatically in terms of real dollars, costing states millions of dollars per year in lost potential revenues. Once a significant source of revenue for most states, alcohol taxes now contribute minimally. Alcohol taxes in the United States are significantly lower than in most industrialized countries.

*Industry Assertion: Raising alcohol excise taxes will decrease revenue to the state.*

Any politically acceptable increase in alcohol excise tax rates will not cause a significant reduction in overall consumption, and the increase in tax revenue will be much greater than any reduction in consumption and sales. Furthermore, any decrease in sales would likely result in a decline in alcohol problems and related health and safety costs.

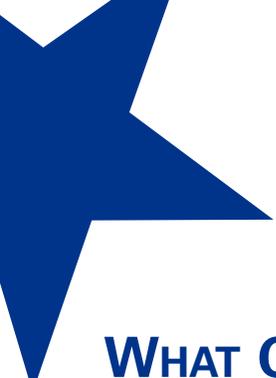
Many other factors affect consumption and state revenues from alcohol. Liquor consumption has been declining for 20 years as consumers switch to beer, wine and soft drinks. Some people are drinking less due to health concerns and tougher drinking and driving laws. Without a tax increase, these factors guarantee that state alcohol tax revenues will continue to decline.

*Industry Assertion: Increasing alcohol excise taxes will destroy jobs throughout the economy.*

Industry estimates of job losses are wildly exaggerated. Bureau of Labor statistics data indicate that between 1990-1992, the years before and after the last federal beer tax increase, the number of jobs in malt-beverage manufacturing and wholesaling actually rose by 1,400 net positions. Retail jobs went down by 400. If any jobs are lost, they will likely shift to other sectors of the economy, since money not spent in the alcoholic beverage industry shifts to other consumer purchases.

*Industry Assertion: Alcohol consumption has numerous health benefits and has been linked to reduced incidence of heart disease. We should not impose higher taxes on a product that has positive health benefits.*

While studies indicate that moderate alcohol consumption reduces the risk of coronary heart disease for some individuals, all drinkers do not enjoy this benefit. Core beer drinkers, for example, who are aged 18 to 34, are unlikely to derive much cardiovascular benefit from drinking, and more likely to expose themselves to risk. In fact, some consumers should not drink at all and even moderate consumption increases their risk of health problems. Also important to note is that the health benefits are generally limited to moderate consumption of alcohol, which might be as little as half a drink per day. For drinkers who consumed at that level, the effect of a tax increase would be minimal.



# INCREASING ALCOHOL TAXES TO FUND PROGRAMS TO PREVENT AND TREAT YOUTH-RELATED ALCOHOL PROBLEMS

## WHAT CAN COALITIONS DO TO INCREASE ALCOHOL EXCISE TAX RATES?

### **1** Do some research on your state's alcohol excise tax rate, history and politics. Look for:

- Current alcohol tax rates.
- Information on how alcohol is taxed, by volume of alcohol or percentage of price.

#### *Questions to ask:*

- Does the state control the sale of alcohol?
- The average price of wine, beer, liquor in the state?
- When were taxes on each beverage last raised and why?
- Who sponsored, co-sponsored, supported and opposed the increase? Who testified at the hearings? Was any research done that might be helpful? Are legislative or committee reports available?
- Have state tobacco taxes been raised in recent years?
- How will different levels of tax increases affect tax revenues, consumption and alcohol problems?

Potential sources of information include a state's taxation and revenue department, alcoholic beverage control agency, legislative research office and local newspaper archives. Groups and individuals involved in past efforts to raise either alcohol or tobacco taxes can also be helpful.

### **2** Consider what policy strategy to increase tax rates makes the most sense for your community.

#### *Numerous options exist, including:*

- Adjusting rates for past inflation,
- Increasing tax rates to equal those of bordering states/localities,
- Taxing alcohol content equally, regardless of beverage type,
- Indexing tax rates to account for future inflation.

The best approach for your state will depend on a variety of factors, including current tax levels, the political situation, and the objectives of the tax increase.

### **3 Identify and quantify some of the major economic and social costs of alcohol in your community or state.**

Compiling this information is an important part of an education campaign about the need for alcohol excise tax increases.

Whenever possible make the numbers relevant to the lives and pocketbooks of your community members. Find ways to humanize the cost. For example, see if the local hospital will provide you with average costs for treating DUI or detox patients. Perhaps police can provide you with statistics on the incarceration costs of DUI arrests.

You should be able to document costs and problems for your community.

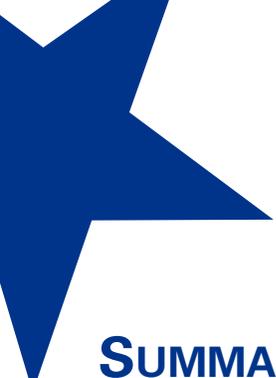
*Some of them include:*

- Health care – the costs associated with caring for and treating people with long-term illnesses directly associated with alcohol, such as liver cirrhosis
- Trauma – the costs associated with treating patients hurt in drunk driving crashes, fights, and alcohol-related accidents
- Crime/violence/ law enforcement – the costs associated with police, fire and EMS personnel responding to alcohol-related accident and violence calls; court-related costs of adjudicating alcohol-related cases; costs for incarceration
- Workplace losses – safety problems on the job cost all of us in the form of higher insurance rates, production costs and medical services
- Public Assistance/Welfare – the costs associated with publicly provided drug treatment services for the poor, or costs necessary to support children in foster care as a result of alcohol abuse by parent(s) or a guardian

### **4 Organize and Mount a Public Education Campaign**

Once you have gathered the facts about alcohol taxes and understand the consequences of alcohol use and abuse in your state, you can launch an educational campaign to put this policy issue on the public agenda. Building a broad-based coalition will help magnify the campaign's impact, pool resources and knowledge from experts, and ignite enthusiasm in people who might be concerned but otherwise overwhelmed or discouraged. Since support for raising alcohol taxes often crosses traditional political lines, the coalition may be able to attract a wide range of supporters. Contacting them is a good way to start educating the public about alcohol taxes. Potential partners include:

- Groups against underage drinking, drinking and driving, or anti-drug organizations and tobacco-control groups
- Prevention and treatment organizations and providers
- Non-alcohol-related groups that might benefit from earmarked funds
- Health-related organizations and individuals; medical providers and insurance companies
- Law-enforcement agencies, officials, associations, and the parks and recreations department
- PTAs and other parent groups



# INCREASING ALCOHOL TAXES TO FUND PROGRAMS TO PREVENT AND TREAT YOUTH-RELATED ALCOHOL PROBLEMS

## SUMMARY

Raising alcohol excise taxes represents an efficient public policy with multiple benefits. Higher taxes allow states to increase their revenue while reducing alcohol-related problems and costs. Increased tax revenue will allow states and localities to fund social programs needed to help those with alcohol-related problems as well as provide support for other essential social services. Best of all, this policy hits price-sensitive young people the hardest and reduces the frequency and quantity of their drinking. Some heavy drinkers may also cut back. Numerous studies suggest that these drops in consumption will help reduce alcohol-related problems and costs. The information contained in this *Strategizer* provides only a start. It's up to you, and

your coalition, to explore the facts — and politics — in your state, and take the first steps toward actualizing alcohol tax policy as a powerful prevention tool.

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To obtain more information and assistance contact:  
Center for Science in the Public Interest  
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Phone: (202) 332-9110 Fax: (202) 265-4954  
E-mail: [cspi@cspinet.org](mailto:cspi@cspinet.org)  
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*Strategizers* cover such topics as long-range planning, board and staff development, development of media strategies, marketing

planning, fundraising for coalition operations and programs, methods for engaging hard-to-reach populations, and more. For a current list of *Strategizer Technical Assistance Manuals* or for additional technical assistance on the topic covered in this *Strategizer*, contact the CADCA staff by writing to: 901 North Pitt Street, Suite 300, Alexandria, VA 22314, or call toll-free: 1-800-54-CADCA

Please notify CADCA regarding the technical assistance needs you may have. Your coalition is on the front line against the ravages of drugs, alcohol and violence.



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