

# Increasing Alcohol Taxes – Myth v. Reality

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Raising taxes is one of the most effective policy measures available to curb underage drinking and harmful consumption, in addition to raising significant revenue. Big Alcohol's arguments against tax increases are often self-serving, exaggerated, and erroneous.

## ***Higher Taxes Are Not Regressive and Will Not Hurt "Joe Six Pack"***

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- Research shows that people with higher incomes are actually more likely to drink than those with less disposable income. In addition, a third of the population does not drink at all, while the majority of drinkers consume relatively little. The only people who will be significantly impacted by higher prices are those who consume too much alcohol. In this way, higher alcohol taxes target consumers who cause the most harm, while not hurting the mythological "Joe Six Pack."
- The alcohol industry regularly raises prices and pockets the profits. Industry objects to higher government taxes to fund alcohol prevention or treatment programs, but what they really object to is the interference with their ability to make greater profits.

## ***Higher Taxes Can Only Help, Not Hurt the Economy***

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- Published economic analysis<sup>1</sup> predicts a ten-cent per drink tax or fee will reduce consumption by 3.3 percent for beer, 4.4 percent for wine, and 4.7 for spirits, resulting in corresponding drops in revenue. But this does not tell the whole story...
- Economic research also shows that the industry passes on more than 100% of the increase to drinkers, from 1.6 to 2.1 times the amount of the tax.<sup>2</sup> The additional increase in retail price more than compensates for lost revenue and enables industry to maintain pre-tax profit levels. Some sectors may even make more money.
- Sometimes, the industry claims dramatic job losses so that they can raise prices, lay off workers to cut expenses, and use the government as a convenient scapegoat. In reality, revenue and profits will adjust to remain at pre-hike levels (or become higher), so that unnecessarily trimming the workforce only increases profits further.
- Alcohol taxes and fees can raise millions, and potentially billions, of new revenue for states and the federal government, through which many new jobs can be created – jobs that will promote health and wellbeing for all residents.
- The relatively minor drops in consumption from higher taxes can save government money in costs (such as healthcare) from the problems caused by alcohol use.
- In Maryland, a 2011 10-cent per drink alcohol tax increase is expected to generate an additional \$215.6 million in annual revenue, dedicated to fund state services and programs.<sup>3</sup>
- A 25-cent tax increase on a six-pack of beer in 1992 would have reduced lost work days due to nonfatal workplace injuries by about 4.6 million days, thereby reducing lost productivity by \$491 million, the equivalent of \$785 million in 2011 dollars.<sup>4, 5</sup>

## ***Industry is Not Paying Its Fair Share***

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- Industry claims to be harmed by excise taxes.<sup>6,7</sup> According to the industry,<sup>6</sup> of all the taxes on a glass of beer, 89 percent are federal and state business taxes along with state sales taxes. But these are general business taxes that all businesses pay, not just alcohol companies. Beer excise taxes make up the remaining 11%, with 3% going to the state and 8% going to federal excise tax.

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- In the United States, state and federal governments get only 5% of the revenue from alcohol sales. The alcohol industry gets the other 95%.
- Taxes cover only 3.7% of the national costs of alcohol use.
- A federal 25 cents per drink increase would generate an additional \$16 billion in tax revenue.
- Beer taxes are 5-7 times higher in the United Kingdom and Sweden than in the U.S., even including the average state tax rate.
- Due to inflation, alcohol taxes continue to decline in real value year after year. Federal excise taxes have declined 39 percent in real value since the last time they were raised in 1991 because they have not been adjusted for inflation.

**Bottom Line:** The economic sky will not fall from relatively minor increases in alcohol taxes. Industry arguments are easily countered and should not provide policymakers with convenient excuses. Higher alcohol tax increases are a win-win policy solution. Alcohol taxes will lower consumption while providing revenue for much-needed government programs to mitigate harm.

## References

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