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REVERSING THE EROSION IN ALCOHOL TAXES COULD HELP PAY FOR HEALTH CARE REFORM

by Chuck Marr and Gillian Brunet

To help pay for health care legislation that extends health insurance to all Americans and slows the growth of health care costs, Congress should consider reversing the substantial real decline in recent decades in federal excise taxes on alcohol. This paper, which is part of a series of papers on proposals to help pay for health reform, outlines three options Congress could consider for increasing alcohol taxes that would raise \$27 billion to about \$100 billion over ten years.

Alcohol taxes have fallen by 37 percent in inflation-adjusted terms since 1991, when Congress last adjusted them, and are expected to fall another 8 percent over the next decade. This is because alcohol taxes are based on the volume rather than the value of the good being purchased, so the amount of the tax does not automatically increase as the price of the product increases. (For example, consider a glass of wine that cost \$4 in 1991. The tax on this glass of wine was 4 cents, or 1 percent of the purchase price. In today's dollars, the equivalent (inflation-adjusted) price for the same glass of wine is \$6.28, but the tax is still 4 cents — 0.64 percent of the purchase price.) Since alcohol taxes are not indexed for inflation, inflation has significantly eroded their real value over time — and will continue to do so.

Reversing the erosion of alcohol taxes would not only raise needed revenues to help finance health care reform but also reduce the costs that alcohol abuse imposes on American society. Two-thirds of Americans support raising alcohol taxes to help finance health care reform, according to a recent poll.

Inflation Has Severely Shrunk Taxes' Value

The excise taxes imposed on distilled spirits, beer, and wine have shrunk dramatically in real terms in recent decades. For example, the tax on distilled spirits has shrunk by *84 percent* and the tax on beer has fallen *75 percent* since 1951, after adjusting for inflation. Over the past 55 years, Congress has adjusted beer and wine taxes only once and liquor taxes only twice.

Since 1991, when Congress last adjusted them, inflation has cut alcohol taxes by 37 percent across the board. In the absence of a statutory change, they will fall another 8 percent in real terms by 2019. Because of the taxes' eroding value, alcohol tax revenues have declined by roughly half as a share of gross alcohol sales since 1980.

**TABLE 1:
Alcohol Excise Tax Rates in Select Years, 2009 Dollars**

Alcohol Type	Unit	1951	1991	2009	2019
Distilled spirits	proof gallon*	\$86.34	\$21.19	\$13.50	\$11.63
Beer	gallon	\$2.39	\$0.91	\$0.58	\$0.50
Still wine (<14% alcohol)	gallon	\$1.40	\$1.68	\$1.07	\$0.92
Still wine (14-21% alcohol)	gallon	\$5.51	\$2.46	\$1.57	\$1.35
Still wine (21-24% alcohol)	gallon	\$18.50	\$4.94	\$3.15	\$2.71
Champagne and sparkling wine	gallon	\$22.37	\$5.34	\$3.40	\$2.93
Artificially carbonated wines	gallon	\$15.79	\$5.18	\$3.30	\$2.84

Source: CBPP calculations based on past and present tax rates as reported by the Congressional Research Service.

*A proof gallon is the volume of an alcoholic liquid that would contain exactly one-half gallon of alcohol. For example, 2.5 gallons of a liqueur that was 20% alcohol by volume (40 proof) would equal one proof gallon of that liqueur.

Alcohol Abuse Imposes Heavy Economic and Health Costs

Alcohol abuse cost the U.S. economy \$185 billion in 1998, according to study conducted for the National Institute of Alcohol Abuse and Alcoholism.¹ The impact goes well beyond direct medical costs. Alcohol abuse also results in lost productivity, lost earnings from premature deaths (about 79,000 Americans die each year from excessive alcohol use, according to the Centers for Disease Control and Prevention), and increased crime.

Because of these costs, both health and economics experts support increasing alcohol excise taxes. For example, a large group of economists, including four Nobel laureates and three former presidents of the American Economic Association, issued a statement in 2005 calling for increases in excise taxes on alcohol.² Similarly, the National Academy of Sciences has recommended raising alcohol excise tax rates, particularly those on beer, to discourage underage drinking.³ And a 2007 report by the Surgeon General noted that increasing the cost of alcohol use could reduce alcohol consumption by teenagers.⁴

Public Supports Increased Alcohol Taxes

An April 2009 poll by the Kaiser Family Foundation found strong support for increasing alcohol taxes to help pay for health care reform:⁵

- Sixty-eight percent of respondents supported increasing wine and beer taxes to help pay for health care reform; 46 percent of respondents “strongly” supported such a step. By comparison, 65 percent of respondents supported raising cigarette taxes for this purpose, and 71 percent supported raising taxes on

¹ H. Harwood, “Updating Estimates of the Economic Costs of Alcohol Abuse in the United States,” prepared by The Lewin Group for the National Institute on Alcohol Abuse and Alcoholism, 2000, <http://pubs.niaaa.nih.gov/publications/economic-2000/index.htm>.

² “Economists’ Declaration on Federal Alcohol Excise Taxes,” May 2005, <http://www.cspinet.org/new/pdf/petition-alcohol.pdf>.

³ “Reducing Underage Drinking: A Collective Responsibility,” September 2003, <http://www8.nationalacademies.org/onpinews/newsitem.aspx?RecordID=10729>.

⁴ “The Surgeon General’s Call to Action To Prevent and Reduce Underage Drinking,” U.S. Department of Health and Human Services, Office of the Surgeon General, 2007, <http://www.surgeongeneral.gov/topics/underagedrinking/calltoaction.pdf>.

⁵ Poll results are available at <http://www.kff.org/kaiserpolls/posr042309pkg.cfm>.

households with incomes above \$250,000.

- Seventy percent of *opponents* of raising alcohol taxes became supporters when informed that the taxes would improve health outcomes by encouraging healthier habits.

Some critics of raising alcohol taxes have pointed out that the burden would fall disproportionately on low-income people, since the tax represents a larger share of their incomes. This, however, ignores the fact that low- and moderate-income people would *benefit* disproportionately from the universal health coverage that the tax increase would help fund, since they make up the bulk of the uninsured. In addition, an increase in alcohol taxes would be just one component of a larger package that would likely include progressive revenue-raising options and should be progressive overall.

Others may counter that unlike tobacco, alcohol is not injurious to health when consumed in moderate amounts and may even be beneficial. The options presented below, however, would affect moderate drinkers only slightly.

Several Options for Increasing Taxes

Below are three potential ways in which Congress could raise alcohol taxes:

- 1. Return the taxes to their 1991 levels, adjusted for inflation, in 2010 and index them for inflation thereafter.** Since 1991 was the last year in which alcohol taxes increased, the inflation-adjusted 1991 levels are a natural level to which Congress might want to return them. Under this option, taxes would go up by 4 cents on a bottle of beer (to a total of 9 cents) and by 3 cents on a glass of wine (to a total of 7 cents). This option's effect on moderate drinkers would be extremely modest. A person who drinks a glass of wine every night would pay only \$10.95 more in alcohol excise taxes over the course of a year.

This would raise roughly \$27 billion over ten years. Because current inflation projections are very low, indexing the taxes for inflation *without* also returning them to their real 1991 levels in 2010 would provide only very small short-term savings: \$2 billion over ten years. However, indexing would generate significant savings over the long term. Indexing is particularly compelling given the long-term challenges of meeting health care costs.

- 2. Set alcohol taxes at a uniform \$16 per proof gallon.** This option, outlined in a recent Congressional Budget Office (CBO) report, reflects the belief that since a mixed drink, a bottle of beer, and a glass of wine all contain a similar amount of alcohol, they should be taxed similarly.⁶ (Currently, distilled spirits are taxed more heavily than other forms of alcohol, at \$13.50 per proof gallon.) Under this option, taxes would go up by 9 cents on a bottle of beer and by 10 cents on a glass of wine, for a total tax in both cases of about 14 cents.

According to CBO, this option would raise \$60 billion over ten years, and \$28 billion over five.

- 3. Tax all forms of alcohol at the level that distilled spirits were taxed in 1991, adjusted for inflation, and index the tax for inflation going forward.** This option combines key features of the above options: like Option 1, it uses Congress's last action on alcohol taxes as its foundation, and like Option 2, it establishes a uniform tax for different types of alcohol. This option also raises the most revenue of the three proposals. Under this option, taxes would go up by 13 cents on a bottle of beer and by 14

⁶ "Budget Options Volume I: Health Care," Congressional Budget Office, December 2008, <http://www.cbo.gov/ftpdocs/99xx/doc9925/12-18-HealthOptions.pdf>.

cents on a glass of wine, for a total tax in both cases of about 18 cents. This option would raise roughly \$101 billion over ten years.

TABLE 2:
FIGURE 2: Excise Tax Rates Under Proposed Options, 2010

Alcohol Type	Unit	Current Law	Option #1 1991 Rates Adjusted for Inflation	Option #2 CBO Option (Equalization)	Option #3 Equalization- Inflation Hybrid
Distilled spirits	proof gallon	\$13.50	\$21.50	\$16.00	\$21.50
Beer	gallon	\$0.88	\$0.92	\$1.44	\$1.94
Still wine (<14% alcohol)	gallon	\$1.07	\$1.70	Up to \$4.48	Up to \$6.02
Still wine (14-21% alcohol)	gallon	\$1.57	\$2.50	\$4.48-\$6.72	\$6.02-\$9.03
Still wine (21-24% alcohol)	gallon	\$3.15	\$5.02	\$6.72-\$7.68	\$9.03-\$10.32
Champagne and sparkling wine	gallon	\$3.40	\$5.41	\$3.52	\$4.73
Artificially carbonated wines	gallon	\$3.30	\$5.26	\$3.52	\$4.73
10 Year Savings*			\$27B	\$60B	\$101B

Source: CBPP calculations based on past and present tax rates as reported by the Congressional Research Service.

* A proof gallon is the volume of an alcoholic liquid that would contain exactly one-half gallon of alcohol. For example, 2.5 gallons of a liqueur that was 20% alcohol by volume (40 proof) would equal one proof gallon of that liqueur.