Increase Taxes on Alcohol:  
Ease the Budget Deficit and Reduce Alcohol Costs

Congress and the Administration face monumental fiscal and budgetary challenges. While not easy, consideration of revenue raisers is inevitable. Raising alcohol excise taxes is an option that is well-justified, painless for most consumers and good for public health.

**Federal excise taxes on alcoholic beverages have shrunk steadily over the years**

Beer and wine taxes have been increased only once in 57 years (1991), liquor taxes only twice (1985, 1991). Because the tax rates have not been adjusted for inflation, their value has steadily declined, as a percentage of price and total sales, and the relative price of alcoholic beverages has dropped markedly as a result. In addition, the Treasury has lost some $24 billion in revenues that could have helped fund essential health and human needs programs or reduce the deficit.

### Current Federal Alcohol Excise Tax Rates

<table>
<thead>
<tr>
<th></th>
<th>Per Gallon</th>
<th>Per Serving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>$0.58 ($18 per barrel)</td>
<td>$0.05 (12 oz)</td>
</tr>
<tr>
<td>Wine*</td>
<td>$1.07</td>
<td>$0.04 (5 oz.)</td>
</tr>
<tr>
<td>Spirits**</td>
<td>$13.50</td>
<td>$0.13 (1.5 oz.)</td>
</tr>
</tbody>
</table>

* 14% alcohol or less (regular table wine)  
** Per 100-proof gallon

Source: Adams Beverage Group, 2006

### 2007 Federal Alcohol Excise Tax Revenues (thousands)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>$3,713,024</td>
</tr>
<tr>
<td>Wine</td>
<td>$833,842</td>
</tr>
<tr>
<td>Spirits</td>
<td>$4,630,080</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$9,176,946</td>
</tr>
</tbody>
</table>

Source: U.S. Dept. of the Treasury, Alcohol & Tobacco Tax & Trade Bureau, 2007


Source: Bureau of Labor Statistics

### Costs of Alcohol Use Far Exceed Alcohol Tax Revenue

The federal government collected about $9.2 billion in alcohol excise tax revenue in 2008. That revenue pales in comparison with the economic costs of alcohol use in this country: an estimated $185 billion per year in health care, law enforcement, incarceration, and lost productivity. Excessive alcohol use also accounts for some 80,000 deaths each year. Underage drinking alone cost the nation more than $60 billion in 2005, equivalent to $2,094 per year
for each underage youth in the U.S. Government bears nearly 40 percent of the burden, with private insurance and victims suffering billions of dollars in losses. The direct and indirect harms extend across the whole population.

A modest alcohol tax increase would generate significant new revenues

A perennial Congressional Budget Office (CBO) revenue option proposes equalizing the taxes on all alcoholic beverages at about 20% higher than the current tax rate on distilled spirits. That simple measure would generate an estimated $28 billion in new revenues over five years without burdening most drinkers. For example, half of all beer drinkers would pay at most $1.85 per year in additional taxes and half the liquor drinkers would pay no more than $4.30 more per year. Adjusting the rates for inflation since the last increase in 1991 would yield some $16 billion in new revenue over five years, and equalizing the taxes on alcohol at $20.25 per proof gallon would raise approximately $45 billion in net new revenue over that period. Indexing the rates for inflation would keep them from being eroded over time, and would assure that the revenues maintained their value.

The public health and safety benefits of increasing alcohol taxes are well-established

A large body of research has thoroughly documented the many public health and safety benefits of alcohol tax increases, including reductions in: underage drinking, road traffic injuries and fatalities, educational failures, sexually transmitted diseases, crime, domestic violence, child abuse, and possibly marijuana and tobacco use.

Recognizing that cheap alcohol puts it in easier reach of kids, the National Academy of Sciences recommended alcohol tax increases, especially on beer. The U.S. Surgeon General, in a March 2007 “Call to Action on Underage Drinking,” implicitly echoed that recommendation, supporting measures to decrease the availability of alcohol to underage youth.

Most Americans won’t be burdened by a tax increase, because they don’t drink (35% of total population) or drink sparingly (60% of drinkers)

On average, Americans spend less than 1% of their total income on alcoholic beverages. An increase in alcohol taxes would be levied only on that small part of total expenditures. Because alcohol consumption is heavily concentrated among a minority (the top 20%) of drinkers who consume 85% of all the alcohol, most of the tax (and tax increases) would be paid by those who drink excessively. 60% of drinkers consume no more than 3 drinks a week on average. A smaller percentage of low-income people consume alcohol than do those in other income groups, and, except for a small cohort of heavier drinkers, they drink less than others.

Public opinion polls consistently find strong support for raising alcohol excise taxes. A 2005 national survey found that 79 percent of all adults and 70 percent of all drinkers would support raising alcohol taxes over cutting programs such as food stamps, Medicaid, and drug benefits for the elderly.

The Bottom Line

An increase in federal alcohol excise tax rates is long overdue and an expression of sound fiscal and public health policy. Higher alcohol taxes can generate significant revenue without penalizing moderate drinkers. Congress should equalize the tax rates among beverage categories at $20.25 per proof gallon, and peg those rates to inflation to avoid future erosion of their value. Earmarking some of the revenues for alcohol treatment, prevention, and public education could further reduce the societal toll of alcohol problems.

1 Revenue data from the U.S. Treasury Department, Alcohol and Tobacco Tax and Trade Bureau, sales data from Adams Beverage Group.
8 Global Strategy Group national survey, commissioned by CSPI (November, 2005)