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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.<sup>1</sup> 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.<sup>2</sup> Similarly, the National Academy of Sciences has recommended raising alcohol excise tax rates, particularly those on beer, to discourage underage drinking.<sup>3</sup> And a 2007 report by the Surgeon General noted that increasing the cost of alcohol use could reduce alcohol consumption by teenagers.<sup>4</sup>

## 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:<sup>5</sup>

- 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

<sup>1</sup> 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>.

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

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

<sup>4</sup> “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>.

<sup>5</sup> 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.<sup>6</sup> (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

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<sup>6</sup> "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**

<b>Alcohol Type</b>	<b>Unit</b>	<b>Current Law</b>	<b>Option #1 1991 Rates Adjusted for Inflation</b>	<b>Option #2 CBO Option (Equalization)</b>	<b>Option #3 Equalization- Inflation Hybrid</b>
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
<b>10 Year Savings*</b>			<b>\$27B</b>	<b>\$60B</b>	<b>\$101B</b>

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.



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# TAXING HIGH-SUGAR SOFT DRINKS COULD HELP PAY FOR HEALTH CARE REFORM

by Chuck Marr and Gillian Brunet

By establishing a tax on high-sugar soft drinks, Congress could help finance health care reform that extends health insurance to all Americans and slows the growth of health care costs, while also improving Americans' health. This paper, which is part of a series of papers on proposals to help pay for health reform, outlines issues related to such a tax. Depending on how it is designed, such a tax has the potential to raise as much as \$10 billion a year to help pay for health care reform.

Mounting evidence indicates that consumption of high-sugar drinks has increased sharply in recent years and is likely to have contributed markedly to increased obesity, which results in higher health costs and increased morbidity. American children aged 2 to 5 are twice as likely to be overweight as they were in 1970, and those aged 6 to 19 are three times as likely to be overweight; more than 9 million children and adolescents are now considered overweight.<sup>1</sup> A meaningful tax on high-sugar soft drinks should reduce consumption, helping to fight obesity and its attendant private and public costs.

## Why the Tax Makes Sense

A growing body of health research and a recent article in the highly regarded *New England Journal of Medicine* make a compelling health case for a federal tax on soft drinks:<sup>2</sup>

- 1. Increased consumption of sugary drinks contributes significantly to obesity.** Americans consume about 250-300 more daily calories today than they did several decades ago, and nearly half of this increase reflects greater consumption of high-sugar soft drinks. Per capita consumption of such drinks nearly *tripled* between 1977-78 and 2000.<sup>3</sup> Research indicates that when people increase their caloric consumption of beverages, they tend not to reduce their food intake, so their overall caloric consumption rises.

<sup>1</sup> "Adolescent Overweight and Future Adult Coronary Heart Disease," *New England Journal of Medicine*, December 6, 2007, <http://content.nejm.org/cgi/content/full/357/23/2371#F1>.

<sup>2</sup> Kelly D. Brownell and Thomas R. Frieden, "Ounces of Prevention — the Public Policy Case for Taxes on Sugared Beverages," *New England Journal of Medicine*, April 30, 2009, <http://content.nejm.org/cgi/reprint/NEJMp0902392.pdf?resourcetype=HWCIT>.

<sup>3</sup> *Ibid.*

In 2003, the average American consumed nearly a gallon of soft drinks each week. According to a 2001 USDA study, 32 percent of adolescent girls and 52 percent of adolescent boys consume three or more eight-ounce servings of soda per day, which translates into well over a gallon per week.

In addition, a major Johns Hopkins study found that while adults can lose weight by lowering their calorie intake from beverages or solid foods, they generally *maintain* that weight loss only if they lower their calorie intake from sugar-sweetened beverages.<sup>4</sup>

- 2. Obesity contributes to morbidity and premature death.** The increase in obesity, to which increased soft drink consumption appears to have contributed significantly, leads to higher incidence of various diseases. According to the Centers for Disease Control and Prevention, obesity raises the risk of heart disease, diabetes, stroke, hypertension, and certain cancers, as well as other diseases.

In addition, children who are overweight are more likely to develop diabetes, hypertension, respiratory problems, and orthopedic problems later in life. A study published in the *New England Journal of Medicine* estimated that the increase in adolescent obesity as of 2000 will cause a 6 to 19 percent increase in American deaths from heart disease by 2035.<sup>5</sup>

Another study found that women who consumed one or more soft drink servings per day were twice as likely to develop diabetes during the eight-year study as women who consumed less than one serving per month.<sup>6</sup>

- 3. Increased obesity drives up the nation's health care costs.** Extensive soft-drink consumption doesn't just harm individuals. It also imposes costs on the health care system and taxpayers. Researchers at Emory University have estimated that the "rising prevalence of obesity and [the] higher relative per capita [health] spending among obese Americans accounted for 27 percent of the growth in real per capita [health] spending between 1987 and 2001."<sup>7</sup> A separate Emory study found that increased obesity accounted for 15 percent of the nation's increased Medicare costs between 1987 and 2002.<sup>8</sup>
- 4. A meaningful soft drink tax would improve health.** A tax on high-sugar soft drinks would reduce consumption of such beverages. A 10 percent price increase in these drinks would cut consumption by 7.8 percent, according to one estimate.<sup>9</sup> Lower consumption, in turn, would improve health outcomes.

## Regressivity Argument Ignores Important Facts

Some critics may argue that a tax on high-calorie soft drinks would be regressive, falling disproportionately on lower-income people. But low-and moderate-income people would *benefit* disproportionately from the universal

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<sup>4</sup> "Reduction in consumption of sugar-sweetened beverages is associated with weight loss: The PREMIER Trial," *American Journal of Clinical Nutrition*, April 1, 2009, <http://www.ajcn.org/cgi/content/abstract/89/5/1299>.

<sup>5</sup> "Adolescent Overweight and Future Adult Coronary Heart Disease."

<sup>6</sup> "Sugar-Sweetened Beverages, Weight Gain, and Incidence of Type 2 Diabetes in Young and Middle-Aged Women," *Journal of the American Medical Association*, August 25, 2004, <http://jama.ama-assn.org/cgi/content/full/292/8/927>.

<sup>7</sup> See "The Impact of Obesity on Rising Medical Spending," *Health Affairs*, October 20, 2004, <http://content.healthaffairs.org/cgi/reprint/hlthaff.w4.480v1>.

<sup>8</sup> "The Rise In Spending Among Medicare Beneficiaries: The Role of Chronic Disease Prevalence and Changes in Treatment Intensity," *Health Affairs*, August 20, 2006, <http://content.healthaffairs.org/cgi/reprint/25/5/w378>.

<sup>9</sup> The estimate, from Yale University's Rudd Center for Food Policy and Obesity, is cited in Brownell and Frieden.

health care that this tax would help fund, since they make up the bulk of the uninsured. Moreover, to the extent that lower-income consumers responded to the tax by buying fewer high-calorie soft drinks, their health would benefit.

## States' Experience with Soda Taxes

Many states tax soda. While only 14 states levied a sales tax on food for home consumption as of 2007, 39 states imposed a sales tax on at least some soda purchases. In some of these states, the tax is simply part of the sales tax that applies to food; in others, it is a separate or a higher tax. Some 28 states impose a higher sales tax on vending machine soda sales (or on vending machine sales generally) than on food generally, and 21 states impose a higher tax on soda purchased at grocery stores than on other food purchases.<sup>10</sup>

A handful of states — mostly in the South — impose *excise* taxes on soft drinks at the wholesale level. For example, Arkansas has an excise tax on soft drinks and uses the proceeds to help fund Medicaid. The Arkansas tax is paid by: 1) distributors, manufacturers, and wholesalers that sell soft drinks (or syrups and powders used to make soft drinks) to retailers in the state; and 2) retailers that purchase soft drinks from unlicensed distributors, manufacturers, and wholesalers. The entities that pay the tax are licensed by the state and report and remit taxes on a monthly basis. In these states, the tax is embedded in the purchase price that consumers pay, rather than added at the check-out counter.

## Design Issues to Consider

Policymakers considering a federal tax on high-sugar soft drinks must decide what type of tax to establish, what types of beverages it should apply to, and what size it should be.

### Should the Tax Be Based on the Soft Drink's Value or Volume?

Two types of taxes are possible at the federal level: one based on the soft drink's value (known as an *ad valorem* tax) and one based on its volume (essentially an excise tax). The latter — specifically, an excise tax imposed at the wholesale level, similar to the Arkansas tax described above — is preferable, for several reasons:

- An excise tax would be more effective at discouraging consumption because it would show up in the product's purchase price. An *ad valorem* tax, in contrast, likely would be assessed at a retail cash register, *after* the consumer had already decided to make the purchase.
- An *ad valorem* tax could have the unintended consequence of encouraging bulk purchases of soft drinks, since the lower cost per ounce of beverage would result in a lower tax amount as well.
- An excise tax would be similar to existing federal excise taxes. The Treasury Department's Alcohol and Tobacco Tax and Trade Bureau (TTB) administers federal tobacco taxes by issuing permits to tobacco manufacturers, importers, and exporters; TTB could also administer a soft drink tax by instituting a parallel system of permits for manufacturers, importers, and exporters of soda and soda products. In contrast, an *ad valorem* tax could create tensions between the federal government and the states because sales taxes added at the point of the retail purchase have traditionally fallen under the purview of state governments.

### What Beverages Should It Cover?

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<sup>10</sup> "State Sales Tax Rates for Soft Drinks and Snacks Sold through Grocery Stores and Vending Machines, 2007," 2008, *Journal of Public Health Policy*.

The goal of the proposal is to fight obesity by reducing consumption of high-sugar soft drinks. Soda is a primary target. But the tax should also apply to heavily sweetened “sport drinks,” as well as to powders and syrups used to make soda and sweetened iced tea.

Manufacturers of highly sweetened fruit drinks may ask Congress to exclude them from the tax by claiming that these are “healthy” high-sugar beverages. But because of these drinks’ very high calorie levels, they, too, should be subject to the tax. This would be consistent with federal regulations governing the WIC program, which disallow any fruit drinks that are not 100 percent unsweetened fruit juice.

In defining the categories of drinks the tax would cover, policymakers should heed the advice of the medical community to the greatest extent possible.

### What Size Should It Be?

Health concerns and the need to finance health care reform legislation both argue for a meaningful tax, which will raise more revenue and likely produce larger health gains than a tax that is too small.

An excise tax of a penny per ounce would reduce soft-drink consumption by more than 10 percent, according to one analysis,<sup>11</sup> although some other analysts think such a tax would not be sufficient to have that effect.<sup>12</sup> A penny-per-ounce tax would raise roughly \$10 billion a year, based on a Center for Science in the Public Interest estimate of a similar proposal,<sup>13</sup> although this appears to be a conservative estimate. CBO estimated that a much smaller alternative — a tax of three cents per 12 ounces of beverage — would raise about \$5 billion per year.<sup>14</sup>

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<sup>11</sup> See Brownell and Frieden.

<sup>12</sup> Some researchers such as Barry Popkin of the University of North Carolina argue that this level of tax would not be sufficient to affect consumption. Policymakers thus might want to consider setting the tax somewhat higher.

<sup>13</sup> “Soft Drinks: Time to Tax,” March 2009, Center for Science in the Public Interest.

<sup>14</sup> “Budget Options Volume I: Health Care,” Congressional Budget Office, December 2008, <http://www.cbo.gov/ftpdocs/99xx/doc9925/12-18-HealthOptions.pdf>.

# Looking for Revenue for Health Reform?

## Tax Soft Drinks and Raise the Taxes on Alcoholic Beverages

Why Tax Soft Drinks?

- More than two-thirds of Americans are overweight or obese.
- Soft drinks are the only food or beverage with a direct link to obesity, which in turn increases the risk of diabetes, stroke, and many other health problems.
- Americans spend roughly \$100 billion a year on medical expenditures related to obesity, of which half is paid with Medicare and Medicaid dollars.

### Soft Drink Tax

Tax	Revenue Over Ten Years
12 cents/12 ounces	\$160 billion
10 cents/12 ounces	\$140 billion
3 cents/12 ounces	\$45 billion

Why Increase the Tax on Alcohol?

- Due to inflation since the last alcohol tax increase in 1991, taxes on alcoholic beverages have fallen some 40%, effectively resulting in an unintended and unwarranted tax cut for alcohol producers and reduced revenue for the Treasury.
- The economic costs of alcohol use in the U.S., more than \$185 billion per year, far exceed federal tax revenues from alcohol, which totaled only \$9.2 billion in 2007.
- Higher taxes on alcoholic beverages will help moderate alcohol consumption, even among heavier drinkers, leading to fewer alcohol-related problems and costs throughout society.

### Alcohol Tax

Tax	Revenue Over Ten Years
Raise liquor taxes 50% and equalize tax on alcohol in beer and wine	\$110 billion
Raise liquor taxes by 20% and equalize tax on alcohol in beer and wine	\$80 billion
Raise taxes by 5¢/drink	\$60 billion

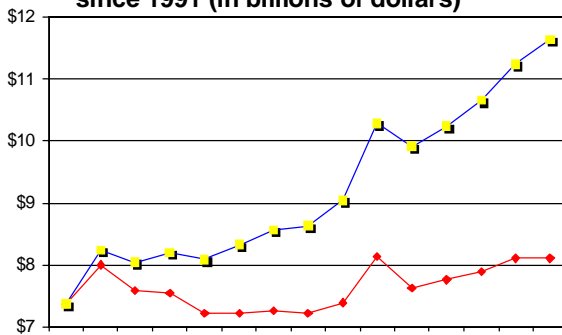
## Increase Taxes on Alcohol: Ease the Budget Deficit and Reduce Alcohol Costs

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.**

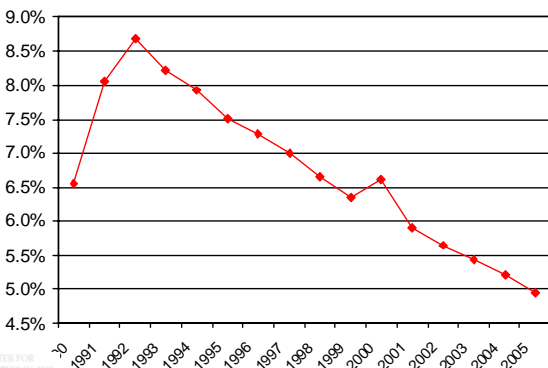
### Federal excise taxes on alcoholic beverages have shrunk steadily over the years

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,<sup>1</sup> 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.

**Actual federal alcohol tax revenue vs. potential revenue had taxes increased with inflation since 1991 (in billions of dollars)**



**Federal alcohol tax revenue as percentage of total alcohol sales**



### Current Federal Alcohol Excise Tax Rates

	Per Gallon	Per Serving
Beer	\$0.58 (\$18 per barrel)	\$0.05 (12 oz)
Wine*	\$1.07	\$0.04 (5 oz.)
Spirits	\$13.50**	\$0.13 (1.5 oz.)

\* 14% alcohol or less (regular table wine)

\*\* Per 100-proof gallon

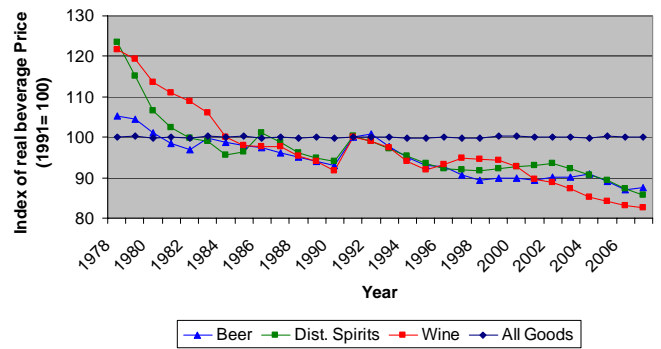
Source: Adams Beverage Group, 2006

### 2007 Federal Alcohol Excise Tax Revenues

(thousands)	
Beer	\$3,713,024
Wine	\$833,842
Spirits	\$4,630,080
<b>TOTAL</b>	<b>\$9,176,946</b>

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

**Inflation-Adjusted alcoholic beverage prices v. All Consumer Goods, 1978-2007**



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.<sup>2</sup> Excessive alcohol use also accounts for some 80,000 deaths each year,<sup>3</sup> 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.<sup>4</sup> Government bears nearly 40 percent of the burden, with private insurance and victims suffering billions of dollars in losses.<sup>5</sup> 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.<sup>6</sup>

Recognizing that cheap alcohol puts it in easier reach of kids, the National Academy of Sciences recommended alcohol tax increases, especially on beer.<sup>7</sup> 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.<sup>8</sup>

### **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.

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<sup>1</sup> Revenue data from the U.S. Treasury Department, Alcohol and Tobacco Tax and Trade Bureau, sales data from Adams Beverage Group.

<sup>2</sup> National Institute on Alcohol Abuse and Alcoholism (2000). 10th Special Report to the U.S. Congress on Alcohol and Health. NIH Publication No. 00-1583. Rockville, MD: US Department of Health and Human Services. Chapter 6.

<sup>3</sup> Mokdad AH, Marks JS, Stroup DF, Gerberding JL. “Actual causes of death in the United States,” 2000. *JAMA* 2004; 291(10): 1238–1245.

<sup>4</sup> Pacific Institute for Research and Evaluation (PIRE), July 2007. Problems and Costs Associated with Underage Drinking in the United States. Online at: <http://www.udetc.org/UnderageDrinkingCosts.asp>

<sup>5</sup> Harwood, H., “Updating Estimates of the Economic Costs of Alcohol Abuse in the United States: Estimates, Update Methods, and Data,” report prepared by The Lewin Group for the National Institute on Alcohol Abuse and Alcoholism (2000).

<sup>6</sup> Ponicki WR, Grunewald, PJ. The impact of alcohol taxation on liver cirrhosis mortality. *Journal of Studies on Alcohol* 2006; 67(6): 934-9.

<sup>7</sup> National Research Council and Institute of Medicine, Reducing Underage Drinking: A Collective Responsibility, R.J. Bonnie and M.E. O’Connell, eds. (Washington, DC: National Academies Press, 2004).

<sup>8</sup> Global Strategy Group national survey, commissioned by CSPI (November, 2005)



# GENERATING NEW REVENUES TO FUND HEALTH CARE

## Soft Drink Tax

### Why Tax Soft Drinks?

More than two-thirds of Americans are overweight or obese, and **soft drinks are the *only* food or beverage that has been shown to increase the risk of overweight and obesity.** Obesity alone racks up \$147 billion a year in medical expenditures, of which half are paid with Medicare and Medicaid dollars. It is entirely appropriate for governments to tax soft drinks. Soft drink taxes could drive down soft drink consumption *and* generate revenue for valuable health programs.

### How Much Soft Drinks Are We Consuming?

Beverage companies market more than 14 billion gallons of calorie-laden soft drinks annually. That is equivalent to about 506 12-oz. servings per year, or 1.4 servings per day, for every man, woman, and child. Those figures include non-diet carbonated sodas, energy drinks, sports drinks, fruit drinks, and ready-to-drink teas.

### Have Soft Drinks Ever Been Taxed?

Currently, 25 states levy special taxes on soft drinks (typically a sales tax). Some cities also have the authority to tax soft drinks, and Chicago has a tax. Collectively, they raise well over \$1 billion annually. For instance, New York has been raising several hundred million dollars a year from its sales tax on soft drinks, while Arkansas has been raising upwards of \$40 million from its excise tax.

### Won't A Soft Drink Tax Hurt The Poor Disproportionately?

Soft drinks are nutritionally worthless, totally discretionary beverages. They provide no nutrients, while adding lots of calories to the diet. Lower-income adults drink more soft drinks

than higher-income adults and thus would be affected disproportionately by a tax. But they would be helped disproportionately by the programs funded by the tax (and, of course, by the health benefits from drinking less soda). And *all* people would save money in the long run by switching from sugar-sweetened beverages to healthier beverages, such as fat-free milk, seltzer water, and plain tap water.

## **What Should Congress Do?**

**Congress should impose an excise tax on non-diet soft drinks, both carbonated and non-carbonated. A tax of one cent per 12-ounces would raise about \$1.5 billion annually; a tax of one cent per ounce would raise about \$16 billion per year, reduce consumption, and slow rising rates of obesity. Each one cent tax per 12 ounces would reduce consumption by about 1 percent.**