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## Vermont Legislative Research Shop

### Beer Tax Increase

Legislators in Vermont have proposed a bill (H.322), currently in committee, which will increase the beer tax from 26.5 cents to 48.8 cents per gallon, an increase of approximately two cents per can. The additional tax revenue will be earmarked for substance abuse treatment programs to be administered by a newly created Treatment and Prevention Advisory Committee. Forty-five and seven-tenths percent of the increased tax revenue will go to the Department of Health, which will collaborate with the Treatment and Prevention Advisory Committee, for distribution among adolescent substance abuse treatment, the New Directions Program, Opiate Addiction Treatment programs, adult treatment programs, and for use in school substance abuse programs (Vermont State Legislature 2001).

### Earmarked Beer Tax in other States

Efforts are already underway to increase the existing excise tax rate on beer within Oregon. A number of legislators have indicated the state's beer tax should be increased to provide additional revenue to alcohol and drug abuse programs. Others continue to suggest a tax increase is warranted due to the fact the state's beer tax of \$2.60 per 31 gallon barrel has not been increased since 1977 and is somewhat lower than the rate maintained in other states (Oregon Neighborhood Store Association 1999). In Montana, the beer tax is \$4.30 on each barrel produced in or imported into the state. A small portion of the revenue, \$49,723 out of \$3.6 million in 2000, is earmarked for Indian tribes residing within the state (State of Montana Legislative Fiscal Division). In Alabama, the beer excise tax is mandated by state law but collected at the county level. The state law determines how the county is to spend the money by earmarking the funds for such things as local boards of education, rescue squads, historical societies and libraries (Alabama State Legislature). Beginning in 1984, Texas earmarked 25% of funds from beer tax to the Foundation School Fund. This was revoked in 1995 and all revenues now go to the general fund (Texas Office of the Comptroller). In Utah, proceeds of the beer excise tax are deposited in the General Fund and dedicated to programs or projects related to prevention, treatment, detection, and prosecution of offenses in which alcohol is a contributing factor (Utah Code 32A-1-115).

### The Effects of Beer Tax Increases

The real price of alcoholic beverages has been falling since 1951, partly because of low alcohol tax rates (for current tax rates, see Figure 1). Between 1975 and 1991 the real price of beer fell by 20% (Chaloupka 1993). In addition, most states' alcohol excise taxes have fallen in real terms as well (Figure 2). Many studies have shown that alcohol prices affect consumption. Studies show that for every increase in the price of beer, there is an associated decrease in beer consumption (Chaloupka 1993). Raising alcohol taxes may decrease alcohol-related injuries and violence, as well as alcohol-related health problems (Grossman, Chaloupka & Saffer 1994).

### Violence:

Research indicates that increasing the beer tax by 10% would decrease alcohol consumption by 0.48% per capita, which, in turn, should reduce rapes by 1.32%, robbery by 0.9%, murder by 0.3%, and assaults by 0.3% (Cook & Moore 1993). Furthermore, it is estimated that raising the price of alcohol by one percent would decrease the rate of wife abuse by 3.1-3.5% (Markowitz 1999). Another study says that increasing the beer excise tax would also reduce domestic violence against children. It claims that a 10% increase in the beer excise tax would reduce overall domestic violence against children by 1.2% and would reduce severe domestic violence by 2.3% (Markowitz and Grossman 1998).

### **Medical Problems:**

The Center for Disease Control and Prevention estimates that a \$0.20 state tax increase per six-pack of beer could reduce U.S. gonorrhea rates by almost 9 percent. This conclusion was based on a study done from 1981 to 1995 on alcohol policy changes. The study found that two-thirds of state beer tax increases were associated with a decrease in the gonorrhea rates for teenagers and three-quarters of the beer tax increases were associated with a decrease in gonorrhea rates among young adults (Chesson 2000). Harrell Chesson, the author of the study, said that these teens and young adults "are more likely to have sex and they are more likely to have sex without a condom, with multiple partners and with high-risk partners," when they drink. In 1991, California increased its beer tax from 4 cents to 20 cents per gallon, and teenage gonorrhea rates among young men dropped 30% the following year (Cimons 2000). A study shows that for each 10% increase in the liquor tax, cirrhosis deaths decreased 9%. The author cites studies showing that cirrhosis rates were reduced dramatically during Prohibition, when alcohol consumption was very low (Cook 1981).

### **Alcohol-Related Injuries:**

Research indicates that raising alcohol taxes would substantially reduce traffic deaths, while tougher drinking and driving laws are unlikely to further decrease traffic deaths. This study claims that "restoring the 1988 beer tax to its 1975 level in real dollars (a 78% increase) would have reduced crash deaths by 7 to 8%, saving 3,300 to 3,700 lives annually" (Ruhm 1996).

## **Earmarking**

In a special report by the Washington Research Council, which cites a study by the National Conference of State Legislatures (NCSL), fund dedication, or earmarking, is criticized as a violation of "sound fiscal practice." Supporters claim that earmarking forces those who benefit from the programs that are funded by it to pay for those programs, assures funding, stabilizes state finances, and secures public support for new or higher taxes. Opponents argue that: there is often little relation between the taxes and the programs to be funded; the programs have no guarantee of getting all necessary funding; earmarking diminishes oversight of major state programs by taking them off of the budget; and it leaves the Legislature and executive with less ability to make comprehensive budget policy and less flexibility in revenue policy (Washington Research Council 1996).

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States	Excise Tax Rates (\$ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	\$0.53	Yes	\$0.52/gallon local tax
Alaska	0.35	n.a.	
Arizona	0.16	Yes	
Arkansas	0.23	Yes	under 3.2% - \$0.16/gallon; \$0.008/gallon and 10% on-premise tax
California	0.2	Yes	
Colorado	0.08	Yes	
Connecticut	0.19	Yes	
Delaware	0.16	n.a.	
Florida	0.48	Yes	2.67¢/12 ounces on-premise retail tax
Georgia	0.48	Yes	\$0.53/gallon local tax
Hawaii	0.92	Yes	\$0.53/gallon draft beer
Idaho	0.15	Yes	over 4% - \$0.45/gallon
Illinois	0.185	Yes	\$0.16/gallon in Chicago and \$0.06/gallon in Cook County
Indiana	0.12	Yes	
Iowa	0.19	Yes	
Kansas	0.18	--	over 3.2% - (8% off- and 10% on-premise), under 3.2% - 4.25% sales tax.
Kentucky	0.08	Yes*	9% wholesale tax
Louisiana	0.32	Yes	\$0.048/gallon local tax
Maine	0.35	Yes	additional 5% on-premise tax
Maryland	0.09	Yes	\$0.2333/gallon in Garrett County
Massachusetts	0.11	Yes*	0.57% on private club sales
Michigan	0.2	Yes	
Minnesota	0.15	--	under 3.2% - \$0.077/gallon. 8.5%
Mississippi	0.43	Yes	

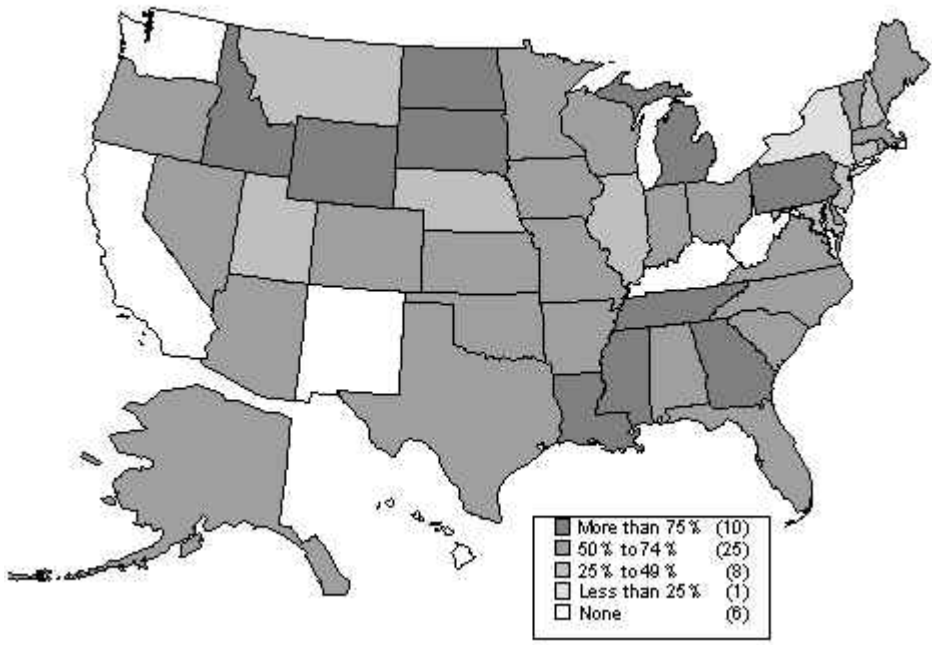
Missouri	0.06	Yes	
Montana	0.14	n.a.	
Nebraska	0.23	Yes	
Nevada	0.09	Yes	
New Hampshire	0.3	n.a.	
New Jersey	0.12	Yes	
New Mexico	0.41	Yes	
New York (1)	0.135	Yes	\$0.12/gallon in New York City
North Carolina	0.53	Yes	\$0.48/gallon bulk beer
North Dakota	0.16	--	7% state sales tax, bulk beer \$0.08/gal.
Ohio	0.18	Yes	
Oklahoma	0.4	Yes	under 3.2% - \$0.36/gallon; \$1.00/case on-premise and 12% on- premise
Oregon	0.08	n.a.	
Pennsylvania	0.08	Yes	
Rhode Island	0.1	Yes	\$0.04/case wholesale tax
South Carolina	0.77	Yes	
South Dakota	0.27	Yes	
Tennessee	0.13	Yes	17% wholesale tax
Texas	0.19	Yes	over 4% - \$0.198/gallon, 14% on- premise and \$0.05/drink on airline sales
Utah	0.35	Yes	over 3.2% - sold through state store
Vermont	0.265	no	6% to 8% alcohol - \$0.55; 10% on- premise sales tax
Virginia	0.26	Yes	
Washington	0.261	Yes	
West Virginia	0.18	Yes	
Wisconsin	0.06	Yes	
Wyoming	0.02	Yes	
Dist. of Columbia	0.09	Yes	8% off- and 10% on-premise sales tax

**Figure 1: State Beer Excise Tax Rates**

\* Sales tax applied to on-premise sales only.

(1) Tax rate scheduled to decrease to 12.5 cents per gallon 4/1/01.

Source: Federation of Tax Administrators <http://www.taxadmin.org/fta/rate/beer.html>



**Figure 2: Beer Tax Erosion, in real dollars (1968-2000)**

Source: Alcohol Epidemiology Program, University of Minnesota [www.epi.umn.edu/alcohol/pdf/chrtbook.pdf](http://www.epi.umn.edu/alcohol/pdf/chrtbook.pdf)