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## Federal Excise Taxes on Alcoholic Beverages: A Summary of Present Law and a Brief History

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## **ABSTRACT**

This report summarizes present law governing federal taxation of alcoholic beverages and provides a brief history of its development from 1791 to the present. It will be updated as warranted by subsequent legal developments.

# Federal Excise Taxes on Alcoholic Beverages: A Summary of Present Law and a Brief History

## Summary

Excise taxes on alcoholic beverages began with the 1791 tax, a short lived tax proposed as a means of helping to meet the costs of the Revolutionary War debt. The tax was resurrected briefly during the War of 1812. Eliminated shortly after the close of that war it reappeared as a tool for financing the Civil War, when a tax was also extended to fermented beverages (beer and ales). It has continued through to the present day, being extended to carbonated wines and, just prior to World War I, to wines generally. Taxation of alcoholic beverages are periodically reevaluated by Congress and the subject of congressional inquiries.

Taxes generally have increased during war time periods; and during their early years, when demands on the national government were not as great, revenues from these excises contributed a substantial portion of the total budget.

Tax rates on alcoholic beverages remained unchanged from the mid 1950s until 1984, when the tax on distilled spirits was increased by \$2 per proof gallon to \$12.50. A proof gallon is a gallon which is 50% alcohol. In 1990, in response to demands for added revenues to reduce the budget deficit there was an across the board increase on beverage alcohol tax rates. According to the House committee recommending that increase, these taxes were selected for an increase because they had not been increased for many years so that the effective rate was substantially lower than when adopted and there was considerable evidence of added social costs from consumption of alcoholic beverages. In the latter context the tax increase was viewed as a user fee to aid in bearing the added costs to government and a potential deterrent to excessive consumption.

Beer is presently taxed at \$18 per 31 gallon barrel; typical table wines (up to 14% alcohol: Chablis, rose, burgundy) are taxed at \$1.07 per gallon; sweeter fortified wines (14 - 21% alcohol: sherry, port, vermouth) are taxed at \$1.57 per wine gallon. Other rates include champagne and sparkling wines taxed at \$3.40 per wine gallon and artificially carbonated wines taxed at \$3.30 per wine gallon. Distilled spirits are now taxed at the rate of \$13.50 per proof gallon. A proof gallon is one gallon of 100 proof spirits (50% alcohol). Thus the tax on 80 proof spirits would be  $.8 \times \$13.50$  or \$10.80 per gallon. The law also imposes an occupational tax of \$1000 per year on wine makers, brewers and distillers; \$500 on wholesalers; and \$250 on retailers. In addition alcoholic beverages are subject to state taxes.

This report explains the operation of present law and provides a brief historical background for federal taxation of alcoholic beverages. It will be updated as warranted by subsequent legal developments. For additional information on this topic see: CRS Report RS20172, Excise Taxes on Alcohol, Tobacco and Gasoline: History and Inflation-Adjusted Rates, and CRS Report RS20093, Excise Taxes on Wines: Rates and Revenues.

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# Federal Excise Taxes on Alcoholic Beverages: A Summary of Present Law and a Brief History

## Present Law

Excise taxes on alcoholic beverages have long been a part of the federal tax system. This report is intended to provide a brief summary and history of these provisions of the tax law. Present law provides the following levels of taxation on alcoholic beverages.

**Table 1: Present Federal Tax Rates**

<b>Tax and Code Section</b>	<b>Tax Rates</b>
1. Alcoholic Beverages	\$13.50/proof gallon
Distilled Spirits (IRC § 5001)	\$13.50/proof gallon
Wines (IRC § 5041)	
Not more than 14% alcohol	\$1.07/wine gallon
14 to 21% alcohol	\$1.57/wine gallon
21 to 24% alcohol	\$3.15/ wine gallon
over 24%	taxed as distilled spirits
Champagne (Sparkling wines)	\$3.40/wine gallon
Artificially carbonated	\$3.30/wine gallon
Hard cider .5 to 7% alcohol	22.6 cents/wine gallon
Beer (IRC § 5051)	\$18/barrel (31 gals.) generally (\$7 for certain small brewers on the first 60,000 barrels.)
2. Alcohol Occupational Taxes	
Wholesale dealers (IRC § 5111)	

Tax and Code Section	Tax Rates
Liquor	\$500/year
Beer	\$500/year
Retail dealers (IRC § 5121)	
Liquor	\$250/year
Beer	\$250/year
Brewers (IRC § 5091)	\$1,000/year; \$500 for small brewers
Producers of wine and distilled spirits (IRC § 5081)	\$1,000/year; \$500 for small producers with gross receipts of less than \$500,000 the previous tax year

Briefly, a proof gallon is a gallon of spirits 1/2 of which is alcohol, that is 100 proof.<sup>1</sup> Thus, a gallon of 100 proof whiskey would be taxed at \$13.50, while a gallon of 80 proof would be taxed .8 x 13.50 or \$10.80 per gallon. The tax on 120 proof would be \$16.20 per gallon. A wine gallon is a standard United States gallon of 231 cubic inches.<sup>2</sup> The tax on wine ranges from \$1.07 to \$3.15 per wine gallon for still wines<sup>3</sup> up to a high of \$3.40 per gallon on champagnes and other sparkling wines. Generally the taxes increase with increased alcohol levels, with beer taxed at the lowest levels and distilled spirits at the highest levels. The law permits limited production of wine or beer for home consumption without tax liability.<sup>4</sup>

As the figures in Appendix A of this report indicate, the tax on distilled spirits produces significantly larger amounts of revenue than the tax on wine.

Taxes are collected on domestically produced liquor and imports at the same rate under present law. The tax is determined on the bottled product's proof. Taxes are determined after bottling in the case of domestically bottled spirits. The tax on imported bottled spirits is determined on the same basis. (Prior to the adoption of the Trade Agreements Act of 1979, discussed below, bottled imports of less than 100 proof were taxed on the basis of wine gallons at the prevailing proof gallon rate. Thus, if bottled when brought into the country, 80 proof spirits were taxed at the then

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<sup>1</sup> IRC of 1986 § 5002(a)(10),(11). References are to the 1986 Code unless otherwise noted. The author wishes to acknowledge the significant research assistance provided by Mildred Washington, Paralegal Specialist in the American Law Division.

<sup>2</sup> IRC § 5041(d).

<sup>3</sup> Still wines are those that do not sparkle or bubble. Typical table wines at the lowest rate include chablis, rose, burgundy. Sweeter fortified wines fall into the 14-21% range. These include ports, sherry, vermouth.

<sup>4</sup> IRC §§ 5042(a)(2), 5053(e).

prevailing rate of \$10.50/gallon minimum. If imported in bulk and bottled domestically an 80 proof liquor would have been taxed at  $.8 \times 10.50$  or \$8.40/gallon.)

Taxes are determined when spirits are removed from bonded premises. Taxes on beer and wine are determined at the time the products are removed from the brewing or bonded wine cellar premises for sale or consumption. Brewers and bottlers (of spirits, wine and beer) file returns semi-monthly and taxes are due and payable on all spirits, beer and wine removed during the reporting period. The reporting periods are for the 1<sup>st</sup> through the 15<sup>th</sup> of the month and the 16<sup>th</sup> through the end of the month. The return must be filed and payment made within 14 days of the last day of the return period.<sup>5</sup> Payment of taxes by the distiller, brewer, or cellar operator must be by electronic transfer if the tax liability for any 12 month period equals or exceeds \$5,000,000.<sup>6</sup>

## **From 1789 to the Civil War: Two Short Lived Taxes and a Whisky Rebellion<sup>7</sup>**

The first excise tax on distilled spirits was enacted in 1791.<sup>8</sup> It was part of a program urged by Alexander Hamilton as a means of meeting budget deficits, when import duties adopted in 1789 failed to produce enough revenue to pay the interest on the debt (\$2,239,000) and provide operating revenues (\$600,000) for the new government. As enacted, the law imposed taxes ranging from 9 to 25 cents per gallon on spirits made from materials produced in the United States (rye and corn whiskey) and from 11 to 30 cents on spirits made in whole or part from foreign materials (rum). Rates varied according to proof. For small domestic content stills located outside of cities, towns, or villages, the owners had an option of paying a tax of 60 cents per gallon of the still's capacity or 9 cents per gallon on the amounts actually produced. There was considerable opposition to the tax, particularly in the southern and western areas of the new nation. The law was revised in 1792.<sup>9</sup> Rates on domestic content spirits were lowered to range from 7 to 18 cents, according to proof, and on foreign content spirits the rates were from 10 to 25 cents. Small distillers (less than 400 gallons capacity) were classed with country distillers and given an option of paying taxes at 54 cents per gallon of capacity or 7 cents per gallon actually produced. Nevertheless, the tax remained unpopular with western farmers. With poor means of transport they found it easier and also more profitable to transport their grain in liquid rather than bulk form. In 1794, the so called whiskey rebellion took place. While the

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<sup>5</sup> IRC §§ 5006, 5041,5051; 27 CFR §§19.523, 24.270, 24.271, 25.159, 25.164.

<sup>6</sup> IRC § 5061(e).

<sup>7</sup> Our discussion of the history of liquor taxes is distilled, in part, from Tun Yuan Hu, *The Liquor Tax in the United States 1791-1947* (1950).

<sup>8</sup> Act of March 3, 1791, Chap. XV, 1 Stat. 199-214.

<sup>9</sup> Act of May 8, 1792, Chap. XXXII, 1 Stat. 267-271.

rebellion was easily quashed, the tax remained unpopular and in 1802, during the Jefferson presidency, it was repealed.<sup>10</sup>

With the war of 1812 new revenues were needed, and the excise tax on distilled spirits was resurrected in 1813. License duties were imposed on distillers and retailers.<sup>11</sup> The license duties on distillers were per gallon of capacity and varied with the content of materials (domestic or foreign) and periods of actual operation. For example, if a still operated six months of the year and used domestic grains it was taxed at 70 cents per gallon of capacity, but if foreign materials were used the rate was 105 cents per gallon. Retail license fees varied with the type of merchandise sold and location. Thus, a retailer selling only domestic spirits and located in a city, town, or village with 100 families in a square mile area paid a fifteen dollar fee but the same retailer in a less heavily populated area was charged ten dollars. If the merchant sold wines and spirits, the rates were twenty-five and fifteen dollars respectively.

In 1814 in response to increased needs a tax of 20 cents per gallon of actual production was added to the existing license duties; coverage was extended to rectifiers and distillers operating for as short a time as one week; and retailers' licenses were increased by 50 percent.<sup>12</sup> The tax was continued for a short time after the conclusion of the war but discontinued after 1817.<sup>13</sup> From this point to the Civil War no liquor excise was imposed.

## Civil War to Prohibition

During the interim from 1817 to the Civil War the distilling industry flourished with large quantities of distilled spirits and alcohol used for a variety of non-beverage purposes, including fuel for lighting and for kitchen stoves. By an Act of July 1, 1862<sup>14</sup> a tax of 20 cents per proof gallon was levied on distillers. That act established the basic pattern of administering and collecting the excise taxes on distilled spirits followed until recently. Distillers were to build bonded warehouses, approved and under the custody of the Internal Revenue Service. IRS inspectors were to inspect, prove, and gauge the spirits and insure that when such spirits were removed for bottling and sale the taxes were assessed properly. The act also levied a tax of \$1 per barrel on beer, ale, and porter made and sold by brewers. Significant increases in the distilled spirits tax were made during the later years of the Civil War so that by war's end the 20 cents proof gallon tax had increased tenfold to \$2. The tax on beer and

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<sup>10</sup> Act of April 6, 1892, Chap. XIX, 2 Stat. 148-150; the Act also repealed other internal taxes (such as those on refined sugar, carriages, and retail licenses).

<sup>11</sup> Act of July 24, 1813, ch. XXV, 3 Stat. 42-44 (tax on distillers). Act of August 2, 1813, ch. XXXIX, 3 Stat. 72-73 (tax on retailers).

<sup>12</sup> Act of December 21, 1814, Chap. XV, 3 Stat. 152-159 (distillers); Act of December 23, 1814, Ch. XVI, 3 Stat. 159-161 (retailers).

<sup>13</sup> Act of December 23, 1817, Chap. I, 3 Stat. 401-403.

<sup>14</sup> Act of July 1, 1862, Chap. XIX, §§ 39-56, 12 Stat. 432, 446-453.



ale dropped to 60 cents for a period of about two years, but at the close of the war was at the original \$1 per barrel level, where it remained until 1898.

A comprehensive study of the history of the liquor tax published in 1950 suggested that high tax rates of the Civil War had less of an effect on its consumption as a beverage than on its non-beverage uses. Its use as a fuel for illumination ceased. Druggists, manufacturers and vinegar makers all reduced their use of alcohol. Revenues fluctuated substantially as production increased in anticipation of tax increases and high tax rates encouraged cheating. Indeed, the first year after the tax was reduced to 50 cents from the \$2 rate (1869), the revenue increased by nearly \$20 million over the previous year, when the rate had been four times higher.<sup>15</sup>

As the table below suggests, the period between the Civil War and Prohibition saw several changes in rates on distilled spirits. First, a sharp reduction in 1868 and then gradual increments over the next quarter of a century, as taxes rose from \$.50 per proof gallon to \$1.10 in 1894, where the rate remained until just prior to Prohibition when it rose first to \$3.20 (then \$6.40) for beverage and \$2.20 for non-beverage spirits.<sup>16</sup>

**Table 2: Federal Excise Taxes on Distilled Spirits and Beer  
Historic Table of Rates from the Civil War to Prohibition**

<b>Effective Dates</b>	<b>Distilled Spirits Rates Tax Gallons</b>	<b>Barrel Rate Fermented Malt Beverages (Beer)</b>
August 1, 1862	\$0.20	\$1.00
March 3, 1863	\$0.20	\$0.60
March 7, 1864	\$0.60	\$0.60
April 1, 1864	\$0.60	\$1.00
July 1, 1864	\$1.50	\$1.00
January 1, 1865	\$2.00	\$1.00
July 20, 1868	\$0.50	\$1.00
August 1, 1872	\$0.70	\$1.00
March 3, 1875	\$0.90	\$1.00
August 27, 1894	\$1.10	\$1.00
June 14, 1898	\$1.10	\$2.00

<sup>15</sup> Hu, *The Liquor Tax in the United States, 1791-1947* (1950) at pp. 36-47.

<sup>16</sup> *Id.*, Appendix II; that Appendix is the basis for the discussion and the following historical rate table.

Effective Dates	Distilled Spirits Rates Tax Gallons	Barrel Rate Fermented Malt Beverages (Beer)
July 1, 1901	\$1.10	\$1.60
July 1, 1902	\$1.10	\$1.00
October 23, 1914	\$1.10	\$1.50
October 3, 1917	Beverage - \$3.20 Non-Beverage - \$2.20 Medicinal	\$3.00
February 25, 1919	Beverage - \$6.40 Non-beverage - \$2.20	\$6.00

Beginning in 1866 Congress levied taxes on artificially carbonated wines. However, there were no generally applicable excise taxes until 1914 when a tax was levied on still as well as sparkling wines.<sup>17</sup> The tax was based on container size. For example, still wines were taxed 1 cents a pint, 2 cents a quart, and 8 cents a gallon. Sparkling wines were taxed at 10 cents a pint and 20 cents a quart. In 1916 the present system of classifying still wines for tax purposes by alcohol content was adopted and different rates were adopted for artificially carbonated as opposed to sparkling wines.<sup>18</sup>

**Table 3: Tax Rates on Wines<sup>19</sup> from 1916 to Prohibition**

Dates	Still Wines			Sparkling	Artificially Carbonated
	to 14% alcohol	14-21%	21-24%		
Sept. 9, 1916	\$.04/ wine gallon	\$.10	\$.25	\$0.03 (1/2 pint units)	\$0.01 1/2 (1/2 pint units)

<sup>17</sup> Act of October 22, 1914, Chap. 331, 38 Stat. 745-750, section 2 dealing with wine begins at 746.

<sup>18</sup> Act of September 8, 1916, Chap. 463, 39 Stat. 756, 783-787.

<sup>19</sup> The table is based on Appendix II of Hu, *The Liquor Tax in the United States, 1791-1947*.

Oct. 3, 1917	\$.08/ wine gallon	\$.20	\$.50	\$0.06 (1/2 pint units)	\$0.03 (1/2 pint units)
Feb. 2, 1919	\$.16/ wine gallon	\$.40	\$1.00	\$0.12 (1/2 pint units)	\$0.06 (1/2 pint units)

Those rates were quadrupled over a three year period, ending with Prohibition era rates that were to remain on the books until 1928.

## Prohibition to the Present

Concerns about alcohol abuse and worker productivity and the difficulties of enforcing prohibition in states and localities with a nation part wet and part dry were among many factors contributing to the success of the prohibition movement. The 18th Amendment was proposed in 1917 (40 Stat. 1059); ratification was completed January 16, 1919 (prohibition to be effective 1 year from that date) and certification of ratification was issued on January 29, 1919 (40 Stat. 1941). The great experiment lasted almost fifteen years until December 5, 1933, when the required number of states had ratified the repealing amendment (48 Stat. 1749).<sup>20</sup>

Congress acted almost immediately to provide a new tax system for alcohol, retaining the basic administrative structure used since the Civil War.<sup>21</sup> An historical chart of tax rates on beer, wine, and distilled spirits from the 1934 act to the present is included in Appendix B. Briefly, when prohibition was repealed the distilled spirits rate for spirits diverted to beverage use had been at \$6.40/proof gallon. While Congress looked to legalized beverage use as a revenue source, it also wanted to set tax rates at a level which would enable the legal distillers to compete with and eventually destroy the bootleggers. It was also believed that a \$2 rate would provide the states with some room for taxing spirits while keeping prices competitive.

The debate on the measure centered primarily around the rates.<sup>22</sup> Some wished higher rates on distilled spirits, some lower. Of particular significance were the arguments of those advocating a lower tax on table wines. They maintained that such wines should be treated essentially as foods, that lower taxes were desirable to protect

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<sup>20</sup> For a history of the Prohibition era see J. Kraet, *The Origins of Prohibition* (1925). W. Severn, *The End of the Roaring Twenties Prohibition and Repeal* (1969); H. Lee, *How Dry We Were: Prohibition Revisited* (1963). Hu, *supra* n. 17.

<sup>21</sup> Act of January 11, 1934, Public No. 83, 48 Stat. 313-318. The Liquor Taxing Act of 1934 contained the new rates and relied largely on the old storekeeper gauger system for administering the tax. It did add the strip stamp system (Title II of the Act) which was continued until 1979.

<sup>22</sup> 78 Cong. Rec. 90-132, 141-159, and 321-337 (Jan. 4, 5, and 10, 1934).

and promote grape growing, that consumption of table wines was less socially undesirable than consumption of distilled spirits, and that it was not appropriate to compare wine with beer because of the high water content of the latter.<sup>23</sup> Many of these arguments would be repeated later. Indeed, as noted in the historical table in Appendix B, in 1936 the rate on such wines was halved, as some had urged in 1934.<sup>24</sup>

Major changes in tax rates accompanied the demands for added revenues needed in preparing for and conducting World War II.<sup>25</sup> Between the end of prohibition and 1940 there was a 25 cents per proof gallon increase in the tax on distilled spirits, a halving of taxes on wine, and no change in the tax on beer. War-related rate increases occurred in several increments beginning in 1940 and ending in 1944. Taxes on distilled spirits increased from \$2.25 per proof gallon in 1939 to \$9.00 per proof gallon in 1944. During that same period, taxes on beer rose from \$5.00 per barrel to \$8.00 per barrel. Taxes on wines were also increased during this period with the largest increases in still wines with high alcohol contents and champagnes, sparkling wines, and artificially carbonated wines. Table wines were to reach their 1934 level of 10 cents per wine gallon in 1942 and rose to 15 cents in 1944.

The next major rate changes occurred in 1951 with the Korean War effort. Distilled spirits taxes increased \$1.50 per proof gallon to \$10.50, beer \$1.00 per barrel to \$9.00; table wines 2 cents per wine gallon; wines with 14-21% alcohol rose 7 cents per wine gallon; wines with 21-24% alcohol rose 25 cents per wine gallon; and sparkling wines, champagnes and artificially carbonated wines rose by 32 cents per gallon. Since the 1951 changes in rates, the only increases which have occurred have been in the rates for distilled spirits, increased by \$2 per proof gallon in 1984; and in sparkling wines and champagnes (increased by 68 cents) and artificially carbonated wines (increased by 58 cents). The increases on those wines took effect in 1955.<sup>26</sup>

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<sup>23</sup> 78 Cong. Rec. 325-337.

<sup>24</sup> Act of June 26, 1936, Public No. 815, 49 Stat. 1939, 1952; the debate indicates proponents were responding to tariff decreases. 80 Cong. Rec. 7458.

<sup>25</sup> This discussion is based on the table in Appendix B. The increases began with the Revenue Act of 1940, Act of June 25, 1940, which added a new chapter to the Internal Revenue Code entitled "Defense Tax For Five Years." 54 Stats. 516, 522. As part of the defense tax, rate increases for alcohol were included 54 Stat. 525. These rates were to last 5 years. The Revenue Act of 1941 contained another increase on distilled spirits and wines. Act of September 21, 1941, 55 Stat. 687, 708-709. Taxes on beer, wine, and spirits were increased in the Revenue Act of 1942. Act of October 21, 1942, 56 Stat. 798, 970-974. The Revenue Act of 1943, Act of February 25, 1944, 58 Stat. 21, 61.

<sup>26</sup> The Korean War increase was part of the Revenue Act of 1951, 65 Stat. 452, 524,-528. H.Rept. 586, 82nd Cong., 1st Sess., at p. 1 says, "The military action in Korea, coupled with the general threat to world peace, has made it necessary to provide extraordinary increases in revenues to meet essential national defense expenditure." \$1.25 billion of the \$7.19 billion increase in revenues was to come from the excise tax changes. *Id.*, at 2. Approximately \$252 million of this came from changes in rates on alcohol, primarily from the distilled spirits tax. *Id.*, at 38-41. Of the total \$168 million was to come from distilled spirits and \$68 million from beer with \$8 million from wines and \$8 million from the occupational

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Apart from various rate increases, the most significant changes in alcoholic beverage tax laws in the period since the adoption of the Internal Revenue Code of 1954 have been in the treatment of imported bottled spirits, the administration of the excise taxes, the time and method of payment, and the use of strip stamps. Several of these changes can be traced to the Trade Agreements Act of 1979.<sup>27</sup> First, it repealed the wine gallon method of taxing bottled imports. Under prior law domestically bottled products were taxed on the prevailing proof gallon rate of \$10.50. Domestic whiskey of 100 proof was taxed at \$10.50 per gallon and 80 proof at .80 x 10.50, or \$8.40 per gallon. Bottled imports were taxed at the proof gallon rate unless the proof fell below 100. If it did, the tax of \$10.50 was applied to each wine gallon. So 80 proof bottled imports would be taxed at \$10.50, just like 100 proof.<sup>28</sup> Section 802 of the Trade Agreements Act repealed the wine gallon method.<sup>29</sup> Now bottled imports are taxed on the proof gallon at all proof levels just like domestically bottled products, and proof is determined in the bottle.

The act also eliminated the long established system of bonded and non-bonded premises at distilleries and the system of joint control under which IRS agents were kept on the premises and their presence required when certain actions were performed to insure collection of the taxes. Spirits were kept under government lock and seal

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<sup>26</sup>(...continued)

tax. In explaining the law increase on wines the Ways and Means Committee said (*Id.*, at 40):

Your committee deemed it appropriate to make only a moderate increase in the case of the taxes on wines because of the importance of wines to the grape-growing industry. Between one-third and one-half of the total grape crop is customarily absorbed by wine. The demand for wine, therefore, also has an important effect on the prices which can be obtained by producers for raisins and fresh grapes, the two other important uses of grapes. Moreover, in view of the fact that it has been necessary for the Department of Agriculture at times since the end of World War II to support the price of raisins, it would appear inappropriate for your committee to make a substantial increase in the tax on wine which might have the effect of requiring further price supports. In addition it should be pointed out that wine consumption in the United States relative to consumption of other forms of alcoholic beverages is relatively low when compared to relationships generally established abroad. Moreover, the wine industry is one of the few industries which has been classified under the excess-profits tax as a depressed industry.

The rate provisions as enacted in the 1954 Code were temporary with a rollback of most rates to pre-Korean War levels scheduled for 1955. 68 A Stat. 595 (§ 5001), 609 (§ 5041), 611 (§ 5051). Scheduled decreases were repeatedly delayed and eventually repealed. P.L. 89-44, § 501, 79 Stat. 1338. Rectification taxes (taxes on blenders of alcoholic beverages) were repealed by § 803 of the Trade Agreements Act of 1979, P.L. 96-39, 93 Stat. 274; one of several provisions revising tax treatment in this area for the stated purpose of bringing uniformity to the treatment of domestic and imported products. S. Rep. No. 96-249 at 221.

<sup>27</sup> P.L. 96-39, Title VIII, 93 Stat. 273-295.

<sup>28</sup> Eighty proof liquor imported in bulk and bottled domestically would have paid a tax of \$8.40 per gallon. The same liquor would have been taxed at \$10.50 if imported in the bottle.

<sup>29</sup> 93 Stat. 273-274.

until denatured,<sup>30</sup> the tax had been determined, or the spirits removed for a legitimate tax exempt or tax free purpose. Generally, taxes were determined when the spirits were removed from the bonded premises, although payment might be deferred for six months if a withdrawal bond had been posted. Certain types of liquor could be “bottled in bond.” For domestic consumption such spirits had to be 100 proof (50% alcohol) and aged “in bond” in wooden containers (charred oak barrels) for at least four years. Strip stamps were affixed over the caps (corks) indicating the tax had been paid. Generally red in color, green stamps were used for bottled in bond. The 1979 Act eliminated the tax stamp system and treated the entire distilled spirits plant as bonded premises, permitting determination of the tax on liquor after bottling and when shipped. Under prior law spirits were generally withdrawn from the bond in bulk. Tax was determined when the spirits’ proof was generally over 100, prior to dilution and bottling. Spirits were “forced out” of bond after 20 years.<sup>31</sup> Bulk whiskey of 160, diluted to reduce proof to 80, would effectively result in a tax on the final gallonage equal to .80 x \$10.50. Credits against taxes were allowed for losses during bottling or rectification. Eliminating this complex system of bonded and unbonded premises and determining tax liability after bottling, reduced the need for constant IRS supervision and placed the burden on the distillers to keep adequate records for IRS inspection.<sup>32</sup>

Major significant changes which have occurred since the 1979 Trade Agreements Act have included the increase of \$2/proof gallon in the tax on distilled spirits in the 1984 Tax Reform Act.<sup>33</sup> Beer and wine rates were unchanged. Second, a change was made in the method of payment to require electronic transfer of funds from the bigger taxpayers.<sup>34</sup> A 1982 staff report suggested the possibility of an across the board increase in all taxes, noting that rates had been unchanged for about 30 years. The report also suggested the possibility of an ad valorem tax pegged to price and indexing as possible options.<sup>35</sup> In reporting out the 1984 Tax Reform Act both tax writing committees limited their recommendations to a \$2.00 increase in the distilled spirits tax, noting the many years since the last increase and the substantial decrease in the effective rate. While similar considerations might have justified increases in taxes on wine and beer, no mention is made of these in the reports. In debate on a proposal to shift part of the increase to wines, opponents argued that wine and beer were more like food, often sold in grocery stores; that such taxes were regressive and

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<sup>30</sup> Rendered unfit for consumption as a beverage.

<sup>31</sup> Prior to the adoption of the Excise Tax Technical Changes Act of 1958, P.L. 85-359, § 201, 72 Stat. 1320, the force out had occurred after eight years. Under this rule the tax had to be determined and paid at the end of that period even if the product had not been bottled or sold.

<sup>32</sup> S.Rept. 96-249 at 216-232 discusses these changes and their background.

<sup>33</sup> § 27(a) of the Tax Reform Act of 1984, 98 Stat. 507.

<sup>34</sup> § 27(c) of the Tax Reform Act of 1984, 98 Stat. 509; the Act also repealed the occupational tax on manufacturers of stills and replaced the strip stamp provisions with requirements for anti-tampering closure devices. These and other changes are contained in sections 451-455 of the Act. 98 Stat. 818-823.

<sup>35</sup> Staff of the Joint Committee on Taxation, *Description of Possible Options to Increase Revenues*, 97th Cong., 2nd Sess., 200-202 (1982).

increases would erode state and local tax bases; that grape growers would suffer severe harm in an industry already suffering from unfair foreign competition.<sup>36</sup>

The 1987 Omnibus Budget Reconciliation Act (P.L. 100-203) included a section revising occupational taxes for distillers, brewers, and winemakers. Taxes on wholesale dealers in liquor and wine were \$225/year under prior law. Wholesale beer dealers paid \$123 annually. Retail liquor dealers were subject to an annual levy of \$54 per place of business, and retail beer dealers paid a \$24 a year levy. Limited dealers were subject to special rates. Under the 1987 enactment distillers and winemakers, previously untaxed, were subjected to the same tax as brewers with a uniform and higher rate of \$1000 per year. Small proprietors are taxed at \$500 per year. Wholesale dealers in liquor and beer are taxed at a single higher rate of \$500 per year, and retailers (beer or liquor) are subjected to tax at a single rate of \$250. The taxes were effective January 1, 1988. The increased rates and broadened coverage of the occupational taxes were proposed by the President and recommended by the House Ways and Means Committee as a means of having those regulated and supervised by the Bureau of Alcohol, Tobacco, and firearms pay a greater share of its costs.<sup>37</sup>

At the end of 1990, Congress adopted significant excise tax increases as part of the Omnibus Budget Reconciliation Act.<sup>38</sup> Briefly, the act increased the tax on distilled spirits from \$12.50/ proof gallon to \$13.50; increased the tax on beer from \$9/barrel to \$18; and increased taxes on wines (excluding champagne) by 90 cents per wine gallon at all proof levels. New rates were effective January 1, 1991, and a floor tax equal to the difference between the old and new rates was applied to previously taxed beverage alcohol held for sale as of the effective date. Searching for revenue measures to reduce the budget deficit the House Ways and Means Committee gave several reasons for these increases in its recommendations to the Budget Committee:<sup>39</sup>

The Committee determined that it is appropriate to increase excise taxes on distilled spirits, beer, and wine. The excise tax on distilled spirits was increased by \$2.00 per proof gallon in 1985 (the only increase since 1951), and the excise taxes on beer and wine were last increased in 1955. Despite the 1985 increase in the distilled spirits rate, the effective rate of all of the alcoholic beverage excise taxes is significantly lower than it was in 1951 (distilled spirits) or 1955 (beer and wine). Therefore, increases in these taxes are appropriate to restore the Federal excise tax base for alcoholic beverages. The committee was also aware of substantial differences among the different beverages in the present law effecting tax rates on alcohol content. The increased rates are designed to ameliorate such differences in part.

In deciding to increase alcoholic beverage excise taxes, the committee took note of numerous studies demonstrating that the direct and indirect social costs from alcohol consumption are far greater than the revenues generated from

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<sup>36</sup> 130 Cong. Rec. S4451-4453 (daily ed. for April 12, 1984).

<sup>37</sup> It was labeled a user fee. H.Rept. 100-391 at 1123, 1125-26.

<sup>38</sup> P.L. 101-508, §11201.

<sup>39</sup> H.Rept. 101-881 at 281-282.

alcoholic beverage excise taxes. Government spending for highway safety, public health, and welfare are all increased by alcohol consumption. Moreover, alcohol consumption imposes substantial costs on society from accidents, disease, and reduced worker performance. Thus, increasing the alcoholic beverage excise taxes could help to place some of the costs of alcohol consumption on alcohol users and could reduce alcohol consumption among teenagers.



## Appendix A

### Alcohol Tax Collection FY1997 & FY1998

SOURCE OF REVENUE	RATE	FY 1998 AMOUNT(000's)	FY 1997 AMOUNT(000's)
<b>Alcohol Tax Total</b>		\$7,524,704	\$7,641,945
<i>Distilled Spirits Tax, Total</i>		\$3,508,285	\$3,614,803
Domestic	\$12.50 per pg	\$2,826,005	\$2,927,554
Imported	\$12.50 per pg	\$682,280	\$687,249
<i>Wine Taxes, Total</i>		\$630,463	\$639,279
Domestic	various	\$476,586	\$479,720
Imported	various	\$153,877	\$159,559
<i>Beer Taxes, Total</i>		\$3,385,957	\$3,387,863
Domestic	\$18 or \$7 per bbl	\$3,113,312	\$3,146,491
Imported	\$18 per bbl	\$272,645	\$241,372

## Appendix B

### Historical Table of Alcohol Excise Tax Rates from 1934 to the Present

Type of Product	1991 (1/1) to date	1986 (1/1)	1955 (1/1)	1951 (11/1)	1944 (4/1)	1942 (10/1)	1941 (10/1)	1940 (7/1)	1936 (6/26)	1934 (1/12)
Distilled Spirits	\$13.50/ proof gallon	\$12.50/ proof gallon as 10/1/85	\$10.50/ proof gallon	\$10.50/ proof gallon	\$9.00/proof gallon	\$6.00/proof gallon	\$4.00/proof gallon	\$3.00/proof gallon	\$2.00/proof gallon; \$2.25 effective on 7/1/38	\$2.00 /proof gallon
Beer	\$18/barrel; \$7.00 per barrel on the 1 <sup>st</sup> 60,000 for small brewers	\$9/barrel of 31 gallons; \$7.00 for certain small brewers	\$9.00/barrel	\$9.00/barrel	\$8.00/barrel	\$7.00/barrel	\$6.00/barrel	\$6.00/barrel	\$5.00/barrel	\$5.00/barrel
Wine Still wines less than 14% alcohol	\$1.07/wine gallon	17 cents/ wine gallon	17 cents/ wine gallon	17 cents/ wine gallon	15 cents/ wine gallon	10 cents/ wine gallon	8 cents/ wine gallon	6 cents/ wine gallon	5 cents/wine gallon	10 cents/ wine gallon
14-21% alcohol	\$1.57/wine gallon	67 cents/ wine gallon	67 cents/ wine gallon	67 cents/ wine gallon	60 cents/ wine gallon	40 cents/ wine gallon	30 cents/ wine gallon	18 cents/ wine gallon	10 cents/ wine gallon	20 cents/ wine gallon
21-24%	\$3.15/wine gallon	\$2.25/wine gallon	\$2.25/ wine gallon	\$2.25/wine gallon	\$2.00/wine gallon	\$1.00/wine gallon	65 cents/ wine gallon	30 cents/ wine gallon	20 cents/ wine gallon	40 cents/ wine gallon
over 24% alcohol	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits	Taxed as Spirits
Champagne and sparkling wines	\$3.40/wine gallon	\$3.40/wine gallon	\$3.40/wine gallon	\$2.72/wine gallon	\$2.40/wine gallon	\$1.60/wine gallon	\$1.12/wine gallon	48 cents/ wine gallon	40 cents/ wine gallon	80 cents/ wine gallon
Artificially carbonated wines	\$3.30/wine gallon	\$2.40/wine gallon	\$2.40/wine gallon	\$1.92/wine gallon	\$1.60/wine gallon	80 cents/ wine gallon	56 cents/ wine gallon	24 cents/ wine gallon	20 cents/ wine gallon	40 cents/ wine gallon

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