

# CRS Report for Congress

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## Federal Excise Taxes Imposed on Alcohol Products

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### Summary

This report provides a brief history of federal alcohol excise tax rates and examines recent federal revenue collections from alcohol products. Rates were last increased by the Revenue Reconciliation Act of 1990 (RRA90; P.L. 101-508). Under that act, Congress increased the excise tax rates on alcohol products because of large continuing federal budget deficits which resulted in the need for additional federal revenues. Tax rates were increased \$1.00 per proof gallon on distilled spirits to \$13.50 per proof gallon. The tax rate for beer was doubled to \$18.00 per barrel. Also, the excise tax rates on wines were increased, with the new rates ranging from \$1.07 per wine gallon to \$3.30 per wine gallon. All these rates became effective January 1, 1991. Breaking down these rates, the consumer would find that the current federal alcohol excise taxes amount to \$2.14 per 750-ml. bottle of distilled spirits, 33 cents for a six-pack of beer, and 21 cents per 750-ml. bottle of table wine. This report will be updated to reflect new information or as legislative developments warrant.

### Brief History of Tax Rates

The tax rate on distilled spirits remained unchanged from 1951 to 1985.<sup>1</sup> In October 1985, the rate was raised from \$10.50 to \$12.50 per proof gallon. Under the Revenue Reconciliation Act of 1990 (RRA90; P.L. 101-508), the rate was increased by an

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<sup>1</sup> For a more complete discussion of the history of federal alcohol taxes, see CRS Report RL30238, *Federal Excise Taxes on Alcoholic Beverages: A Summary of Present Law and a Brief History*, by Thomas B. Ripy.

additional \$1.00 per proof gallon to \$13.50.<sup>2</sup> The tax rate on beer had not been raised since November 1, 1951. Then, the rate was raised from \$8.00 to \$9.00 per barrel. The RRA90 doubled the existing rate, which stands today at \$18.00 per barrel. The RRA90 retained the small producers' exception of prior law, which allows a lower rate to apply to small brewers who produce fewer than 2,000,000 barrels of beer per year. The rate for small brewers, which has been in effect since February 1977, is \$7.00 per barrel<sup>3</sup> for the first 60,000 barrels. After 60,000 barrels, small brewers pay the \$18.00 per barrel rate. Thus, small brewers pay approximately 2 cents per 12-ounce serving for the first 60,000 tax-paid barrels of beer.

The taxes on wines are levied at a variety of rates. As in the case of beer, the tax rates that applied to wine remained unchanged for many years until the passage of RRA90. Prior law rates ranged between 17 cents per wine gallon<sup>4</sup> for still wine to \$3.40 per wine gallon for sparkling wines. Under the RRA90 these rates range from \$1.07 per wine gallon to \$3.40 per wine gallon. The details of these changes are shown in **Table 1**, below. Unlike other alcohol tax rates included in the RRA90, the tax rates on champagne and sparkling wines were not increased. A small domestic wineries credit equal to 90 cents per wine gallon is provided for the first 100,000 gallons of wine production with a phase-out of the credit for wineries whose production falls between 150,000 and 250,000 gallons.<sup>5</sup> The effective date of all these tax rate changes was January 1, 1991. Under a provision of the Taxpayer Relief Act of 1997, the excise tax rate on hard cider was lowered. The credit available for small producers of hard cider was also lowered commensurately.

## Comparison of Alcohol Tax Rates

For comparison purposes, the federal tax rates on all alcohol products listed here have been converted to a level of federal excise tax per drink. Obviously, such conversion requires assumptions regarding serving size. The federal statutory tax rate on beer is \$18 per barrel of 31 gallons.<sup>6</sup> For beer, this equates to \$0.58 per gallon, or approximately \$0.33 per six-pack of 12-ounce cans, or just over 5 cents per 12 ounce can. More than 90% of all beer sold is in 12-ounce serving sizes. The federal statutory tax rate on distilled spirits is \$13.50 per proof-gallon. Retailers most often sell distilled spirits in 750-ml. bottles and at 80-proof. A federal excise tax of \$2.14 attaches to an 80-proof, 750-ml. bottle of distilled spirits. If a mixed drink contains approximately 1.5 ounces of distilled spirits, the federal excise tax per drink is approximately \$0.13. At higher alcohol

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<sup>2</sup> Proof is a method of measuring the alcohol content. A standard proof gallon is 231 cubic inches at 60 degrees Fahrenheit containing 50% by volume of ethyl alcohol (100 proof).

<sup>3</sup> A barrel contains 31 gallons.

<sup>4</sup> A wine gallon is a measure of liquid volume, regardless of alcohol content. It contains 231 cubic inches at 60 degrees Fahrenheit.

<sup>5</sup> This credit does not apply to champagne and sparkling wine.

<sup>6</sup> As noted earlier in this report, small brewers whose production is less than 2,000,000 barrels of beer per year pay a reduced excise tax rate on the first 60,000 barrels of tax-paid beer.

proofs, higher tax rates would apply and, thus, higher tax revenues would be generated. There are no special tax rates or credits for small domestic distillers.

Converting wine excise taxes is problematic because of the differences in rates between large and small wineries. Wine is most commonly sold in 750-ml. bottles. This bottle size equates to 25.4 ounces. Under the RRA90, federal excise taxes rose from 3 cents to 21 cents on a 750-ml. bottle of table wine. If a glass of wine holds approximately 5 ounces, the tax rate per glass produced by a large winery equates to slightly more than 4 cents. Because of the 90 cents per wine-gallon tax credit provided to small domestic wineries by the RRA90, the tax rate for small wineries equates to 3 cents per 750-ml. bottle or less than a penny per glass of wine.

Thus, the federal excise tax that attaches per drink is approximately 4 cents per glass of wine (from large wineries), 5 cents per can of beer, and 13 cents per mixed drink.

**Table 1. Comparison of Alcohol Excise Tax Rates  
Before and After the Revenue Reconciliation Act of 1990**

<b>Commodity</b>	<b>Statutory Rate— Prior to RRA90</b>	<b>Statutory Rate— Current Law</b>
Distilled Spirits (per proof gallon)	\$12.50	\$13.50
Beer (per barrel)	\$9.00	\$18.00
Still Wine—Less than 14% alcohol content	\$0.17	\$1.07
Still Wine—14-21% alcohol content	\$0.67	\$1.57
Still Wine—21-24% alcohol content	\$2.25	\$3.15
Still Wine—24% + alcohol content	Taxed as distilled spirits	Taxed as distilled spirits
Hard Apple Cider	Same as wine	\$0.226
Champagne and Sparkling Wine	\$3.40	\$3.40
Artificially Carbonated Wines	\$2.40	\$3.30

**Note:** A domestic small producer exemption is provided for small beer breweries (see text). In addition a credit equal to 90 cents per wine gallon is provided on the first 100,000 gallons of wine produced by small domestic wineries (see text). Rates provided in this table for still wine, hard apple cider, champagne, sparkling, and artificially carbonated wines are per wine gallon.

## Occupational Taxes

Besides the excise taxes on alcohol products, the industry also bears special occupational taxes. A producer/manufacturer of taxable alcohol products with gross receipts of less than half a million dollars in the preceding taxable year must pay a tax of \$500 a year. For those whose gross receipts exceed that amount, the tax is \$1,000 a year per premise. Additionally, alcoholic beverage wholesalers pay a wholesale dealer occupational tax of \$500 per year per place of business while alcoholic beverage retailers pay at a rate of \$250 per year per place of business. More than 90% of the special federal occupational tax revenues are related to the alcohol industry.

## Revenues

The revenue yield from total federal alcohol excise taxes in fiscal year 2002 was \$8,500,190,000. Of this total, distilled spirits and beer each accounted for under half: \$4,039,878,000 for distilled spirits, and \$3,651,126,000 for beer. The most lightly taxed alcohol product, wine, yielded tax revenues of \$707,296,000. Special occupational taxes generated \$101,890,000 in revenues.<sup>7</sup>

The Joint Committee on Taxation estimated that if Congress increased alcohol excise tax rates to \$16.00 per proof gallon with the same tax per ounce of ethyl alcohol extended to all alcohol products (distilled spirits, beer and wine), additional revenues of \$23.7 billion would be collected for the five-year period 2004 to 2008. Such an increase would raise the tax on a 750-ml. bottle of distilled spirits from \$2.14 to \$2.54, the tax on a six-pack of beer from about 33 cents to 81 cents, and the tax on a bottle of still table wine (750-ml.) from about 21 cents to 70 cents.<sup>8</sup>

Revenues collected from all alcohol excise taxes go into the General Fund of the United States Treasury. As such, these revenues are not specifically dedicated for any trust fund or for any special use. The rationale for the last increase in tax rates was the budget deficit. There have been legislative proposals made in the past to dedicate the excise taxes on alcohol products for various purposes. For example, it has been suggested that the revenues collected from alcohol excise taxes be used to help finance the Medicare/Medicaid Trust Funds. Here, the rationale given has been that the abuse of alcohol products early in life may lead to health related problems that drain revenues from those federal trust funds. Suggestions have also been made that alcohol tax receipts be used for alcohol rehabilitation treatment and to compensate victims of drunk drivers.

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<sup>7</sup> U.S. Department of the Treasury, Internal Revenue Service, *Statistics of Income Bulletin*. (Washington: GPO, Winter 2003-2004), p. 145.

<sup>8</sup> This information can be obtained either from the Congressional Budget Office's publication *Budget Options* released in March 2003 (Revenue Option 34), p. 231 or can be found on their website at [<ftp://ftp.cbo.gov/40xx/doc4066/Chapter3-Revenues.pdf>], visited July 30, 2004.

## Policy Arguments

Among the arguments frequently made for increasing the alcohol excise taxes is that they can raise substantial and stable amounts of revenues while the cost of tax administration in relation to the revenue generated is small. The Alcohol and Tobacco Tax and Trade Bureau of the U.S. Department of Treasury believes the compliance rate for payment of the federal alcohol excise taxes to be high. In the past, most of the legislative proposals to change the tax merely raise the tax rate(s). Since the number of business concerns that make these federal excise tax payments is fixed and known, federal collection costs should remain stable. Thus, it is generally believed that those legislative proposals that simply raise or lower the tax rate should not change the administrative ease with which the tax is currently collected.

Some supporters of an increase in rates have suggested that one way of increasing revenues without a large one-time tax increase would be to tie the alcohol tax rates to an inflation adjustment such as the consumer price index. Since these taxes are imposed on a per unit basis, their real cost declines during inflationary periods.<sup>9</sup> Another possible alternative is converting the current excise tax to an ad-valorem tax that would tax the product at a percentage of the manufacturer's price. Thus, tax revenues would rise as the price of alcohol products and/or their consumption increases over time.

Alcohol excise taxes<sup>10</sup> have long been justified as a "user tax." Society's cost from alcohol includes those from alcohol-induced auto accidents and increased police services resulting from its indiscriminate use. It is possible that these costs are not fully reflected in the price of alcohol. It is sometimes argued that further increases in tax rates would help pay for these services and the attendant costs to society.

An argument made against alcohol excise taxes is that they are regressive. This is because individuals with lower incomes would spend a larger portion of their income than a higher income person for the same consumption amount. In opposition, however, some argue that not only should ability-to-pay be a factor of taxation but also the ability to spend and consume. Spending by a person with limited resources for a nonessential is considered sufficient reason by some for imposition of a tax and reflects an ability to support the national government in the same proportion as the amount purchased and consumed. Supporters of alcohol taxes argue that while the tax can be said to be regressive, it can also be said to be a tax that wealthy taxpayers cannot avoid through "loopholes" or other income tax reduction or saving devices.

Several other arguments have been advanced against increasing the excise taxes on alcohol products. An increase in rates could be expected to decrease consumption. Decreased consumption will affect state tax revenues unless the states were to further raise their own excise tax rates (which could lead to still lower rates of consumption). Opponents note that the state governments often rely more heavily on sale-based taxes than does the federal government. A decrease in consumption can also be expected to

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<sup>9</sup> CRS Report RS20172, *Excise Taxes on Alcohol, Tobacco, and Gasoline: History and Inflation-Indexed Rates*, by Louis Alan Talley, Pamela J. Jackson, and Brian W. Cashell.

<sup>10</sup> The taxes imposed on alcohol and tobacco products are sometimes referred to as "sin" taxes.

cause a loss of employment not only in the alcohol industry but also in related industries such as advertising, trucking and packaging.

Some recent research suggests that moderate consumption of some alcohol products might produce beneficial health effects. An increase in taxes could reduce consumption by some light drinkers, which could have been beneficial to their well being.<sup>11</sup>

Further, increased tax rates can result in increased evasion and illegal production of product.

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<sup>11</sup> Congressional Budget Office, *Budget Options*, Revenue Option 34, p. 231.