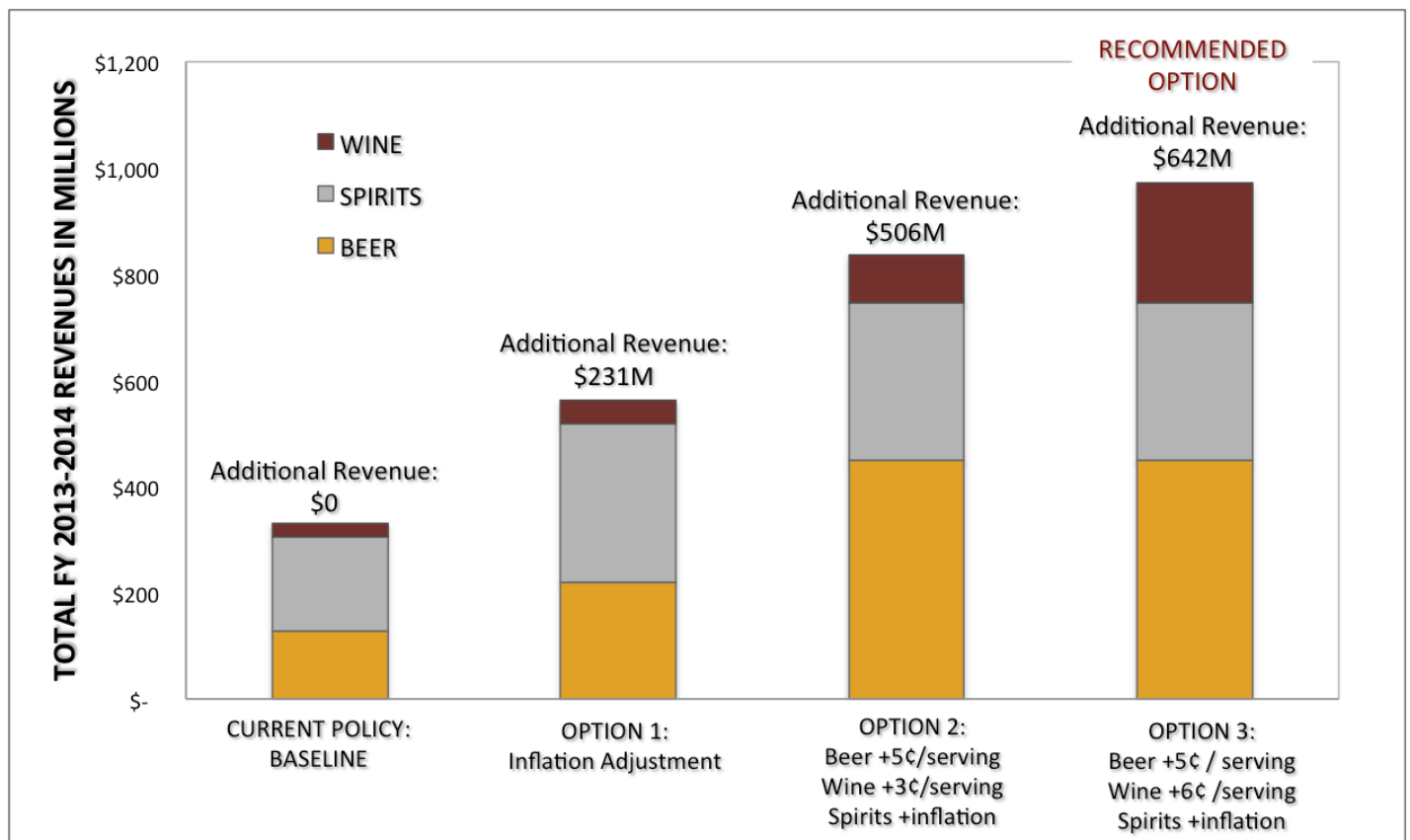


Time for an Adjustment to California's Alcohol Excise Tax

Increasing alcohol taxes is a sensible way to address the state's looming budget deficit.

Alcohol Justice estimates alcohol tax revenues under 3 different tax increase scenarios and compares them to estimated revenues under current State policy. Here's what we find:

- Our recommended tax increase would generate an extra **\$641.7 million** in State revenue in fiscal year 2013-2014, and **\$8.2 billion** over 10 years (Option 3). This is a per-serving tax increase of just 5¢ on beer, 6¢ on wine, and 2.6¢ on spirits.
- California's alcohol excise taxes were last adjusted in 1991. Erosion of their real value has since cost the State over **\$1.8 billion** in lost revenue.
- A simple inflation adjustment to update the 1991 beer, wine and spirits tax rates to a corrected present rate would bring in an additional **\$231.4 million** in revenues for FY 2013-14 (Option 1); applying an inflation adjustment annually would generate an extra **\$3.3 billion** over 10 years.



California's Budget Deficit and Alcohol Excise Taxes

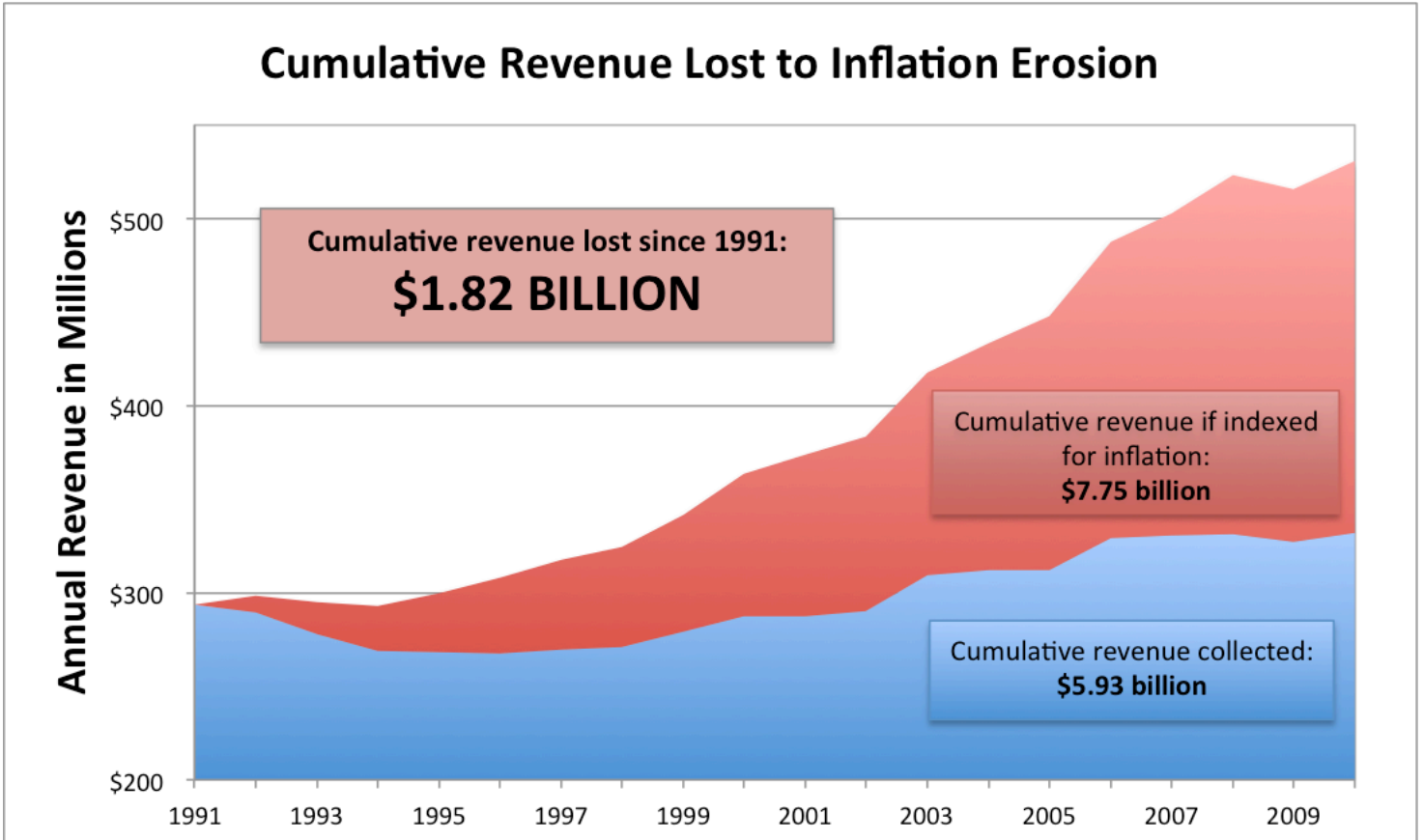
California has faced an unprecedented budget deficit, as high as \$25 billion, over the past 5 years. Although the passage of Proposition 30 in November 2012 will prevent some further education cuts, the Legislative Analyst's Office estimates that the new Legislature and the Governor will need to address a \$1.9 billion budget problem in order to pass a balanced budget by June 2013 for the next fiscal year.¹ California's residents have already suffered onerous cutbacks in education funding, and yet, the Legislature continues to overlook one of the simplest, most effective and highest polling sources of revenue—State alcohol excise taxes.

The Legislature last voted to increase tax rates on

beer, wine and spirits in 1991. California's current beer and wine tax is \$0.20 per gallon, about \$0.02 per 12-oz beer, and less than \$0.01 per 5-oz glass of wine. The State's beer tax is low compared to the average U.S. per-gallon of \$0.27, but its wine tax is the 8th lowest, less than one-third of the average (\$0.75). The spirits rate, \$3.30 per gallon, is just \$0.05 per 1.5-oz serving.

The Effect of Inflation on Alcohol Taxes and Revenues

Since 1991, California has lost over \$1.82 billion in tax revenue due to the steady erosion of alcohol excise tax rates by inflation.² The 1991 beer and wine tax rate of \$0.20 per gallon is worth only \$0.12 in today's dollars, and the spirits rate, \$3.30 per gallon, just \$1.95.



Revenue-Generating Options to Reduce California's Deficit

If the Governor and Legislature choose to do nothing to increase alcohol tax rates, given the current consumption levels, the estimated revenue over the next decade is just **\$3.74 billion**. The following options for increasing the state excise tax will generate billions more in desperately needed revenue for the State.

Option 1: Simple Inflation Adjustment

Index the current rates to inflation, increasing 1991 values to 2012 dollars, and increase annually for inflation going forward.

Increasing the current tax rates, set in 1991, to a one-time, inflation-adjusted rate would increase the beer and wine tax rate from \$0.20 to \$0.34 per gallon, and the spirits tax to \$5.55 per gallon.

That's an additional \$231.4 million for fiscal year 2013-2014 alone. If that rate is indexed to inflation each year forward, the additional revenue through FY 2013-14 is **\$3.33 billion**, for a total of **\$7.07 billion**.

Option 2: Nickel a Beer

Increase the tax per drink on beer \$0.05, tax wine at the same fluid gallon rate, adjust the spirits rate for inflation.

Alternatively, to address the large disparity in beer and wine tax compared to spirits, the Legislature may choose to increase the per-drink tax on beer

by a nickel, from \$0.02 to \$0.07 per 12-oz beer (from \$0.20 to \$0.70 per gallon). Taxing wine at the same rate of \$0.70 per fluid gallon would only increase the per-drink price from about \$0.01 to \$0.03 per 5-oz serving. Spirits would be adjusted for inflation since 1991, as in Option 1. This increase on beer and wine and spirits inflation adjustment would generate an estimated **\$506.2 million in year 2013-2014 alone**, and an additional **\$6.41 billion** in revenue through FY 2023-24 with the rate indexed to inflation each year.

Option 3: Nickel a Beer, Equalize Wine Tax According to Alcohol by Volume (ABV)

Increase the beer tax by \$0.05 per 12-oz beer, increase the wine tax to the equivalent proof gallon rate, adjust the spirits rate for inflation.

It is the consumed ethyl alcohol in beer and wine that causes economic and health damage, regardless of the additional volume of water. This option increases the tax rate on wine according to the equivalent proof gallon rate of beer after the nickel increase. The beer gallon rate of \$0.70 is equivalent to a proof gallon rate of \$7.78. Applied to wine, this proof gallon rate is \$1.79 per gallon, or \$0.06 per 5-oz serving. Spirits would be adjusted for inflation since 1991, as in Option 1. This option generates an additional **\$641.7 million** in FY 2013-14, and **\$8.22 billion** in additional revenue through FY 2023-24, with the rate indexed to inflation each year.

ESTIMATED REVENUES UNDER VARIOUS TAX INCREASE SCENARIOS

| | Tax Increase (per gallon) | | | Added Revenue FY 2013-2014 (in millions) | Added Revenue through FY 2023-24 (in billions) | Total Revenue through FY 2023-24 (in billions) |
|------------------------------|------------------------------|--------|---------|--|---|---|
| | Beer | Wine | Spirits | | | |
| CURRENT POLICY (BASELINE) | \$0 | \$0 | \$0 | \$0 | \$0 | \$3.74 |
| OPTION 1 | \$0.14 | \$0.14 | \$2.25 | \$231.40 | \$3.33 | \$7.07 |
| OPTION 2 | \$0.50 | \$0.50 | \$2.25 | \$506.20 | \$6.41 | \$10.15 |
| OPTION 3 | \$0.50 | \$1.59 | \$2.25 | \$641.70 | \$8.22 | \$11.96 |

Higher Alcohol Taxes Will Reduce Alcohol-Related Harm in CA

High alcohol excise taxes are sound public health policy. Alcohol tax increases are passed on to consumers, resulting in higher retail prices.³ Higher taxes have been shown to effectively lower rates of alcohol consumption, particularly among youth. Alcohol-related violence, disease, and fatalities also decrease with consumption rates.⁴

Charge for Alcohol-Related Harm

The annual economic cost of excessive alcohol consumption in California is staggering. Excessive alcohol consumption results in 9,856 deaths in California annually. Alcohol-related crime, violence, and disease is estimated at \$38 billion annually, translating to roughly \$1000 per California resident or \$3000 per family *each year*.⁵ The direct cost to California government is \$8.3 billion. The current excise tax rates generated approximately \$331 million in FY 2010-2011, covering just 4% of the direct cost of alcohol-related harm.

Only Drinkers Will Pay Increased Taxes

An increase in the alcohol tax is also fair because it places the burden on those who consume alcohol.

The 55 percent of Americans who drink sparingly, including the one-third who do not drink at all, would not be burdened by the increase. Ultimately, the burden of alcohol taxation falls on the producers, wholesalers, retailers and consumers, with the heaviest consumer burden on heavy drinkers.

Conclusion

We strongly recommended Option 3, a tax increase that would generate an extra **\$641.7 million** in State revenue in fiscal year FY 2013-14, and **\$8.22 billion** through FY 2023-24. The recommended taxes generate revenues that are far below even the cost to the state of alcohol-related harm—much less the cost to private citizens and families. The higher taxes will reduce alcohol-related harm, especially among youth and heavy drinkers. The tax burden would be spread among beer, wine and spirits, while adjusting wine upward to account for the higher alcohol content than beer.

Download this report or find more information at:

www.alcoholjustice.org

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Vision Alcohol Justice envisions healthy communities free of the alcohol industry’s negative impact.

Mission Alcohol Justice, the industry watchdog, promotes evidence-based public health policies and organizes campaigns with diverse communities and youth against the alcohol industry’s harmful practices.

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5 http://alcoholjustice.org/index.php?option=com_content&view=article&id=98:the-annual-catastrophe-of-alcohol-in-california&catid=18:reports&Itemid=15