Alcohol Taxes

Problem

Some states are looking to balance their budgets by increasing taxes on specific products, such as alcohol. These taxes should be avoided: They distort the market, are highly regressive, and unsustainably prop-up spending.

High alcohol taxes have caused consumers in some states to buy cheaper products across state lines or on the black market. Since alcohol taxes are primarily paid by low- to middle-income earners, they are highly regressive in nature.

Additionally, these tax increases are often used in a way that props-up unsustainable spending and does not prevent future tax hikes. Alcohol taxes do little to fix the long-term budget problems of a state. They often make those long-term problems worse by diverting attention away from necessary spending reforms and spending cuts.

Policy Solution

The most important figure in the debate over taxes and jobs is total tax burden. Any tax increase adds to that burden. A tax on alcohol has the same negative economic effects that an increase in the sales tax or income tax would have. When trying to maintain a good business climate it is important that the total tax burden be kept low.

Instead of focusing on how to increase funding for the government, states should focus on prioritizing what the government does. If states do not restrain spending to keep their budgets balanced, then taxes will continue to have to be increased. That is an unsustainable course of action.

Policies that harm businesses and take more money out of taxpayers' pockets will hurt economic growth and do little to fix state's long-term budget problems. If a state wants to increase its alcohol tax revenues, it should make alcohol tax rates competitively low and overturn outdated laws such as Sunday alcohol sale bans. This would help increase revenues while also helping to stimulate economic growth.

Policy Message

Point 1. Raising alcohol tax rates encourages more spending and does not prevent future tax hikes.

Point 2. Targeting alcohol with higher taxes ignores the basic principles of sound tax policy and takes attention away from the real problems facing state budgets: too much spending.

Point 3. Total tax burden is the most important figure in the debate over taxes and jobs, and any tax increase adds to that burden should be opposed.

Point 4. Alcohol taxes hurt low- and moderate-income individuals.

Point 5. Until government spending growth is restrained, taxes on everything—from alcohol to incomes—will continue to rise.

Point 6. Targeted tax increases hurt everyone, even those who don’t use the products that are taxed.

Policy Facts

Fact 1: Nationwide, taxes and fees already represent 79.6% of the cost of distilled spirits and 56.2% of the cost of beer. Americans for Tax Reform

Fact 2: Alcohol tax increases do little to discourage drinking by the 5 percent of consumers who are the heaviest drinkers. National Institute on Alcohol Abuse and Alcoholism

Fact 3: The average household in the lowest income quintile spends nearly double the amount in federal, state, and local alcohol taxes than households in the top quintile as a percentage of income. Tax Foundation

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For more information on tax policy contact:
John Nothdurft
Director - Government Relations
jnothdurft@heartland.org