

Measuring Excise Tax Regressivity from Federal and State Beer Excise Taxes

Summary

Excise taxes are considered regressive because lower income households use a greater share of their income to pay the tax relative to higher income households. Beer excise taxes are especially regressive because the majority of beer consumers come from middle and lower income households. In the U.S., approximately 50% of beer consumption is by adults with income of \$50,000 per year or less. This study demonstrates that the effective excise tax burden on beer places a burden 6.5 times greater for lower income households (less than \$20,000/year) households than for higher income households (more than \$70,000/year).

Federal and State Beer Excise Tax

The federal beer excise tax was first imposed in 1862 as part of a large package of taxes designed to help pay for the costs of the Civil War. Most of these taxes were discontinued at the end of the war, but the federal beer excise tax remained. The tax has been subsequently increased and decreased over the years. Individual states added beer excise taxes in the 1930's upon the repeal of Prohibition when, arguably, the federal beer tax should have been repealed. At both the federal and state level the beer excise tax is an "extra" tax burden, paid in addition to the personal, business and consumption taxes that are already paid by businesses and consumers.

History of Federal Excise Tax On Beer

From	To	Tax Per Barrel	Note
August 1862	March 3, 1863	\$1.00	
March 4, 1863	March 31, 1864	\$0.60	
April 1, 1864	June 13, 1898	\$1.00	
June 14, 1898	June 30, 1901	\$2.00	
July 1, 1901	June 30, 1902	\$1.60	
July 1, 1902	October 22, 1914	\$1.00	
October 23, 1914	October 3, 1917	\$1.50	
October 4, 1917	February 24, 1919	\$3.00	
February 25, 1919	October 28, 1919	\$6.00	
April 7, 1933	January 10, 1934	\$5.00	*
January 11, 1934	June 30, 1940	\$5.00	
July 1, 1940	October 31, 1942	\$6.00	
November 1, 1942	March 31, 1944	\$7.00	
April 1, 1944	October 31, 1951	\$8.00	
November 1, 1951	December 31, 1990	\$9.00	**
January 1, 1991	Present	\$18.00	**

* For beer containing not more than 3.2% alcohol by weight

** Effective February 1977 and January 1991, a brewer who produces not more than 2,000,000 barrels of beer in a year has a \$7.00 per barrel tax rate on the first 60,000 barrels which are removed in such year for consumption or sale.

The current federal Beer tax of \$18 per barrel tax was imposed on beer beginning in 1991 as part of a luxury tax package that included yachts, private planes and jewellery. Since that

time, most of the luxury tax has been repealed except for the beer tax. American consumers have since paid over \$59 billion cumulative dollars in federal beer excise taxes. Additionally, over these 17 years, American consumers have paid over \$26 billion in state excise taxes on malt beverages. The combined tax burden totals almost \$85 billion dollars. Unfortunately, for most consumers, over 50% of this \$80 billion dollar tax burden has been paid by middle and lower income households.

**Federal and State Beer Excise tax Collections
1991 – Present (Billions of Dollars)**

Year	Federal Tax Collections	State Excise tax Collections	Federal and State Excise Tax Collections
1991	\$2.960	\$1.292	\$4.252
1992	\$3.392	\$1.481	\$4.873
1993	\$3.339	\$1.458	\$4.797
1994	\$3.381	\$1.476	\$4.858
1995	\$3.331	\$1.469	\$4.800
1996	\$3.384	\$1.478	\$4.862
1997	\$3.388	\$1.492	\$4.879
1998	\$3.420	\$1.512	\$4.933
1999	\$3.490	\$1.551	\$5.040
2000	\$3.567	\$1.582	\$5.149
2001	\$3.555	\$1.594	\$5.149
2002	\$3.651	\$1.626	\$5.277
2003	\$3.605	\$1.570	\$5.175
2004	\$3.661	\$1.601	\$5.262
2005	\$3.643	\$1.612	\$5.255
2006	\$3.718	\$1.642	\$5.360
2007	\$3.718	\$1.666	\$5.384
17 Year Total	\$59.20	\$26.10	\$85.31

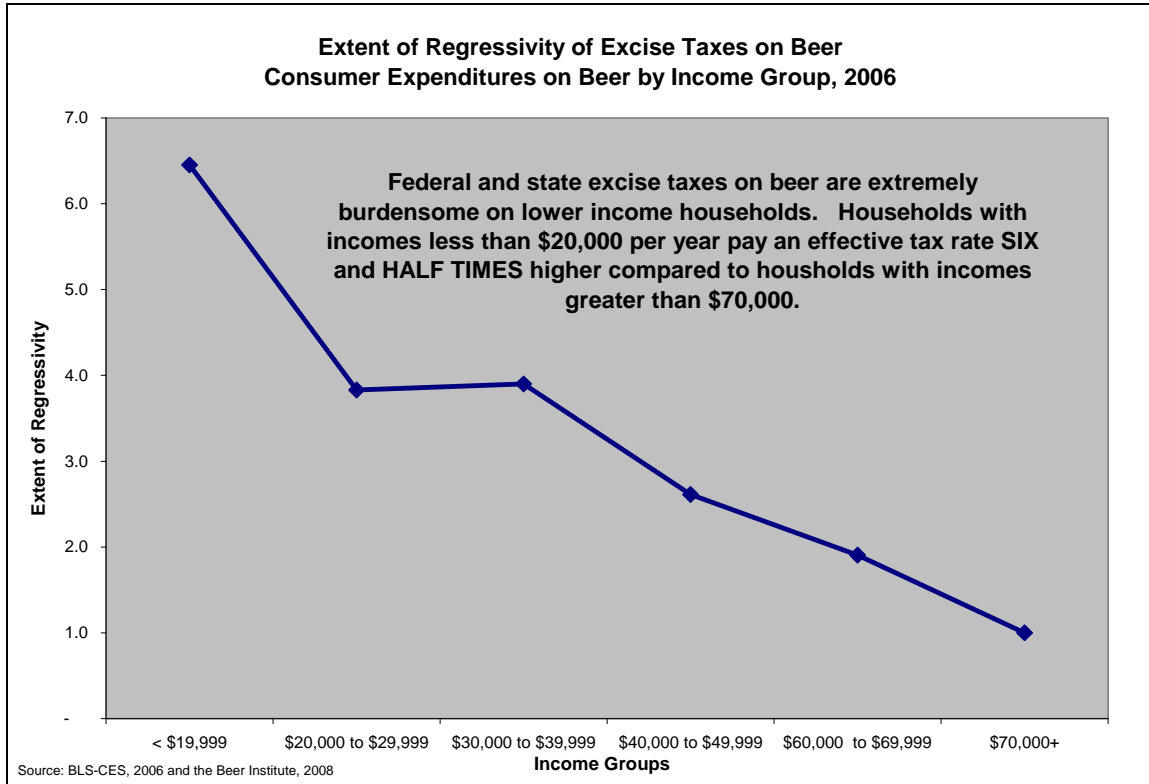
The federal beer tax places disproportionate shares of its burden on those who can least afford to pay the extra tax. It can be thought of as a mirror opposite of the taxes levied in 1991 on items more typically bought by the wealthy – yachts, private aircraft, and expensive jewelry and cars. These taxes, however, were quickly repealed.

Beer Tax Regressivity

The Beer Institute examined the latest data on consumer expenditures for beer across income ranges from the 2006 BLS Consumer Expenditure Survey (Bureau of Labor Statistics, 2007). Using these data the Beer Institute has estimated the full extent of the regressive nature of beer excise taxes. This study demonstrates that the effective excise tax burden on beer is 6.5 times greater for lower income (less than \$20,000/year) households than it is for higher income households (more than \$70,000/year).

The graph below shows how the tax burden compares across income groups. In this example, the \$70,000+ income group serves as the base for comparison to other income

groups. The tax burden is calculated as the share of total excise tax paid per year for every \$1,000 of income. Using the \$70,000 income bracket as the base the relative share of tax to income is then compared for each income category. The result shows that as income declines the beer tax burden increases significantly relative to the higher income group.



Methodology

The Annual Consumer Expenditure Survey from the Bureau of Labour Statistics is the primary data source to quantify beer expenditures for on and off premise consumption by income group. The reported expenditures in the Consumer Expenditure Survey were grossed-up in each income category to reflect total reported industry sales of \$92.5 billion dollars of reported retail sales (Adams Beverages Group, 2007 Beer Handbook).

The total industry dollar sales were converted into a volume count (six-packs purchased) by dividing total industry sales by the average retail price of a six-pack. Industry sales and volumes were split by on-premise and off premise sales in order to account for the price differences for beer purchased for home consumption versus purchases while away from home. The tax rates of \$0.32 for federal tax and \$0.14 for state tax were then multiplied by the volume estimates to determine the tax paid by consumers in each income category. The final regressivity is based on the ratio of the total tax paid to for every \$1,000 of income in each income category.

Summary

Beer taxes have a negative impact on lower- and middle-income household. In fact, the burden is absorbed by only those households that buy beer, meaning that beer taxes violate principles of tax fairness not only because they wind up hitting lower income households hardest (vertical equity), but they also violate the principle that they very unevenly tax people with the same capacity to pay taxes (horizontal equity).

Excise taxes are clearly a bad policy option. To achieve even a small increase in government revenues, a tax increase on a single industry and product has to be dramatic. While the relative increase may appear small, massive disruption is caused for the targeted industry and two core principles of tax fairness are violated.