

No Time for Local Option Excise Taxes

The proposal to allow local jurisdictions to implement new beverage alcohol excise taxes will result in a bewildering array of tax rates that will put some business owners at a competitive disadvantage. Worse yet, if implemented by all local governments the higher prices that come with high tax rates are projected to reduce restaurant sales by over \$200 million and cause an estimated 4,300 people to lose their jobs.

Local option, statewide confusion

- The proposal to allow local Michigan jurisdictions to impose their own beverage alcohol taxes is a recipe for statewide confusion. Most states strive to implement taxes that are fair and consistent. Local option beverage alcohol taxes are neither.
- The principles of good taxation tell us that taxes should be applied to the broadest possible base, at the lowest possible rate. By doing so, economic distortions are minimized. Unfortunately, local option beverage alcohol taxes target a small subset of tax payers with *high* tax rates.
- Worse yet, since these taxes will be applied locally, businesses in taxed jurisdictions will be put at a competitive disadvantage vis-à-vis neighboring jurisdictions.

Beverage alcohol already overtaxed

- The proposal to allow local option taxes comes despite the fact that, by any measure, beverage alcohol is already overtaxed in Michigan. For a typical bottle of distilled spirits sold in Michigan 49% of the retail price already goes to pay direct taxes and fees. When all taxes are considered over 65% of the purchase price goes toward taxes.
- If implemented at the proposed rate (up to \$0.50 per drink) the typical mixed drink price would increase by almost 17%, a glass of wine would go up by 18% and the price of a beer would increase by over 20%.
- Michigan's implied excise tax rate of spirits is already \$10.91 per gallon - four times the rate in nearby Indiana (\$2.68) and three times the rate in Wisconsin (\$3.25). In fact, Michigan's tax rate is even higher than neighboring Ohio's (\$9.04), another Control State.
- In addition to payroll taxes, state income taxes and property taxes, beverage alcohol proprietors also must pay the current excise tax and licensing fees (a lump sum tax). Since the sales tax is levied on top of both the State and Federal excise taxes the beverage alcohol industry *pays taxes on its taxes!*



The power to tax is the power to destroy; jobs will be lost

- High tax rates destroy the incentive to invest and work – destroying economic growth and job creation as well. Given the precarious state of the economy, destructive tax increases are ill-advised.
- Unfortunately, consumers react to higher prices. As Michigan residents reduce their visits to state restaurants and taverns retail sales are projected to decline by over \$200 million and over 4,300 people are projected to lose their jobs.
- These projections are consistent with the results seen in other states. When Florida introduced a statewide 10 cent per drink tax in 1991, the state's restaurant industry lost around 10,000 jobs. In fact, it took three years for Florida's restaurant industry to adjust and employment to begin to grow again.

People pay taxes, not corporations. Excise taxes are regressive.

- Corporations do not pay taxes. Corporations are merely tax collectors that pass proceeds along to the various Federal, State and Local Treasuries. People pay taxes. Almost all tax increase levied on businesses are passed along to consumers in the form of higher prices.
- Excise taxes are known to be the most regressive form of taxation, impacting persons of lower income far more than the wealthy. When beverage alcohol taxes are raised, it is the working poor who are most affected. Over one-third of all beverage alcohol consumers (sprints, beer or wine) come from households having income of less than \$50,000.

Excise taxes are not user fees, but discriminatory taxes

- Some argue that beverage alcohol excise taxes are "user fees" imposed to cover perceived social costs of alcohol abuse and the programs necessary for alcohol abusers.
- In a true user fee the people who pay the fee also receive the benefits of the government provided programs being paid for. Payment of the tax is directly proportional to ones use of the government service. The classic example of a user fee is the gasoline excise tax. Gasoline excise tax payments are proportional to the amount that you drive and the use of government provided roadways.
- However, there are no negative social costs associated with normal moderate consumption of beverage alcohol, and 90-95% of legal age adults who enjoy beverage alcohol fall into this category.

- Since few of the citizens paying the tax would derive any benefit, excise taxes are not user fees at all; they are simply highly targeted, discriminatory taxes. Without the discredited user fee rationale, there is no social or economic reason to tax beverage alcohol differently from any other product.

Excise taxes do not act as a deterrent to abusive drinking; population level policies ineffective.

- In addition to failing the user fee test, beverage alcohol excise taxes do not appear to act as a deterrent to abusive drinking. **Raising taxes on beverage alcohol only serves to penalize responsible beverage alcohol consumers and does not deter abusers for whom taxes are of little concern.** The National Institute on Alcohol Abuse and Alcoholism (NIAAA), the government's lead agency on alcohol issues, reported in its January 2001 issue of *Alcohol Alert* that research suggests the heaviest-drinking 5 percent of drinkers do not reduce their consumption significantly in response to price increases, unlike drinkers who consume alcohol at lower levels.
- Consistent with the NIAAA findings was a 2009 meta-analysis, "Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies," published in *Addiction*. The study found that **heavy drinkers are far less responsive to price increases than the total population of drinkers.** And, it is important to note that "heavy" is often defined in alcohol studies as anyone having more than two drinks per day – not necessarily someone who has an alcohol use disorder. If drinkers who consumed five or more drinks per day were isolated these populations would be even *less* responsive to higher prices.
- A 2008 study "Secular Trends in Alcohol Consumption over 50 Years: The Framingham Study," published in *The American Journal of Medicine*, showed that over the 50 year period from 1948-2003, the prevalence of alcohol use disorders in the population has been constant. This finding is also consistent with the NIAAA report; over that 50 year period the affordability of beverage alcohol and alcohol control policies in general have varied widely; from the highly restrictive distribution policies and relatively high tax rates of the late 1940's and 1950's to the 1970's and early 1980s when the legal drinking age was only 18 in many states. And yet, despite these wide swings the level of alcohol use disorders was relatively constant. **In short, population level strategies advocated by public health officials simply have little impact on abusive drinkers.**