

## **Tax Analysis New Jersey**

### **Wine and Spirits Taxes Destroy Jobs**

Current beverage alcohol taxes in New Jersey are already high and unjustifiable when viewed in either an economic or social context. The proposal to increase spirits and wine excise tax rates by 25% would cause New Jersey retailers to lose an estimated \$60 million in retail sales and a loss of 1,000 jobs across the state.

### **Distilled Spirits Already Overtaxed**

- The proposal to raise the distilled spirits excise tax by 25% would increase New Jersey's rate from \$4.40 to \$5.50. By contrast, the national average for similar states is only \$3.99. Thus, New Jersey's excise tax rate is already somewhat high by national standards. Beverage alcohol excise taxes are really taxes on the hospitality industry.
- These excise tax increases come despite the fact that, by any measure, beverage alcohol is already overtaxed. For a typical bottle of distilled spirits purchased in New Jersey, 30% of the retail price goes to pay direct taxes and fees. When all taxes are considered around 57% of the purchase price goes toward taxes.
- Naturally, the proposed excise tax increase would raise prices for New Jersey consumers. Spirits prices are expected to increase by over 2.5% as a result. Wine prices would also increase.
- The tax burden on beverage alcohol is already so high that Federal, State and local governments collect over \$2 in taxes for every \$1 that the industry (suppliers, wholesalers, retailers and restaurants) **earn** in profit. Government is an unequal partner in the beverage alcohol business.

### **Economic Impact: Jobs Destroyed**

- Unfortunately, people react to higher prices. As prices rise, spirits volumes will go down. New Jersey will lose sales in two ways. First, there will be the natural reaction by New Jerseyans to buy less of something that is more expensive. Spirits volumes are projected to decline by over 300,000 gallons (around 2% of state volume) as a result, while wine would drop by 175,000 gallons. These lost spirits sales will be worth \$43 million at retail. Including wine brings lost sales to \$50 million.

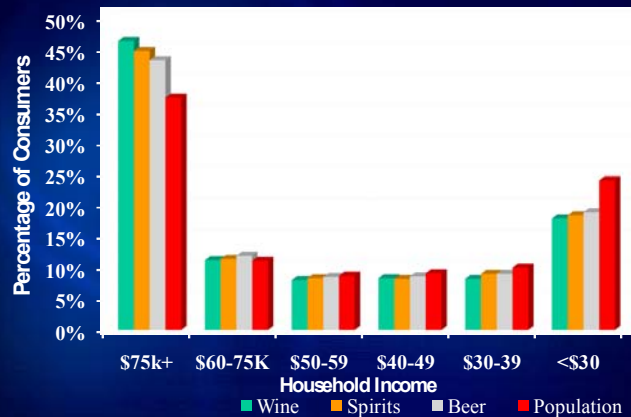


- But, New Jersey will also lose sales from reduced cross-border purchases. New Jersey retailers have a competitive advantage over neighboring New York and Pennsylvania – states with much higher excise tax rates. This competitive advantage allows New Jersey retailers to “export” an estimated 520,000 gallons of distilled spirits each year to customers in nearby states – worth around \$36 million to retailers.
- However, if the excise tax proposal is enacted many of New Jersey’s out-of-state customers will simply stay home. New Jersey retailers are projected to lose an additional \$10 million in sales as a result. Thus, between lost resident purchases and reduced cross-border sales spirits retailer losses are expected total \$53 million. Total losses across spirits and wine will be \$60 million.
- The power to tax is the power to destroy. As volumes fall, so does economic activity. Gross state product (a measure of general economic activity) is expected to be reduced by \$86 million. An estimated 1,000 jobs would be destroyed in the process, many within the hospitality industry.
- These projections are consistent with New Jersey’s experience following its last excise tax increases in 1990 and 1992. The combined increases in 1990 and 1992 amounted to a 57% increase in excise tax rates, but caused an almost 4% decline in industry sales. While taxes were going up employment was going down. According to the Bureau of Labor Statistics, 175 New Jersey wine and spirits wholesale jobs were eliminated. And, each wholesaling job supports up to 13 retail jobs.

### **Targeting spirits and wine: the myth of Joe Six Pack and economic stereotyping**

- According to New Jersey Treasurer David Rousseau, spirits and wine are being taxed because beer is consumed by the “middle and lower class.” However, this belief is founded on economic stereotyping, rather than actual research. Why should it be public policy to allow low income people to have a Heineken, but not a Margarita or glass of chardonnay?
- As the chart below shows, spirits, beer and wine consumers are all drawn from roughly the same income cohorts. New Jersey should not be engaged in economic stereotyping, nor should it use public policy to pick market place winners and losers.
- All excise taxes are known to be the most regressive form of taxation, impacting persons of lower income far more than the wealthy. When spirits, wine or beer taxes are raised, it is the working poor who are most affected – regardless of the beverage they chose to drink.

## Little Difference Between Spirits, Wine or Beer



Source: Simmons Market Research Bureau,  
Fall 2006 Study

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### Excise taxes maximize economic harm

- The principles of good taxation tell us that the most efficient and equitable taxes are those that have the lowest rates possible, but that are applied to the broadest possible base. By doing so, a tax can both maximize revenues while also minimizing economic pain.
- Excise taxes, however, focus directly on a single product with high tax rates, thereby *maximizing* economic harm.

### 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.
- However, 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 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 one drives 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.