Alcohol Taxation

Following the repeal of prohibition, the individual states were granted nearly total control over the production and sale of beverage alcohol products in their jurisdictions. At the same time, political and social pressures of the day helped to ensure that the regulatory structure around alcohol sales was complicated and designed to reduce sales.

This starts with the tax structure surrounding beverage alcohol sales.

Excise Taxes

- State tax rates vary widely and can be very complex. Some are specific while others are ad valorem. Some tax at the wholesale level, others at the manufacturers level, while others include statewide local excise taxes or allow certain localities to tax alcohol.
- Some states tax different classes or package types.
- Other states impose differential taxes based on the size of the product manufacturer.

Sales Taxes

- Alcoholic beverages are not only subject to general sales taxes but are usually included in meals and entertainment taxes and are not subject to food tax exemptions.

Other Taxes

- There are a bevy of other taxes levied on beverage alcohol products including container taxes, container deposits, gross revenue taxes, and mixed drink taxes.

Control States

- This does not even consider the 13 Control States that levy taxes via mandatory above market rate markups and margins.

Alcohol Marketing Restrictions

Not only are beverage alcohol sales subject to extraordinary taxes, they also face a bevy of restrictions and preferences. Many of these are due to social and economic preferences across the states but some of vestiges of a different time.

- Blue Laws
- Licensing Restrictions
- Minimum Prices
- Prohibitions (Dry Laws)
- Sales Restrictions
- Direct Shipments
- Control Systems

Unintended Consequences

- The Constitution specifically provides the States with authority over alcohol sales in their jurisdictions
- Differential tax rates, marketing restrictions and availability of products lead to massive opportunities to either game the system, take advantage of arbitrage opportunities or generate above market profits simply by breaking the law.
- Data on these illegal or semi-legal activities are limited but over the years we have modeled them based on a detailed gravity model.
- Interstate/Inter-Jurisdiction sales of wine rose from 6.2 percent of the market to about 10.4 percent following Granholm
- Today, we estimated that cross border sales of:
    - Beer are 6.1 percent of the market, 4.7 percent of which is taxed in a state where the beer is not consumed
    - Spirits are 9.0 percent of the market, 5.5 percent of which is taxed in a state where the spirits are not consumed
    - Wine are 7.7 percent of the market, 6.0 percent of which is taxed in a state where the wine is not consumed
- These results imply that licensing has had some impact, but the ability to subvert regulations either intentionally or unintentionally is still very large and the infrastructure set up via legal shipments helps promote illegal shipments of wine and other forms of alcohol.