Tax Policy Analysis: House Bill 3296

SUMMARY

House Bill 3296 would increase Oregon's spirits markup from 106 percent to a projected 145 percent in the next six years. While billed as a markup increase, Oregon's markup is more than 30 points higher than in states that have competitive private markets. Thus, the proposed markup increase is really just a tax. Under this proposal, wine and beer taxes would also go up. The higher prices that the proposed tax increases would cause would reduce sales across spirits, beer and wine, and lead to more than 6,000 lost jobs in the next six years.

The proposal would increase the markup on spirits to an estimated 145 percent in six years.

- HB 3296 calls for increasing the markup on distilled spirit by 20 percent and then increasing the markup by a measure of inflation each year thereafter. Wine and beer excise tax rates would also increase.

- While the proposal is called a markup increase, Oregon's spirits markup is already an estimated average of 106 percent - far higher than any other Control State. The proposal would increase the markup to 127 percent in the first year.

- But the current 106 percent markup is already more than 30 points higher than consumers would pay in states that allow competitive private operators. Thus, much of what Oregonians already pay in the price of spirits is really a tax.

- Far from *earning* new profits, HB 3296 would merely saddle consumers with new taxes. This new tax increase comes, despite that fact that, by any measure, Oregonians already pay an enormous tax on spirits purchases – estimated at $21.95 per gallon, far higher than the Control State average of only $11.55 per gallon.

- However, what makes HB 3296 even more destructive is the provision to increase the markup each year thereafter. In six years, the proposal will increase the markup/tax rate to a projected 145 percent. To put this into perspective, the proposed tax increase is the equivalent of increasing the state's bottom income tax rate from 5.0 percent to 6.8 percent.

- Ad valorem taxes already keep pace with inflation, making the added increase in HB 3296 excessive.

HB 3296 is projected to increase consumer prices by 10-45 percent and to cost more than 6,000 people their jobs.

- Higher taxes are always passed along to consumers in the form of higher prices. The proposed tax increases are projected to raise the price of a typical bottle of spirits by more than 10 percent, wine by 45 percent and beer by 29 percent. Unfortunately, higher prices lead to reduced sales.

- Oregon restaurants and package stores are projected to see a decline in sales of more than $380 million, resulting in more than 5,300 lost jobs in the first few years.

- Because of the tax escalator provisions in HB 3296, within six years, the higher tax rates will cause an additional 900 jobs to be lost. Thus, the bill is projected to cost more than 6,000 Oregonians their jobs.

- Now is not the time to impose higher taxes on Oregon's struggling hospitality industry which, through December 2020, was down more than 80,000 jobs.

Beverage alcohol taxes do not 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.

- A 2011 study funded by the National Institute for Alcohol and Alcohol Abuse ("Does the response to alcohol taxes differ across racial/ethnic groups? Some evidence from 1984-2009 Behavioral Risk Factor Surveillance System," *Journal of Mental Health Policy Economics*, April, 2011) reviewed 26 years of detailed data and noted:

  > *"Tax policies aimed to reduce alcohol-related health and social problems should consider whether they target the most harmful drinking behaviors … Tax increases also appear to be less effective among the heaviest consumers who are associated with the highest risk."*

- The same study found that certain racial and ethnic groups respond differently to alcohol taxes (e.g., they have the largest effect on white consumers and the smallest effect on Hispanic consumers), and that such tax policies should take into consideration whether they will "affect subgroups in unintended ways or influence some groups disproportionately."

- A more recent European study ("Alcohol quantity and quality price elasticities: quantile regression estimates," *The European Journal of Health Economics*, October 2018) showed that the heaviest 5 percent of drinkers were the least responsive to price increases. The authors conclude:

  > *"These are important findings – the quantity results show that price-based measures will have little effect in reducing heavy consumption because of their small price elasticities, whilst simultaneously having a large negative effect on consumer surplus for the light drinking majority …"*

- Similarly, 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.

- Another study published by the National Bureau of Economic Research ("Sin Taxes: Do Heterogeneous Responses Undercut Their Value") and conducted by researchers at the Yale School of Public Health showed that heavy drinkers were not at all responsive to higher prices. Thus, the study concluded that higher alcohol taxes could not be justified based upon a public health or economic justification.

- A 2015 systematic review of binge drinking and alcohol prices ("Binge drinking and alcohol prices: a systematic review of age-related results from econometric studies, natural experiments and field studies," *Health Economics Review*, December 2015) concluded that increased taxes are also unlikely to be effective as a means to reduce binge drinking, regardless of gender or age groups – including among youth.