Tax Policy Analysis: Increasing Oregon's spirits surcharge to $1 from $0.50 per bottle

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

SUMMARY

The proposal to add yet another $0.50 bottle surcharge on distilled spirits in Oregon comes, even though Oregon has the highest implied excise tax among control states. As prices rise due to the new surcharge sales would fall. Oregon restaurants and agency stores are projected to see a decline of nearly $40 million in sales, resulting in over 450 lost jobs. Oregon projects that the surcharge would generate $45.2 million for the 2023-2025 biennium but the figure does not account for sales decline due to the fee increase. Oregon would lose significant amount of revenue due to sales decline and net impact of the fee increase on Oregon's revenues would be less than $27 million for the 2023-2025 biennium.

DISTILLED SPIRITS ALREADY OVERTAXED.

- At 113% the markup in Oregon is the highest markup among Control States. Since the 113% markup could not be supported if the OLCC were subjected to any kind of competition, most of the markup is just a tax. This extraordinary markup causes the implied excise tax rate in Oregon to be an estimated $22.86 per gallon, significantly higher than the Control State average of $13.69. Consumers of distilled spirits should not have to bear such a heavy tax burden.

- On top of the 113% markup, Oregon also charges a $1.40 case fee and a $0.50 per bottle "temporary" fee that has been in place since April 1, 2009. For a typical bottle of distilled spirits purchased in Oregon, nearly 70% of the retail cost already goes to pay a tax or fee of some kind.

HIGHER TAXES WILL HURT BUSINESSES.

- Higher taxes and fees are always passed along to consumers in the form of higher prices. Unfortunately, higher prices lead to reduced sales. Oregon restaurants and agency stores are projected to see a decline of nearly $40 million in revenue per year, resulting in over 450 lost jobs.

- Due to sales loses, the new bottle fee will fail to generate an additional $45.2 million for the 2023-2025 biennium. OLCC liquor sales are projected to decline more than 2.5% and reduce Oregon's markup revenues by more than $9 million per year, or $18 million for the 2023-2025 biennium. The net revenue impact of fee increase would be under $27 million over the 2023-2025 biennium or $13.5 million per year even though it eliminates more than 450 jobs.

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- Now is not the time to impose higher fees on the struggling Oregon hospitality industry, where employment is still down by 11,000 jobs compared to pre-pandemic levels.

BEVERAGE ALCOHOL TAXES DO NOT ACT AS A DETERRENT TO ABUSIVE DRINKING, POPULATION LEVEL POLICIES INEFFECTIVE.

- A 2018 study published in *The European Journal of Health Economics* 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 …"*

- A *2015 study published in the journal Health Economics Review* concluded: *"Increased alcohol taxes or prices are unlikely to be effective as a means to reduce binge drinking, regardless of gender or age group."* Further, the article states that *"the results from this study show that price increase is estimated to have a weaker effect on heavier drinkers than on moderate drinkers, so price-based alcohol policies may not be the most effective method of tackling heavy drinking without penalizing moderate drinkers."*

CONCLUSION

Raising taxes on beverage alcohol does not deter abusers for whom taxes are of little concern, but penalizes responsible beverage alcohol consumers and hospitality businesses, while eliminating tax revenues and jobs.