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Excise Taxes on Alcohol, Tobacco, and Gasoline: History and Inflation Adjusted Rates

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Excise Taxes on Alcohol, Tobacco, and Gasoline: History and Inflation Adjusted Rates

Summary

An excise tax is a selective tax levied on a specific commodity or service. While federal excise taxes have long been a part of the U.S. revenue structure, they have played a reduced role in recent years. A history of all federal excise tax receipts shows the proportion of excise tax receipts of total receipts has fallen. In fiscal year (FY) 1997, it is estimated that all excise tax receipts represent but 3.8% of total federal receipts. They are projected to slightly increase to 3.9% of receipts in FY1998 and to remain at 3.9% in FY1999, before decreasing to 3.8% in FY2000. Projections are that they will further dwindle to 3.7% in FY2001. Thus, excise taxes can best be termed a very small source of total federal revenue.

Alcohol, tobacco, and gasoline had excise tax rate increases effective November 1951 under the *Revenue Act of 1951* as a part of the tax increases to pay for the Korean War. Rates have been increased several times since then but generally have not kept pace with inflation. The following table compares current statutory rates with inflation-adjusted rates—the rates that would apply if those set by the 1951 Act had kept pace with inflation.

**Table 1. Comparison of Statutory and Inflation Adjusted
Excise Tax Rates**

| Commodity | Statutory Rate January 1997 | Rate if Adjusted for Inflation Occurring Nov. 1951 to Dec. 1996 |
|---|--------------------------------|--|
| Distilled Spirits (per proof gallon) | \$13.50 | \$63.08 |
| Beer (per barrel) | \$18.00 | \$54.07 |
| Still Wine--Less than 14% alcohol content | \$1.07 | \$1.02 |
| Still Wine--14-21% alcohol content | \$1.57 | \$4.03 |
| Still Wine--21-24% alcohol content | \$3.15 | \$13.52 |
| Still Wine--24% + alcohol content | Taxed as distilled spirits | Taxed as distilled spirits |
| Champagne and Sparkling Wine | \$3.40 | \$16.34 |
| Artificially Carbonated Wines | \$3.30 | \$11.53 |
| Tobacco (cigarettes per pack) | \$0.24 | \$0.48 |
| Gasoline (per gallon) | \$0.183 | \$0.12 |

Note: Inflation adjustment made using the Consumer Price Index for All Urban Consumers for November 1951 and December 1996.

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Excise Taxes on Alcohol, Tobacco, and Gasoline: History and Inflation Adjusted Rates¹

Introduction

An excise tax is a selective tax levied on a specific commodity or service. While federal excise taxes have long been a part of the U.S. revenue structure, they have played a reduced role in recent years. Today, excise tax receipts are no longer a major source of federal revenue. In FY1997, they are estimated to represent but 3.8% of total federal receipts. They are projected to slightly increase to 3.9% of receipts in FY1998 and to remain at 3.9% in FY1999, before decreasing to 3.8% in FY2000. Projections are that they will further dwindle to 3.7% in FY2001.²

This report provides inflation adjusted excise tax rates for alcohol, tobacco, and gasoline products. The base for computation is November 1951; the adjustments show what the tax rates would be if they had been increased to reflect inflation. All of the above cited commodities had rate increases effective for that date under the *Revenue Act of 1951*. Just as the Congress was prepared to lower excise tax rates because of peacetime conditions, plans had to be revised as a result of the start of the Korean War. Thus, the *Revenue Act of 1951* was born out of revenue needs due to increased military expenditures.

A brief history of alcohol, tobacco, and gasoline tax rates since 1951 along with current revenues from these excise taxes is provided. At the end of this report, a table shows the inflation-adjusted excise tax rates using the Consumer Price Index for All Urban Consumers (CPI-U). The CPI-U index numbers for November 1951 through December 1996 were used for computational purposes. With the exception of gasoline and low-alcohol still wine, these inflation-adjusted tax rates are far higher than current law tax rates.

Alcohol

The tax rate on distilled spirits, set in November 1951, was raised in October 1985 from \$10.50 to \$12.50 per proof gallon. The Joint Committee on Taxation noted that ... "the tax is imposed as a flat amount, rather than as a percentage of sales price, [and] the effective level of the tax had declined by more than 70% in constant

¹ The author plans to update this report in future years to reflect changes in law or inflation adjustments.

² U.S. Office of Management and Budget. *Budget of the United States Government, Historical Tables, Fiscal Year 1998*. February 6, 1997. p. 30.

dollars since that increase. Congress believed, therefore, that a modest adjustment of \$2.00, to \$12.50 per proof gallon, was appropriate."³ Under the *Revenue Reconciliation Act of 1990*, the rate was increased by \$1.00 per proof gallon to \$13.50 effective January 1, 1991.

The tax rate on beer was raised in November 1, 1951, from \$8.00 to \$9.00 per barrel. The *Revenue Reconciliation Act of 1990* doubled the existing rate; thus, the new rate is \$18.00 per barrel. The new act retained the small producer exception of prior law. Thus, a lower rate applies to small brewers who produce fewer than 2,000,000 barrels of beer per year. The rate for small brewers, which has been in effect since February 1977, is \$7.00 per barrel for the first 60,000 barrels. (A barrel contains 31 gallons.)⁴

The excise tax rate on wines was set at a variety of rates which ranged between 17 cents per wine gallon for still wine to \$3.40 per wine gallon on sparkling wines. The tax rates on still wines had not been changed since 1951. However, as the Korean conflict continued, the need for additional revenues resulted in increases in the rates on champagnes and sparkling wines and artificially carbonated wines in 1955. Thus, the rate on champagnes and sparkling wines was increased from \$2.72 to \$3.40 per wine gallon and the rate on artificially carbonated wine from \$1.92 to \$2.40 per wine gallon.

Under provisions of the *Revenue Reconciliation Act of 1990*, the rates range from \$1.07 to \$3.40 per wine gallon. These rates are detailed in tables 1 and 3. A small domestic wineries credit equal to 90 cents per wine gallon is provided for the first 100,000 gallons of wine production with a phase-out of the credit for wineries whose production falls between 150,000 to 250,000 gallons.

In addition to the excise taxes on alcohol products, there are also occupational taxes. A producer/manufacturer of taxable alcohol products with gross receipts of less than half a million dollars in the preceding taxable year must pay a tax of \$500 a year. For those whose gross receipts exceed that amount, the tax is \$1,000 a year per place of business. Additionally, alcoholic beverage wholesalers pay a wholesale dealer occupational tax of \$500 per year per place of business while alcoholic beverage retailers pay at a rate of \$250 per year per place of business.⁵

The Department of Treasury's Bureau of Alcohol, Tobacco and Firearms (BATF) reports the following breakdown of actual FY1996 collections of alcohol taxes: \$3.607 billion for distilled spirits; \$3.335 billion for beer; \$620 million for

³ U.S. Congress. Joint Committee on Taxation. *General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984 (H.R. 4170, 98th Congress; Public Law 98-369)*. Washington, U.S. Govt. Print. Off., 1984. p. 32.

⁴ For additional information see *Beer Excise Taxes: Proposed Reduction in Rates*. CRS Report 96-542 E, by Louis Alan Talley.

⁵ For additional information see *Alcohol Occupational Taxes*. CRS Report 96-131 E, by Louis Alan Talley.

wines; and \$108 million in special (occupational) tax.⁶ The Budget of the United States Government for 1998 estimates that alcohol tax receipts will decline to \$7.1 billion in FY1997 and FY1998. Revenues collected from all alcohol excise taxes go into the General Fund of the United States Treasury. As such, these revenues are not specifically dedicated for any trust fund.⁷

Tobacco

The tax rate on cigarettes remained unchanged between 1951 and 1982. The rate was increased from 8 cents to 16 cents per pack as part of the *Tax Equity and Fiscal Responsibility Act of 1982*. The reason for that increase was stated in the explanation of that tax act.

Since the tax is imposed as a set amount, rather than as a percentage of sales price, the effective level of the tax had declined by more than 70% in constant dollars since it was last amended. Congress believed, therefore, that an adjustment to the tax was appropriate. Doubling the tax rate, as was done under the Act, does not increase the per-pack tax, in real terms, above the 1951 level. Also, Congress determined that the broad-based increase in revenue required by the fiscal outlook through 1985 mandated an increase in the cigarette excise taxes through fiscal year 1985.⁸

Under provisions in the *Revenue Reconciliation Act of 1990* tobacco tax rates were increased because of large continuing federal budget deficits and the need for additional federal revenues. The new tax rates became effective in two stages. The first increase in rates was effective as of January 1, 1991, while the second increase occurred January 1, 1993. The total rate increase, to 24 cents per pack, equals a 50% increase in tax rates, with one-half the total increase effective in 1991 and one-half effective in 1993.

It was estimated in the Budget of the United States Government for Fiscal Year 1998 that collections of tobacco taxes would be approximately \$5.7 billion in FY1997.⁹ As reported in the Budget, actual receipts for FY1996 were \$5.795 billion.¹⁰ Like alcohol tax receipts, tobacco taxes currently are deposited into the General Fund of the United States Treasury and are not dedicated to any trust fund.

⁶ U.S. Department of the Treasury. Bureau of Alcohol, Tobacco and Firearms. *Alcohol, Tobacco and Firearms Tax Collections*. December 10, 1996. p. 1.

⁷ U.S. Office of Management and Budget. *Budget of the United States Government, Analytical Perspectives, Fiscal Year 1996*. February 6, 1997. p. 59.

⁸ U.S. Congress. Joint Committee on Taxation. *General Explanation of the Revenue Provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (H.R. 4961, 97th Congress; Public Law 97-248)*. Washington, U.S. Govt. Print. Off., 1982. p. 411.

⁹ U.S. Office of Management and Budget. *Budget of the United States Government, Analytical Perspectives, Fiscal Year 1996*. February 6, 1997. p. 39.

¹⁰ *Ibid.*

Gasoline

The federal excise tax on gasoline became law at a one-cent per gallon rate with the passage of the *Revenue Act of 1932*. The imposition of a gasoline tax was imposed to help offset a federal budgetary imbalance. Since that time, the tax has been extended and/or raised many times.

In 1956, Congress established the *Highway Trust Fund* and revenue receipts from the gasoline tax were dedicated for highway programs. The conventional wisdom that the gas tax represented a user tax held from that time until passage of the *Omnibus Budget Reconciliation Act of 1990 (OBRA90)*. With passage of *OBRA90*, a small part of the gasoline tax increase was allocated to general revenues, thus returning it to the role it served prior to the establishment of the *Highway Trust Fund*, at least in part. Under provisions of the *Omnibus Budget Reconciliation Act of 1993 (OBRA93)*, the tax on gasoline is currently set at 18.3 cents per gallon. Table 2 charts the tax rates since 1951.

Under current law, 14 cents of the total gasoline tax is dedicated to the *Highway Trust Fund* and the remaining 4.3 cents is dedicated for federal deficit reduction purposes. The *Leaking Underground Storage Tank Trust Fund (LUST)* tax rate of 0.1 cents per gallon terminated on January 1, 1996. The 18.3 cents rate is reduced to 4.3 cents on October 1, 1999, when all but the *OBRA93* imposed deficit reduction part is scheduled to expire.

The Budget of the United States Government for Fiscal Year 1998 states that actual FY1996 collections of gasoline taxes for the *Highway Trust Fund* were \$24.651 billion. Receipts for this trust fund are estimated at \$24.880 billion in FY1997, and \$25.332 billion in FY1998.¹¹ The Budget states that actual FY1996 collections for the Leaking Underground Storage Trust Fund were \$48 million. The tax expired January 1, 1996. President Clinton's budget proposal calls for the reinstatement of the 0.1 cent per gallon tax after the date of enactment and before October 1, 2007. Revenue collections would be deposited in the LUST Trust Fund.

From the *Highway Trust Fund*, 9.5 cents is expended on highway-related programs with 2 cents placed into the *Mass Transit Account*. Amounts in the *Mass Transit Account* can be used for capital, capital-related and operating expenditures under the *Urban Mass Transportation Act of 1964*. Additionally, transfers from the *Highway Trust Fund* may be made into the *National Recreational Trails Trust Fund*, the *Land and Water Conservation Fund*, and the *Boating Safety Account* of the *Aquatic Resources Trust Fund*. Funds so transferred are equivalent to the gasoline taxes collected on the fuel used in motorboats. Under the *Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991*, a new trust fund known as the *National Recreational Trails Trust Fund* was established. This fund receives tax transfers from the *Highway Trust Fund* that represent tax receipts (imposed on gasoline as well as diesel, and special motor fuels) collected from nonhighway recreational fuel use. Examples of recreational fuels are those used in vehicles on

¹¹ U.S. Office of Management and Budget. *Budget of the United States Government, Analytical Perspectives, Fiscal Year 1998*. February 6, 1997. p. 59.

recreational trails or back country terrain, and non-business fuel used in outdoor recreational equipment such as camp stoves.

Table 2 summarizes the federal excise tax rate on gasoline by time period.

Table 2. Summary of Changes in the Rate of the Federal Manufacturers' Excise Tax on Gasoline

| Rate of Tax in cents per gallon | Period to Which Applicable |
|--|---|
| 1 | June 21, 1932, to June 16, 1933 |
| 1.5 | June 17, 1933, to December 31, 1933 |
| 1 | January 1, 1934, to June 30, 1940 |
| 1.5 | July 1, 1940, to October 31, 1951 |
| 2 | November 1, 1951, to June 30, 1956 |
| 3 | July 1, 1956, to September 30, 1959 |
| 4 | October 1, 1959, to March 31, 1983 |
| 9 | April 1, 1983, to December 1, 1986 |
| 9.1 | January 1, 1987, to August 31, 1990 ^a |
| 9 | September 1, 1990, to November 30, 1990 |
| 14.1 | December 1, 1990 to September 30, 1993 |
| 18.4 | October 1, 1993 to December 31, 1995 ^b |
| 18.3 | January 1, 1996 to September 30, 1999 |
| 4.3 | October 1, 1999 and thereafter |

^a This act provided that the 0.1 cents per gallon tax will terminate on the earlier of December 31, 1991, or when the Secretary of the Treasury determines that taxes equivalent to at least \$500 million in net revenues are in the Trust Fund. This additional tax terminated after August 31, 1990, because the LUST Trust Fund had reached its net revenue target for termination. (Internal Revenue Service Announcement 90-82, released June 27, 1990.)

^b Beginning on October 1, 1995, the revenues collected from the *OBRA90* 2.5 cents "deficit reduction rate" were credited to the account of the *Highway Trust Fund*. Thus, the distribution of amounts collected from the gasoline excise tax changed. The *Highway Trust Fund* receives increased revenues since the rate credited to that fund increased to 14 cents. At this same time, the amount credited to the General Fund decreased from 6.8 to 4.3 cents.

Inflation Adjustment ¹²

We have adjusted the alcohol, tobacco, and gasoline tax rates by use of the Consumer Price Index for All Urban Consumers. The CPI-U is published by the Department of Labor, Bureau of Labor Statistics.¹³

The figures in table 3 show what the current excise taxes on alcohol, tobacco, and gasoline would be if they had been indexed to the CPI-U since November 1951. To update these rates, the CPI-U index numbers for November 1951 and December 1996 were used.

Table 3. Comparison of 1951 and 1997 Statutory Rates and Inflation Adjusted Excise Tax Rates

| Commodity | Statutory Rate November 1951 | Statutory Rate January 1997 | Rate if Adjusted for Inflation Occurring Nov. 1951 to Dec. 1996 |
|---|---------------------------------------|--------------------------------------|--|
| Distilled Spirits (per proof gallon) | \$10.50 | \$13.50 | \$63.08 |
| Beer (per barrel) | \$9.00 | \$18.00 | \$54.07 |
| Still Wine--Less than 14% alcohol content | \$0.17 | \$1.07 | \$1.02 |
| Still Wine--14-21% alcohol content | \$0.67 | \$1.57 | \$4.03 |
| Still Wine--21-24% alcohol content | \$2.25 | \$3.15 | \$13.52 |
| Still Wine--24% + alcohol content | Taxed as distilled spirits | Taxed as distilled spirits | Taxed as distilled spirits |
| Champagne and Sparkling Wine | \$2.72 | \$3.40 | \$16.34 |
| Artificially Carbonated Wines | \$1.92 | \$3.30 | \$11.53 |
| Tobacco (cigarettes per pack) | \$0.08 | \$0.24 | \$0.48 |
| Gasoline (per gallon) | \$0.02 | \$0.183 | \$0.12 |

Note: Inflation adjustment made using the Consumer Price Index for All Urban Consumers for November 1951 and December 1996.

¹² This report does not track particular bills or legislation; however, an advisory commission set up by the Senate Finance Committee has made recommendations to improve the true measure of the cost of living. Such changes might impact the projected inflationary adjustments made in this report. For additional information see *The Consumer Price Index and the "True" Cost of Living*. CRS Report 97-33 E, by Brian W. Cashell and *Adjusting Benefits for Inflation: Impacts of Policy Change*. CRS Report 95-670 EPW, by James R. Storey.

¹³ For a description see *The Consumer Price Index: A Brief Overview*. CRS Report 97-150, by Brian W. Cashell.