Alcohol Pricing and Taxation

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LRO
LEGISLATIVE REVENUE OFFICE

HB 3610 of the 2023 session

(3) The task force shall study the following issues:

(a,

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e) The benefits and drawbacks of imposing taxes on malt beverages and wine; and

(f) Additional funding options for alcohol addiction treatment, including modifying the current distribution of alcohol tax revenue and increasing taxes on alcohol, and the potential economic impact of tax increases on relevant industries.

(4) The task force shall consult with the Legislative Revenue Officer in studying the issues described in subsection (3) of this section.

How Should a Tax System Be Designed

Equity:
Who should pay, and how much of their income.

Economic Neutrality: (no winners and losers)

No advantage to one economic Agent over the other

Efficiency of Tax collection:

How much does it cost to collect the tax

“Sin” Taxes: are taxes on products with social consequences

- Smoking
- Drinking
- Gambling
- Recreational drugs
- other

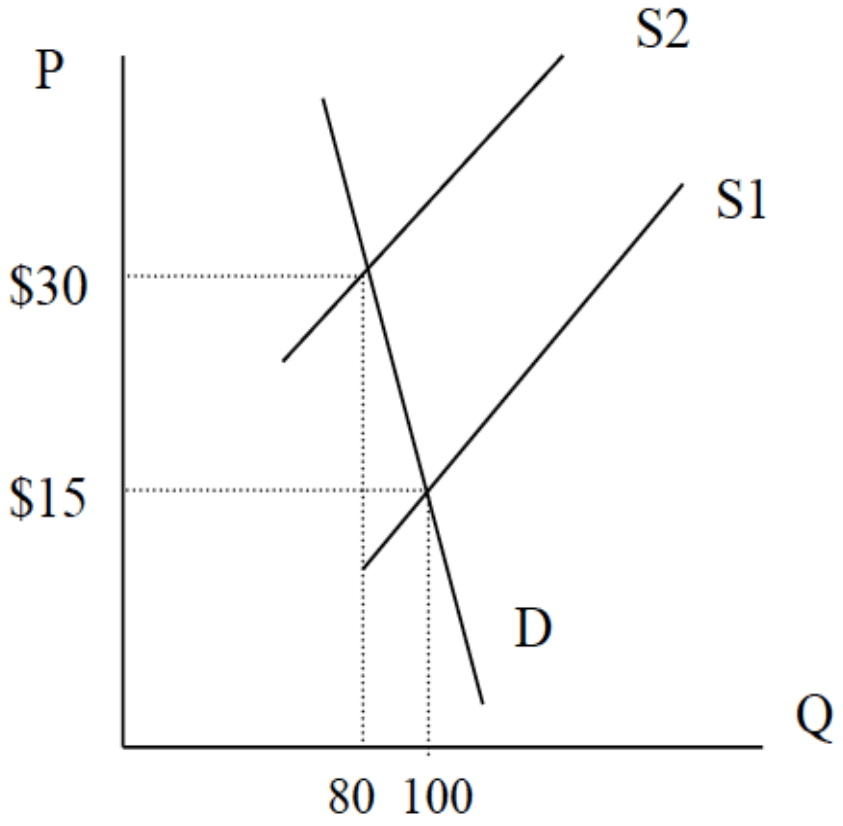
Most of these have Inelastic Demand. Some more than others.

Increasing prices are not likely to curb use significantly as many studies show.

Regulations become a more effective policy tools.

- some researchers would site smoking reduction in response to higher taxes.
- The more effective factors were regulations like the clean indoor act, no smoking around buildings, public health awareness campaigns, and teen prevention programs.

Inelastic Demand can produce more Revenue at lower quantity. Supplier is more in control



Revenue was
$15 * 100= $1,500

Revenue is now
$30 * 80= $2,400

PED = -20% / 100%
= -0.2

Alcohol Taxes: when the demand is inelastic

- **Beer Elasticity** **0.3 - 0.4**
- **Wine Elasticity** **0.6 - 0.65**
- **Distilled spirits** **0.65-0.79**
- **Other variations and substitutes** **0.77**

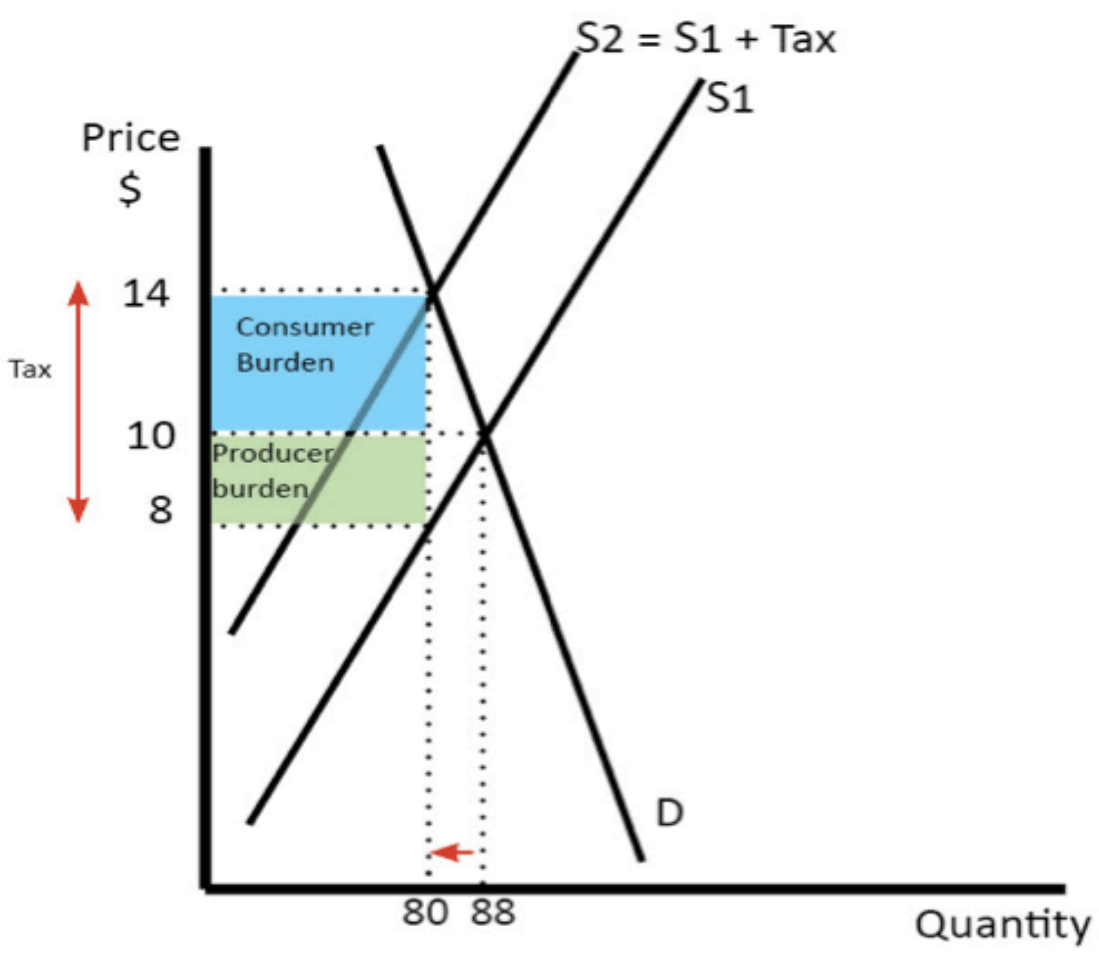
Inelastic Demand means the consumer bears more of the tax burden

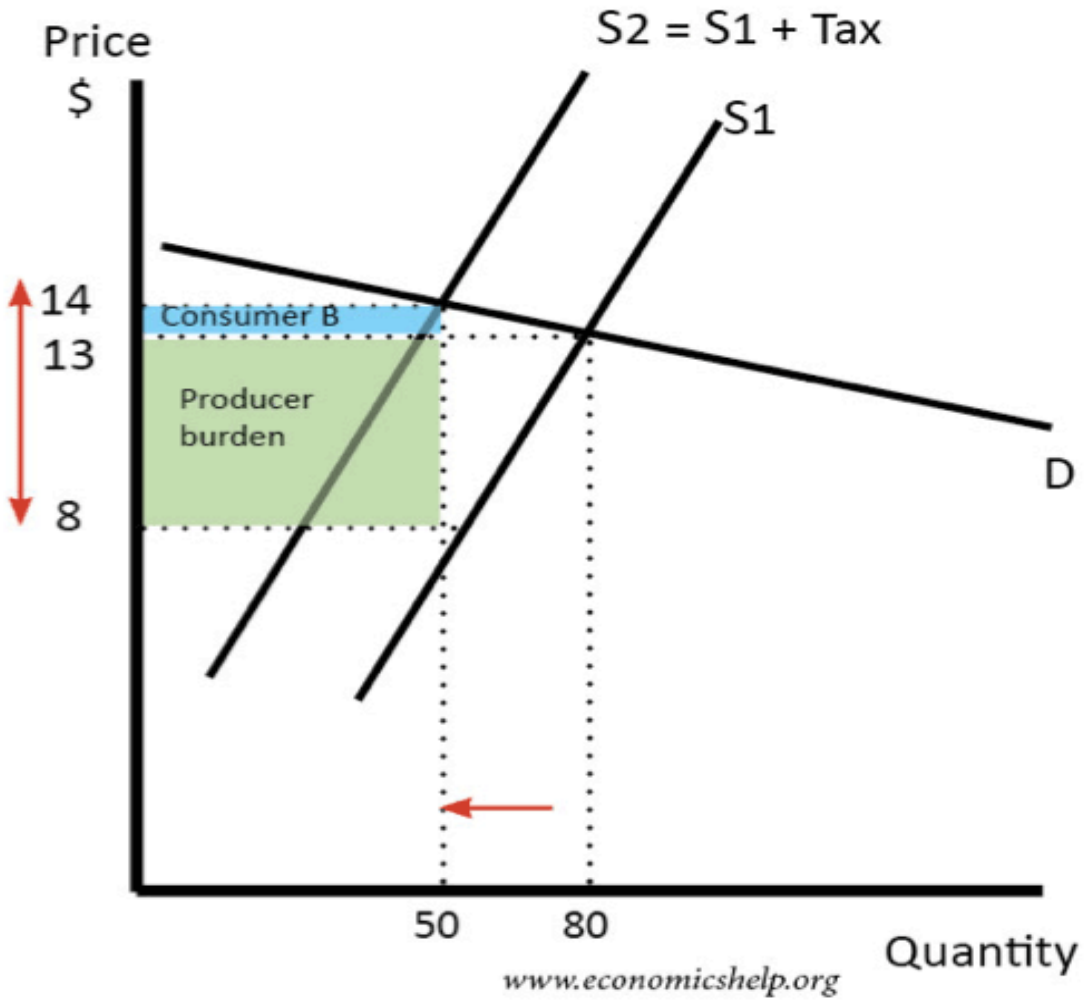
However, Increasing prices are not likely to curb use significantly

Regulations become a more effective policy tools to reduce drinking.

- Reduce drinking hours
- Restrict licenses
- Reduce retail outlets
- Limit selections of products offered

Impact of Taxes is Dependent on Elasticity





Privilege vs Point Of Sale

- **Privilege tax** is levied on the production or distribution cycle
- Tax gets folded into the price and the markup process
- Produces higher final price
- Efficient to collect from a limited number of distributers
- Existing mechanism and collected by the regulating agency OLCC
- Never adjusts to inflation without action

- **Point of Sale** tax is levied on the final point of the cycle (time and place of Sale)
- Less price escalation and less effect on demand
- Collection from many retailers
- New process that is more suited to be collected by DOR
- Being % of price accounts for inflation by definition

- Also discussed a **per unit tax** similar to the bottle fee.
- Can be Imposed on per unit (bottle, oz, ABV, etc)
- Most inefficient collection. No inflation adjustment

Point Of Sale Tax (POST):

- With price inelasticity it can generate revenue without disturbing the market
- It can go up to 6 or 8% without creating winners or losers
- It can go gradually as 2% every 2 years(BN) for 6 or 8 years
- Gradual increase can have even less disruption in the market
- Each increase could be conditional on a set of criteria

- Need to allow for collection costs of (2-3%) for the retailers
- Administration costs of 2-3% for DOR

- Dedicate the revenue to specific programs
- Setup time for the programs
- Monitor, audit and report on criteria before the next increase takes effect
- State programs or County programs with coordination mechanism (similar to the HECC)

Preliminary Estimates and Impacts

Beer Market:
U.S. $114 Billion, (44% of Total alcohol). Small independent (craft) 13%
Oregon Market is estimated at $1.3-$1.4 Billion. Craft is about 15%
Beer tax (privilege) at $8.5 million implies 0.60% current tax rate.

Wine Market:
U.S. Wine Market about $41 billion (16% of Total alcohol).
Oregon Market is estimated at $519 million.
Wine tax (privilege) at $8.5 million implies 1.64% current tax rate.

Point of Sale Tax	Rate @	2%	4%	6%	8%
Beer Tax		$27.8	$55.0	$82.5	$109.3
Wine Tax		$9.9	$19.3	$28.9	$38.1
Gross Total		$37.7	$74.2	$111.4	$147.4

Least Market Impact Scenario

- 2% increase every two years. (generating $38 million per year).
- Increase 3 or 4 times (6 or 8 years).
- Smaller impact on the market (producers and suppliers). Market can absorb the increase without much disruption.
- Collection costs (2-3% of revenue for retailers), and 2-3% Admin costs to DOR.
- Dedicate revenue to a particular programs or to counties.
- Set up an oversight mechanism (monitoring, auditing and reporting).
- Allow for setup costs and establishment of the programs from existing funds.
- Set up a review process by an overseeing agency.
- The agency certifies if the conditions are met to allow for increases to take place.
- Look into a tax exemption or tax breaks to incentivize small businesses.