

Legislative Council Service

Information Memorandum

DATE: August 19, 2016

DISCUSSION DRAFT

TO: Legislative Health and Human Services Committee Members

FROM: Jeff Eaton, Research and Fiscal Policy Analyst

SUBJECT: ANALYSIS OF PROPOSAL TO INCREASE LIQUOR EXCISE TAX BY \$0.25
PER DRINK

Committee staff has requested a fiscal analysis of a \$0.25-per-drink liquor excise tax increase. The following information is submitted in compliance with that request and does not necessarily reflect the opinions of the author or the New Mexico Legislative Council or any other member of its staff.

Liquor Excise Tax — Imposed on Wholesalers, Not "Per Drink"

New Mexico's liquor excise tax is imposed on liquor wholesalers and is taxed on quantities measured as liters and gallons, not "per drink". The fiscal impact analysis converts the existing tax schedule into drinks, adds the \$0.25-per-drink tax and then presents the cumulative tax on liters/gallons that would be imposed on the wholesaler.

Effects of Changes in Alcohol Prices and Taxes on Consumption Levels

Recent studies conducted by the National Institutes of Health and many other authoritative organizations confirm earlier findings that consumption of beer, wine and spirits does respond to changes in price (higher price, lower consumption, all other things being equal). There is disagreement about how large the effects may be, however. The weight of evidence suggests that the effects are relatively modest. A benchmark meta-analysis in 1993 reviewed 15

alcoholic beverage studies and estimated price elasticities of -0.3 for beer, -1.0 for wine and -1.5 for spirits. A more recent study (Nelson 1997) found more unresponsive price elasticities of -0.16 for beer, -0.58 for wine and -0.39 for spirits.¹ This analysis averages the 1993 and 1997 price elasticity factors:

- spirits - (0.95);
- fortified wine - (0.79);
- cider - (0.23);
- beer - (0.23);
- microbrew - (0.23); and
- wine - (0.79).

Liquor/Beverage	Current tax	# of oz. in a "drink"	Current tax per "drink"	Proposed tax per "drink"
Spirits	\$1.60/liter	1.5	\$0.07	\$0.32
Fortified Wine	\$1.50/liter	4	\$0.18	\$0.43
Cider	\$0.41/gal.	12	\$0.04	\$0.29
Microbrew (1st 10k gal.)	\$0.08/gal.	12	\$0.01	\$0.26
Beer (except microbrew)	\$0.41/gal.	12	\$0.04	\$0.29
Wine (except sm. wineries)	\$0.45/liter	5	\$0.07	\$0.32
Microbrew (10-15k gal.)	\$0.28/gal.	12	\$0.03	\$0.28
Microbrew (>15k gal.)	\$0.41/gal.	12	\$0.04	\$0.29
Small Wineries (1st 80k liters sold)	\$0.10/liter	5	\$0.01	\$0.26
Small Wineries (>80k<150k liters sold)	\$0.20/liter	5	\$0.03	\$0.28
Small Wineries (>150k<1.5M liters sold)	\$0.30/liter	5	\$0.04	\$0.29
Small Wineries (>1.5M liters sold)	\$0.45/liter	5	\$0.07	\$0.32

¹ National Institutes of Health, National Institute on Alcohol Abuse and Alcoholism, "NIAAA Directors Report on Institute Activities to the 123rd Meeting of the National Advisory Council on Alcohol Abuse and Alcoholism - February 4, 2010".

The effects of price changes on consumer behavior are in response to changes in the retail price of drinks, which varies widely. For example, a drink of beer may be \$1.10 when purchased in a six-pack at the grocery store. The same brand and quantity may cost \$3.00 at a restaurant. For this analysis, drink prices used were borrowed from the study prepared by Healthy Places Consulting, LLC, March 31, 2015. This study's price estimates were based on informal in-person surveys of New Mexico liquor outlets by the lead author and colleagues. The analysis is as follows:

- spirits - \$1.77;
- fortified wine - \$2.37;
- cider - \$1.83;
- beer - \$1.25;
- microbrew - \$1.42; and
- wine - \$2.37.

The elasticities are then applied to the new price per drink and 2015 consumption levels (the most recent year available) in New Mexico to arrive at the estimated fiscal impact adjusted for a price increase equivalent of \$0.25 per drink.²

Fiscal Impacts of Tax Increase Equivalent of \$0.25 Per Drink

	A.	B.	C.	D.	C. x D.
Liquor/Beverage	Current Tax	New Tax	Change	Price Adjusted Volumes Consumed (thousands)	Fiscal Impact (thousands)
Spirits	\$1.60/liter	\$7.24/liter	\$5.64/liter	10,557.5 liters	\$59,498.8
Fortified Wine	\$1.50/liter	\$3.61/liter	\$2.11/liter	39.0 liters	\$82.5
Cider	\$0.41/gal.	\$3.08/gal.	\$2.67/gal.	110.4 gallons	\$294.3
Microbrew (1st 10k gal.)	\$0.08/gal.	\$2.75/gal.	\$2.67/gal.	-	\$0.0
Beer (except microbrew)	\$0.41/gal.	\$3.08/gal.	\$2.67/gal.	37,619.0 gallons	\$100,317.3

² Source: Taxation and Revenue Department, 2015 Liquor Excise Tax Volumes Report. Note: original volumes are based on gross taxable volumes and do not include allowable deductions.

Wine (except sm. wineries)	\$0.45/liter	\$2.14/liter	\$1.69/liter	-	\$0.0
Microbrew (10-15k gal.)	\$0.28/gal.	\$2.95/gal.	\$2.67/gal.	2,558.9 gallons	\$6,823.6
Microbrew (>15k gal.)	\$0.41/gal.	\$3.08/gal.	\$2.67/gal.	-	\$0.0
Small Wineries (1st 80k liters sold)	\$0.10/liter	\$1.79/liter	\$1.69/liter	1,892.4 liters	\$3,199.4
Small Wineries (>80k<150k liters sold)	\$0.20/liter	\$1.89/liter	\$1.69/liter	822.2 liters	\$1,390.0
Small Wineries (>150k<1.5M liters sold)	\$0.30/liter	\$1.99/liter	\$1.69/liter	-	\$0.0
Small Wineries (>1.5M liters sold)	\$0.45/liter	\$2.14/liter	\$1.69/liter	-	\$0.0

Total: \$171,605.9