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# State and Local Backgrounders

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## Alcohol Taxes

Alcohol taxes are selective sales taxes on the purchase of alcohol. Most states levy the tax as an amount per unit sold (i.e., per gallon of beer, wine, or liquor). The producer or seller of the product pays the tax on the wholesale transaction, but it's assumed the tax is then included in the final purchase price and thus passed on to consumers.

Additionally, some states and localities collect revenue from government-owned liquor stores.

Alcohol taxes are sometimes called a corrective or "[sin tax](#)" because, unlike a [general sales tax](#), the tax is levied in part to discourage the consumption of alcohol because the choice to use it has costs both to the consumer and the general public (such as increased health care costs). State and local governments tax [cigarettes](#), and have begun taxing [marijuana](#) and [soda](#), in a similar way.

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## How much revenue do state and local governments raise from taxes on alcohol?

In 2019, state and local governments collected \$7.7 billion in alcohol taxes, or 0.2 percent of general revenue. In no state did combined state and local alcohol tax collections account for more than 1 percent of general revenue. The states with the highest share of general revenue from alcohol taxes in 2019 were Tennessee (0.9 percent) and Alabama and North Carolina (0.6 percent in both states). Most alcohol tax revenue (90 percent) came from state taxes in 2019.

Additionally, state and local governments collected \$10.7 billion from government-owned liquor stores in 2019, generating revenue through various taxes, fees, price mark-ups, and net profits. This revenue, like other "business-like" activities, is not included in the Census definition of state and local general revenue. In total, 22 states had government-run liquor stores in 2019, with state governments running stores in 10 states and local governments operating stores in six states. As such, states collected most government liquor store revenue (85 percent) in 2019.

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## How much do alcohol tax rates differ across states?

Alcohol taxes are generally remitted by producers and distributors who collect the tax during the wholesale transaction. However, it is assumed that the cost of the tax is then incorporated into the final retail price and thus ultimately paid by the consumer.

The alcohol excise tax is a per gallon tax rather than a percentage of price tax, and the rate is based on the type of alcohol: liquor is taxed at a higher rate than wine and wine is taxed at a higher rate than beer. In some states, tax rates also vary based on the location of the seller and the quantity produced. For example, [Georgia's excise tax rate](#) on wine is nearly four times higher for table wines produced outside of Georgia, and [Montana's excise tax rate](#) on beer is over three times higher for companies producing over 10,000 barrels of beer.

[Tax rates also vary considerably across states.](#) As of January 2022, the per gallon tax rates on beer ranged from \$0.02 in Wyoming to \$1.29 in Tennessee, the per gallon tax rates on wine ranged from \$0.20 in California and Texas to \$2.50 in Alaska, and the per gallon tax rates on liquor ranged from \$1.50 in the District of Columbia and Maryland to \$14.27 in Washington. Every state and the District of Columbia taxes beer, but four

states do not tax wine and 17 states do not tax liquor. These states instead raise revenue from these products via government-run liquor stores.

In addition to the per-gallon excise tax, some states and localities also levy a special sales tax on the final purchase price of alcohol. For example, the [District of Columbia](#) levies both per gallon taxes on beer (\$0.09), wine (\$0.30), and liquor (\$1.50), which are built into the retail price of alcohol, and a 10.25 percent alcohol sales tax on the final purchase price.

## Interactive data tools

[State and Local Government Finance Data: Exploring the Census of Governments](#)

## Further reading

[Are States Betting on Sin? The Murky Future of State Taxation](#)

Lucy Dadayan (2019)

[Critical Value Podcast: #46 Sin Taxes Are Sweeping the States!](#)

Richard Auxier and Lucy Dadayan (2020)

[Do Alcohol Excise Taxes Reduce Motor Vehicle Fatalities? Evidence from Two Illinois Tax Increases](#)

Robert McClelland and John Iselin (2017)

[Should We Tax Internalities Like Externalities?](#)

Donald Marron (2015)

[How Should Governments Use Revenue from Corrective Taxes?](#)

Adele C. Morris and Donald Marron (2016)

### *Note*

All revenue data are from the US Census Bureau's Annual Survey of State Government Tax Collections. All dates in sections about revenue reference the fiscal year unless stated otherwise.

## RESEARCH AREAS

State and local finance

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