

# The Economic Impact of Alcohol Taxes

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✓ *This presentation does not necessarily reflect the viewpoint of  
the University of New Mexico*

# UNM Economics Research and Public Service Project

- **Mission:** Produce research projects that will inform policy makers about economic issues facing New Mexico, with the goal of improving the lives of New Mexicans
  - Independent analysis on contemporary and important New Mexico issues
  - *Long-term benefit:* create data and research infrastructure and to be able to study future research questions
  - *Plug:* New Mexico Economics Research Day (August 15, 2025)
- We have written 2 reports on alcohol policy in New Mexico (coauthored by David Dixon and Ana

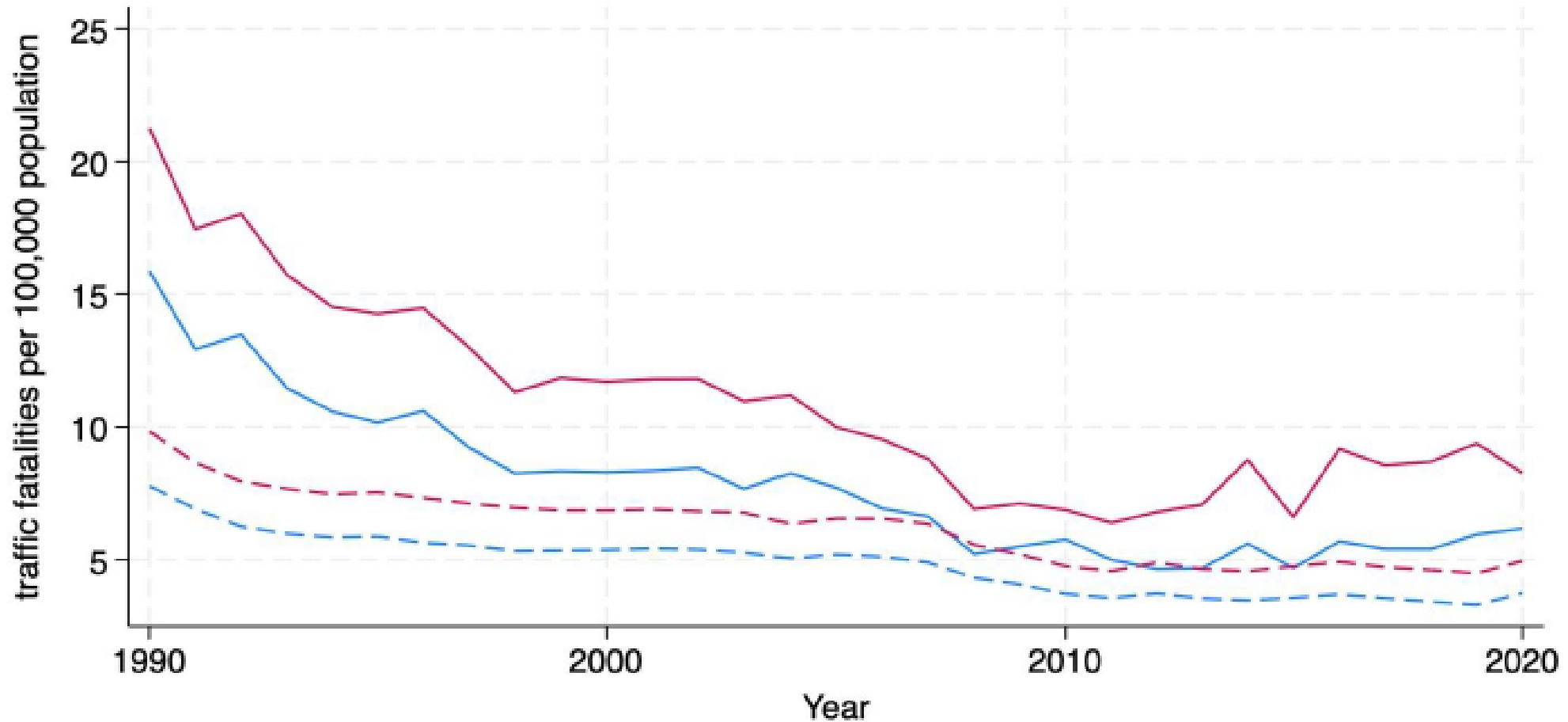
# Motivation

- Alcohol is a complex good with both economic benefits and considerable economic costs
  - People enjoy alcohol for its culinary and intoxicating effects
  - Moderate alcohol consumption may have *some* positive health impacts
  - There may be some economic development associated with alcohol consumption (e.g., NM brewing industry)

# Motivation

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  - People enjoy alcohol for its culinary and intoxicating effects
  - Moderate alcohol consumption may have *some* positive health impacts
  - There may be some economic development associated with alcohol consumption (e.g., NM brewing industry)
- Many negative health and societal outcomes associated with alcohol
  - Alcohol has a close association with crime, domestic violence, and reduced work performance (Abbey et al., 1998, 2004; Corman & Mocan, 2015; Kuhns et al., 2014; Zhang et al., 1997).
    - ✓ Over 13 thousand people in the US die every year from alcohol related fatalities (which is one person every 39 minutes)
    - ✓ Every year over seven thousand homicide reports indicated alcohol as

# Alcohol Fatality Rates New Mexico Over Time



NM (solid) and US (dashed) yearly averages

- Alcohol-impaired fatalities
- Alcohol-related fatalities

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- Alcohol markets are examples of market failure, where some of the costs are not accounted for in prices
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- Alcohol markets are examples of market failure, where some of the costs are not accounted for in prices
  - negative externalities: crime, domestic violence, drinking and driving, etc.
- Mechanisms for how alcohol taxes indirectly impact negative outcomes:

• Alcohol Taxes → Price → Consumption

# UNM Research on Alcohol Taxes

Table 2. The effect of beer taxes on alcohol-impaired (BAC 0.08+) traffic fatalities

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Beer tax	-0.292*** (0.107)	-0.243*** (0.0624)	-0.249*** (0.0620)	-0.193*** (0.0487)	-0.247*** (0.0638)	-0.182*** (0.0478)
State FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
State controls	NO	YES	YES	YES	YES	YES
Alcohol controls	NO	NO	YES	YES	YES	YES
Non-AR traffic fatalities	NO	NO	NO	NO	YES	YES
State time trends	NO	NO	NO	YES	NO	YES
N	1530	1530	1530	1530	1530	1530

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- ✓ Consistent evidence is found that alcohol taxes reduce driving fatalities
- ✓ On average an excise tax increase of 10 cents reduced fatalities by approximately 2%
- ✓ These results suggest a reduction of 2.57 fatalities per year

# Current New Mexico Excise Taxes (2023)

Category	Drinks per unit	Effective tax per unit	Effective tax per drink	Effective tax per ounce of ethanol
Beer	10.67	\$0.39	\$0.0366	\$0.0609
Cider	10.67	\$0.41	\$0.0384	\$0.0641
Wine	6.76	\$0.42	\$0.0621	\$0.1035
Fortified wine	11.27	\$1.50	\$0.1331	\$0.2218
Distilled spirits	22.54	\$1.60	\$0.0710	\$0.1183

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- ✓ *Note:* there are different tax rates for small local breweries and wineries



# Tax Revenue

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- Analysis is a bit complicated and depends on numerous factors
  - Type and magnitude of the tax
  - Current levels of alcohol consumption and alcohol prices
  - Alcohol elasticities
  - Alcohol tax pass-through rates
- We base our analysis on a 25-cent per-drink tax
  - Other tax rates and designs could be considered
  - One drink is based on .6 oz of ethanol

**Table 9.** Tax revenue from a 25-cent per-drink tax.

	Reduction in sales (thousands of taxation units)	Sales after tax is increased (millions of taxation units)	Number of drinks after tax is increased (millions)	Per-drink tax revenue (\$millions)	2018 tax revenue (\$millions)	Tax revenue increase
Beer	968	42.209	450.37	\$112.593	\$16.927	\$95.666
Wine	133.9	15.761	106.544	\$26.636	\$6.676	\$19.960
Spirits	147.2	13.91	156.766	\$39.192	\$22.491	\$16.701
Total				\$178.421	\$46.094	\$132.327

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✓ Overall, a 25-cent per-drink tax is estimated to increase tax revenues by approximately \$130 million

# Summary

- Alcohol is a complex good, but it is associated with many negative externalities.
- Alcohol taxes will reduce alcohol consumption, which will lead to reduced negative societal outcomes (e.g., crime, alcohol related fatalities etc.)
- Estimated tax revenue from a 25-cent per-drink alcohol tax are estimated to be approximately \$130 million.