DISTILLED
SPIRITS
COUNCIL
OF THE
UNITED
STATES

Testimony Submitted by Jay M. Hibbard
Vice President - State Government Relations
Opposing Raised S. B. 930

Chairwoman Daily, Chairman Staples, Members of the Committee:

On behalf of the Distilled Spirits Council of the United States, a national trade association representing producers and marketers of distilled spirits sold in the state of Connecticut, we thank you for the opportunity to voice our strong opposition to Raised S.B. 930.

We understand and respect the challenge of what you are faced with, however, we disagree that raising taxes on beverage alcohol and the hospitality industry is part of any solution.

Current beverage alcohol taxes in Connecticut are already high and unjustifiable when viewed in either an economic or social context. The proposed rates represent a 26% increase in current taxation levels on spirits and similarly high increases on wine and beer. Increases of this level would cause distilled spirits prices to rise nearly 3% and cause an estimated 700 Connecticut citizens to lose their jobs. Distilled Spirits are already overtaxed and a 26% increase over the current taxation level amounts to a dramatic tax increase on the entire hospitality industry.

As you consider Raised S. B. 930, we ask you to please bear in mind the following:

1. By any measure, beverage alcohol is already overtaxed with 56% of the retail price of a bottle of distilled spirits going to pay taxes of some kind in Connecticut including Federal Excise Tax, payroll taxes, State and Federal corporate income tax and property taxes, licensing fees (a lump sum tax), State sales tax and the State excise tax. In fact, since the State sales tax is paid on top of the State's excise tax the spirits industry pays taxes on its taxes

2. People react to higher prices and as prices rise spirits volumes will go down and Connecticut will lose in two ways.

   a. Connecticut residents will buy less of something that is more expensive. We project that lost spirits sales at retail would amount to $19 million.

   b. Connecticut will also lose volume from reduced cross-border spirits sales to neighboring states – primarily New York – worth around $38 million to Connecticut package stores. If this excise tax proposal is enacted many of Connecticut's out-of-state customers will simply stay home and more of the State's residents will cross into nearby New Hampshire for lower prices. We project Connecticut would lose an additional $28 million in revenue, bringing total lost retail sales to an estimated $47 million. The combined loss of spirits, beer and wine would be over $68 million at retail.

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c. While spirits excise tax revenues might increase, lost sales will result in a decline in sales tax, corporate income taxes and payroll taxes combining for a net reduction in State revenues of around $900,000.

3. The power to tax is the power to destroy. As volumes fall, and as a result of declining sales, nearly 700 people are expected to lose their jobs, many in the hard hit hospitality industry.

Alcohol Abusers Not Affected

Raising taxes on beverage alcohol only serves to penalize responsible beverage alcohol consumers and does not deter abusers for whom taxes are of little concern. The National Institute on Alcohol Abuse and Alcoholism, the government's lead agency on alcohol issues, reported in its January 2001 issue of Alcohol Alert that research suggests the heaviest-drinking 5 percent of drinkers do not reduce their consumption significantly in response to price increases, unlike drinkers who consume alcohol at lower levels.

In closing, we would strongly urge you to reject Raised S. B. 930. If adopted:

1. It would result in a price increase of distilled spirits directly increasing the cost of living for millions of Connecticut's citizens and visitors;

2. 700 Connecticut workers in the state's all-important hospitality industry - taverns, restaurants, hotels, resorts and bars – as well as package stores can expect to become unemployed.

3. Responsible consumers of beverage alcohol, who are already paying more than their fair share with well over half the cost of bottle of spirits going toward a tax, would be further burdened;

4. $68 million in retail sales from in- and out-of-state customers would be lost, a vast majority of which would be at the expense of Connecticut's small, independent business owners in the restaurant and retail industry.

Further details are provided in the attached analysis. Thank you for the opportunity to provide this testimony.

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Connecticut: SB 930
Tax Analysis

Excise Tax Increase Will Reduce State Spirits Revenues, Destroy Jobs

SB 930 would impose a massive 26% increase in the distilled spirits excise tax. Beer and wine taxes would also go up by similar amounts. The proposed tax increases would force retailers to raise prices and result in a projected loss in sales revenues of $47 million and nearly 700 lost jobs. This lost business would actually reduce state revenues derived from the sale of spirits by an estimated $900,000 per year.

By any measure, beverage alcohol is already over taxed. On the typical bottle of distilled spirits around 56% of the purchase price in Connecticut goes to a tax of some kind.

Distilled spirits are already overtaxed

- The proposal to increase the distilled spirits excise tax from $4.50/gallon to $5.65 would constitute a 26% increase in the tax rate on distilled spirits. At $5.65 the Connecticut excise tax rate on spirits would be almost 42% higher than the national average for similar states. Under the same proposal, beer and wine taxes would increase as well.

- This excise tax proposal comes despite the fact that, by any measure, beverage alcohol is already overtaxed. For a typical bottle of distilled spirits in Connecticut 56% of the retail price already goes to a tax of some kind.

- In addition to the Federal Excise Tax, payroll taxes, State and Federal corporate income tax and property taxes, Connecticut also imposes licensing fees (a lump sum tax), State sales tax and the State excise tax. In fact, since the State sales tax is paid on top of the State's excise tax the spirits industry pays taxes on its taxes.

- Businesses have no choice but to pass higher taxes along in higher prices. The typical bottle of spirits is expected to increase in price by almost 2.6% as a result of the tax increase. Wine and beer prices are expected to increase as well.

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A FACT ABOUT ALCOHOL CONTENT:

Economic impact: higher prices lead to lost sales and lost jobs

- Unfortunately, people react to higher prices. As prices rise spirits volumes will go down. Connecticut will lose sales in two ways. First, there will be the natural reaction by Connecticut citizens to buy less of something that is more expensive. State retailers are projected to lose over $19 million in sales as a result.

- But, Connecticut will also lose volume from reduced cross-border sales. While Connecticut currently loses some sales to New Hampshire, Connecticut "exports" an estimated 550,000 gallons of distilled spirits each year to neighboring states – primarily New York – worth around $38 million to Connecticut package stores.

- However, if the excise tax proposal is enacted many of Connecticut's out-of-state customers will simply stay home. And, many more of the State's residents will cross into nearby New Hampshire for lower prices. As a result, Connecticut is projected to lose an additional $28 million in revenue, bringing total lost sales to an estimated $47 million.

- The power to tax is the power to destroy. As a result of declining sales, nearly 700 people are expected to lose their jobs. Many of these jobs would be in the hospitality industry, already hard hit by the recession.

- While spirits excise tax revenues would increase, lost sales will result in a decline in sales tax, corporate income taxes and payroll taxes. The impact on spirits related revenues is projected to be a net reduction in State revenues of around $900,000.

Alcohol abusers not affected

- Raising taxes on beverage alcohol only serves to penalize responsible beverage alcohol consumers and does not deter abusers for whom taxes are of little concern. The National Institute on Alcohol Abuse and Alcoholism, the government's lead agency on alcohol issues, reported in its January 2001 issue of Alcohol Alert that research suggests the heaviest-drinking 5 percent of drinkers do not reduce their consumption significantly in response to price increases, unlike drinkers who consume alcohol at lower levels.

Excise taxes maximize economic harm

- The principles of good taxation tell us that the most efficient and equitable taxes are those that have the lowest rates possible, but that are applied to the broadest possible base. By doing so, a tax can both maximize revenues while also minimizing economic pain.

- But, targeted excise taxes focus directly on a single product with high tax rates, thereby maximizing economic harm.

People pay taxes, not corporations

- Corporations do not pay taxes. Corporations are merely tax collectors that pass proceeds along to the various Federal, State and Local Treasuries. People pay taxes. Almost all tax increase levied on businesses are passed along to consumers in the form of higher prices.

Beverage alcohol taxes are not user fees, but discriminatory taxes

- Some argue that beverage alcohol taxes are "user fees" imposed to cover perceived social costs of alcohol abuse and the programs necessary for alcohol abusers.

- In a true user fee the people who pay the fee also receive the benefits of the government provided programs being paid for. Payment of the tax is directly proportional to ones use of the government service. The classic example of a user fee is the gasoline excise tax. Gasoline excise tax payments are proportional to the amount that you drive and the use of government provided roadways.

- However, there are no negative social costs associated with normal moderate consumption of beverage alcohol, and 90-95% of legal age adults who enjoy beverage alcohol fall into this category.

- Since few of the citizens paying the tax would derive any benefit, Connecticut's beverage alcohol taxes are not user fees at all; they are simply highly targeted, discriminatory taxes. Without the discredited user fee rationale, there is no social or economic reason to tax beverage alcohol differently from any other product.