

**DISTILLED
SPIRITS
COUNCIL
OF THE
UNITED
STATES**

Testimony for Jay M. Hibbard

Vice President - State Government Relations

RE: S.B. No. 1007 An Act Concerning the Governor's Recommendations on Revenue

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, thank you for the opportunity to voice our opposition to recommendations contained in SB 1007, Section 30, subsections (a) through (f) and specifically subsection (b) which seeks to increase the excise tax on distilled spirits.

We believe the recommendation to increase beverage alcohol taxes is poorly conceived in light of the impacts such an increase would have on Connecticut's small retailers and the fact that simply approving the package sale of beverage alcohol on Sunday would be both a more appropriate alternative, provide a substantial revenue boost to the state and not impose an additional tax burden on the state's citizens.

Should the increase in excise taxes be enacted, we project that distilled spirits prices would rise markedly; the new excise tax rates would cause Connecticut retailers to lose an estimated \$38 million in sales and 485 men and women in Connecticut's hospitality industry would lose their jobs.

As you consider this proposal, please bear in mind the following:

- The proposed tax increase comes despite the fact that when all taxes are considered around 53% of the purchase price of a bottle of spirits in Connecticut already goes toward taxes.
- The proposed excise tax increase on beer, wine and distilled spirits would unquestionably raise prices for Connecticut consumers.
- Unfortunately, people react to higher prices. As prices rise spirits volumes will go down and Connecticut will lose sales because of a natural reaction by Connecticut residents to buy less of something that is more expensive. We project that spirits volumes would decline by nearly 87,000 gallons costing \$14.9 million in lost retail sales. Including beer and wine brings lost sales to \$38 million.
- As sales volumes fall, so does economic activity. Gross state product (a measure of general economic activity) can be expected to decline and cost 485 hard working



Connecticut men and women to lose their job at a time when the state's unemployment rate is hovering around 9 percent.

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. Excise taxes focus directly on a single product with high tax rates, thereby maximizing economic harm. As such, excise taxes are not user fees, but discriminatory taxes.

Finally, people pay taxes, not corporations. Corporations are merely tax collectors and tax increases levied on businesses are simply passed along to consumers in the form of higher prices. Excise taxes are known to be the most regressive form of taxation, impacting persons of lower income far more than the wealthy and when beverage alcohol taxes are raised, it is the working poor who are most affected.

Responsible consumers of beverage alcohol already pay more than their fair share. The proposed excise tax increase would substantially raise prices for Connecticut consumers, reduce retail sales revenue by millions of dollars and put hundreds of jobs at risk. The hospitality industry is an important part of Connecticut's economy and it makes little sense to spend tax dollars to promote tourism and then attack the industry with higher tax rates on beverage alcohol.

To reiterate, increasing taxes when another, more appropriate alternative, namely package Sunday Sales of spirits, wine and beer, is available would be a misguided fiscal and public policy decision. Sunday Sales would provide the state with substantial new revenue – as much as \$8 million according to the state's own non-partisan report by the Program Review and Investigations Committee in December 2009. This revenue would be realized by the state because of new sales that would take place and from repatriated sales by Connecticut's citizens that are currently taking place in Massachusetts, Rhode Island and New York, all of which currently allow package sales of alcohol on Sunday.

Thank you for the opportunity to provide this testimony. We would strongly urge you to reject the recommendations of SB 1007 with regard to the increase in beverage alcohol excise taxes.

No Time for Job Destroying Tax Increases

The proposal to increase beverage alcohol excise taxes is a poorly conceived plan that comes despite the fact that, by any measure, beverage alcohol is already over taxed. On a typical bottle of spirits purchased in Connecticut 53% of the purchase price is made up of a tax or fee of some kind. The proposal to increase Connecticut's excise tax rates would only exacerbate this problem.

Higher tax rates would cause a decline in economic activity. Retail sales are projected to decline by \$38 million resulting in the loss of an estimated 485 jobs in the still recovering hospitality industry. With Connecticut's unemployment rate still hovering around a devastating 9%, this is no time to implement job destroying tax increases.

Beverage alcohol already overtaxed.

- The proposal to increase beverage alcohol excise taxes comes despite the fact that, by any measure, beverage alcohol is already overtaxed in Connecticut. For a typical bottle of distilled spirits sold in Connecticut 26% of the retail price goes to pay direct taxes and fees. When all taxes are considered a staggering 53% of the purchase price goes toward taxes.
- Increasing beverage alcohol tax rates by 20%, as proposed, would only increase the burden on everyone that enjoys a cocktail, beer or glass of wine.
- The tax burden on beverage alcohol is already so high that Federal, State and local governments collect over \$2 in taxes for every \$1 that the industry (suppliers, wholesalers, retailers and restaurants) earn in profit. Government is already an unequal partner in the beverage alcohol business.
- Increasing beverage alcohol taxes will only lead to higher prices – never a good idea when many consumers are still struggling in the aftermath of the recession.



Economic Impact: jobs destroyed

- Unfortunately, people react to higher prices. As prices increase, spirits, beer and wine volumes will go down. Spirits volumes are projected to decline by 87,000 gallons as a result, while wine would drop by over 50,000 gallons and beer by nearly 120,000 gallons. Lost spirits sales will be worth \$14.9 million at retail. Including beer and wine would bring lost sales to over \$38 million.
- The power to tax is the power to destroy. As volumes fall, so does economic activity. Gross state product (a measure of general economic activity) will decline and an estimated 485 jobs would be destroyed in the process.
- These job losses would come at a time that hospitality industry is still recovering from the impacts of the recession. With Connecticut's unemployment rate still hovering around a devastating 9%, this is no time to implement job destroying tax increases.

Excise taxes do not act as a deterrent to abusive drinking; population level policies ineffective.

- 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 (NIAAA), 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.
- Consistent with the NIAAA findings was a 2009 meta-analysis, "Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies," published in *Addiction*. The study found that heavy drinkers are far less responsive to price increases than the total population of drinkers. And, it is important to note that "heavy" is often defined in alcohol studies as anyone having more than two drinks per day – not necessarily someone who has an alcohol use disorder. If drinkers who consumed five or more drinks per day were isolated these populations would be even *less* responsive to higher prices.
- A 2008 study "Secular Trends in Alcohol Consumption over 50 Years: The Framingham Study," published in *The American Journal of Medicine*, showed that over the 50 year period from 1948-2003, the prevalence of alcohol use disorders in the population has been constant. This finding is also consistent with the NIAAA report; over that 50 year period the affordability of beverage alcohol and alcohol control policies in general have varied widely; from the highly restrictive distribution policies and relatively high tax rates of the late 1940's and 1950's to the 1970's and early 1980s when the legal drinking age was only 18 in many states. And yet, despite these wide swings the level of alcohol use disorders was relatively constant.

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.
- Excise taxes, however, focus directly on a single product with high tax rates, thereby *maximizing* economic harm.

People pay taxes, not corporations. Excise taxes are regressive.

- 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.
- Excise taxes are known to be the most regressive form of taxation, impacting persons of lower income far more than the wealthy. When beverage alcohol taxes are raised, it is the working poor who are most affected. Over one-third of all beverage alcohol consumers (sprints, beer or wine) come from households having income of less than \$50,000.

