

Alcohol and Tobacco Taxes



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Alcohol and Tobacco Taxes

The state imposes a number of excise and occupational taxes on the sale of specific products in Wisconsin. An excise tax is a tax on the consumer, rather than the seller, while an occupational tax is imposed on the privilege of engaging in a particular business. State general fund excise or occupational taxes are currently levied on cigarettes, tobacco products, fermented malt beverages (beer) and liquor. Information is presented in this paper on the taxes imposed on each of these products. In addition, a summary of the excise tax rates imposed on alcohol and tobacco products by the federal government and other states is included in the final sections of the paper. [The excise taxes charged on motor vehicle and alternate fuel, which are deposited in the transportation fund, are described in Informational Paper #40, "Motor Vehicle Fuel and Alternate Fuel Tax," by the Legislative Fiscal Bureau.]

Taxes On Alcohol And Tobacco In Wisconsin

Cigarette Tax

The state imposes an excise tax on the sale of cigarettes. The tax rate is generally 77¢ per pack, or 38.5 mills per cigarette, although for larger cigarettes (weighing more than three pounds per thousand) the tax rate is 77 mills per cigarette.

The tax is paid through the purchase of tax stamps from the Department of Revenue, generally by a manufacturer or distributor. The tax stamp

must be affixed to each pack of cigarettes prior to its first sale in the state. Manufacturers and distributors receive a 1.6% discount on stamp purchases (or tax payments) as compensation for their administrative costs.

The tax on cigarettes was converted from an occupational tax to an excise tax in 1983. This change allowed the state to impose the tax on sales of cigarettes made by Native Americans to non-Native Americans on reservations. Currently, the state has an agreement with most Native American tribes through which Native American retailers purchase and sell only stamped (taxed) cigarettes. The state then provides a refund to the tribes of 70% of the tax paid on sales to non-Native Americans and 100% of the tax paid on sales to Native Americans (federal law prohibits states from imposing a cigarette tax on sales by Native Americans to Native Americans on reservations). The refund provision was enacted to encourage Native American retailers to sell only stamped cigarettes. Previously, unstamped cigarettes were sold on reservations, which raised concern regarding competition and the administration and collection of taxes for sales to non-Native Americans. The refund provision was enacted as part of the 1983-85 biennial budget.

Since 1980, the cigarette tax rate has been raised seven times. In fiscal year 1981-82, the rate was raised in two stages, from 16¢ to 20¢ per pack and then to 25¢. The 25¢ rate remained in place until September 1, 1987, at which time it was increased to 30¢ per pack. The rate was raised to 38¢ on May 1, 1992, to 44¢ on September 1, 1995, and to 59¢ on November 1, 1997. The current rate of 77¢ per pack

was established in 2001 Wisconsin Act 16 (the 2001-03 biennial budget act), effective October 1, 2001.

Table 1 presents a summary of cigarette tax collections since 1991-92. Revenue "spikes" from the cigarette excise tax are generally due to tax increases, not increased sales, as consumption of cigarettes has been in a gradual decline for several years. The 18.6% increase in revenues from the cigarette tax realized in state fiscal year 2001-02 over the previous fiscal year, for example, is due to the 18¢ increase that took effect on October 1, 2001, as the number of taxed packs sold dropped by some 5% that year. The same pattern holds for revenue increases realized in fiscal years 1991-92, 1992-93, 1995-96, and 1997-98. Nationwide, cigarette consumption decreased by 2.8% per year from 1996 through 2000, according to the U.S. Department of Agriculture's Economic Research Service, and is estimated to decline by between 1.5% and 2.5% annually between 2001 and 2005.

Table 1: Cigarette Tax Collections (\$ in Millions)

Fiscal Year	Amount	Percent Change From Prior Year	Percent of General Fund Tax Collections
1991-92	\$147.83	8.3%	2.33%
1992-93	166.88	12.9	2.43
1993-94	173.85	4.2	2.39
1994-95	176.89	1.7	2.27
1995-96	197.97	11.9	2.40
1996-97	204.57	3.3	2.32
1997-98	247.74	21.1	2.60
1998-99	257.42	3.9	2.59
1999-00	247.59	-3.8	2.26
2000-01	243.51	-1.6	2.42
2001-02	288.77	18.6	2.88

Tobacco manufacturers have raised cigarette prices significantly in recent years, spurred by massive legal settlements with state governments, including a multi-state settlement in November, 1998. These price increases, along with federal tax increases of 10¢ per pack on January 1, 2000, and 5¢ per pack on January 1, 2002, have contributed to

reduced cigarette consumption in the state. (The most recent increase brought the federal cigarette excise tax to 39¢ per pack.)

The 1993-95 biennial budget (1993 Wisconsin Act 16) modified the cigarette tax payment process by treating taxes collected before July 31 of each year as accrued tax receipts for the previous fiscal year, first effective with July, 1994, collections. Previously, fiscal year revenues included amounts received on or before June 30. As a result, the 1993-94 collection amount reflects 13 months of revenue. Adjusted for the law change, collections would have declined by approximately 0.2%.

1997 Act 27 reduced the discount on stamp purchases for manufacturers and distributors from 2% to 1.6%. As mentioned, the discount is provided to manufacturers and distributors as compensation for their administrative costs associated with the tax. The decrease in the rate of the discount was enacted to keep the total discount at the same level it was prior to the increase in the cigarette tax rate adopted in Act 27.

Tobacco Products Tax

The state imposes an excise tax on the sale of all tobacco products except cigarettes. The tax rate is equal to 25% of the manufacturer's list price to distributors. The rate was raised to its current level from 20% of the manufacturer's list price on October 1, 2001, as a result of provisions contained in Act 16. The tax is paid on the basis of monthly returns filed with the Department of Revenue. Table 2 shows tobacco products tax collections since 1991-92.

The tax on tobacco products was converted from an occupational tax to an excise tax under 1999 Wisconsin Act 9 (the 1999-01 biennial budget act). Prior to Act 9, it was common for distributors to sell untaxed tobacco products to Native American retailers and to claim exemptions from the tax for such sales when filing tax returns with the Department of Revenue. Act 9 specified that all

Liquor, Wine and Cider Taxes

Table 2: Tobacco Products Tax Collections (\$ in Millions)

Fiscal Year	Amount	Percent Change From Prior Year	Percent of General Fund Tax Collections
1991-92	\$5.73	16.7%	0.09%
1992-93	5.76	0.4	0.08
1993-94	6.33	9.9	0.09
1994-95	6.95	9.8	0.09
1995-96	7.39	6.3	0.09
1996-97	8.78	18.9	0.10
1997-98	9.35	6.5	0.10
1998-99	9.40	0.5	0.09
1999-00	10.31	9.7	0.09
2000-01	11.36	10.2	0.11
2001-02	13.93	22.7	0.14

tobacco products were subject to the tax, unless specifically exempted, and imposed penalties on distributors who failed to collect and remit the appropriate tax. These changes meant that tribal retailers would no longer be able to purchase untaxed tobacco products. However, Act 9 authorized the Department to enter into agreements with the tribes to refund 100% of tobacco products taxes paid on sales to tribal members on reservations and 50% of such taxes paid on sales to non-tribal members. Although the refund rates for sales to non-tribal members differ, the provisions for tobacco products tax refunds are comparable to those used for cigarette tax refunds to the tribes.

The tax on tobacco products was established in Chapter 20, Laws of 1981, effective October 1, 1981. Between 1991-92 and 2001-02, collections have ranged from \$5.7 million to \$13.9 million. The unusually large 22.7% increase in revenues from the tax in 2001-02 reflects implementation of the higher 25% rate for nine months of that fiscal year. Unlike the other state excise and occupational taxes which are imposed as a fixed amount per unit of product, the tobacco products tax is levied as a percentage of price. Therefore, collections of the tobacco products tax increase over time as prices rise.

The state imposes occupational taxes on the sale of liquor, wine, and fermented cider. As shown in Table 3, the tax rates for liquor, wine and cider are as follows: (a) liquor -- 85.86¢ per liter; (b) wine containing up to 14% alcohol by volume -- 6.605¢ per liter; (c) wine containing more than 14% but not in excess of 21% alcohol by volume -- 11.89¢ per liter; and (d) cider containing between 0.5% and 7.0% alcohol-- 1.71¢ per liter. Table 3 summarizes the statutory rates per liter as well as the equivalent per gallon rates.

Table 3: Liquor, Wine and Cider Tax Rates

Beverage	Tax Rate Per Liter	Tax Rate Per Gallon
Liquor*	85.86¢	\$3.25
Wine		
Up to 14% Alcohol	6.605	0.25
14% to 21% Alcohol	11.89	0.45
Cider	1.71	0.06

*Excludes administrative fee of .793¢/liter (3¢/gallon) that is levied by the Department of Revenue.

Liquor, wine and cider taxes are collected through monthly payments by distributors, based on the actual tax liability for the previous month. The tax payments and a tax return are due on the 15th day of each month.

The tax on hard cider was established under 1997 Wisconsin Act 136, effective July 1, 1998. For the purpose of the tax, "cider" means an alcoholic beverage made from fermented apple juice that contains 0.5% to 7.0% alcohol by volume. Cider containing a greater amount of alcohol is taxed as wine.

Other than the tax on cider, the occupational tax on liquor and wine has not been modified since Chapter 20, Laws of 1981, effective August 1, 1981. A summary of liquor and wine tax revenues since 1991-92 is presented in Table 4.

**Table 4: Liquor and Wine Tax Collections
(\$ in Millions)**

Fiscal Year	Amount	Percent Change From Prior Year	Percent of General Fund Tax Collections
1991-92	\$30.34	-0.8%	0.48%
1992-93	31.33	3.3	0.46
1993-94	30.29	-3.3	0.42
1994-95	30.62	1.1	0.39
1995-96	30.81	0.6	0.37
1996-97	31.35	1.7	0.36
1997-98	32.73	4.4	0.34
1998-99	32.94	0.6	0.33
1999-00	34.56	4.9	0.32
2000-01	35.54	2.8	0.35
2001-02	35.98	1.2	0.36

Beer Tax

An occupational tax is imposed by the state on the sale of beer. The tax rate is \$2 per barrel of 31 gallons, or approximately 6.5¢ per gallon. A 50% tax credit on the first 50,000 barrels produced is available to brewers who produce less than 300,000 barrels per year. The tax is paid by brewers, bottlers, and wholesalers on a monthly basis.

The tax on beer was established at its current \$2 per barrel level in Chapter 185, Laws of 1969. A summary of recent collection amounts is presented in Table 5.

**Table 5: Beer Tax Collections
(\$ in Millions)**

Fiscal Year	Amount	Percent Change From Prior Year	Percent of General Fund Tax Collections
1991-92	\$9.33	1.2%	0.15%
1992-93	9.01	-3.4	0.13
1993-94	9.10	1.0	0.12
1994-95	8.96	-1.6	0.11
1995-96	9.19	2.5	0.11
1996-97	9.21	0.2	0.10
1997-98	9.26	0.6	0.10
1998-99	9.16	-1.1	0.09
1999-00	9.39	2.5	0.09
2000-01	9.36	-0.3	0.09
2001-02	9.60	2.5	0.10

Federal Taxes on Alcohol and Tobacco

The federal excise tax on cigarettes is currently 39¢ per pack. This rate took effect on January 1, 2002. Previous per-pack federal excise tax rates, and the periods in which those rates were in effect, are as follows:

Jan. 1, 2000 - Dec. 31, 2001	34¢
Jan. 1, 1993 - Dec. 31, 1999	24¢
Jan. 1, 1991 - Dec. 31, 1992	20¢
Prior to Jan. 1, 1991	16¢

The current federal taxes on tobacco products are as follows:

Snuff	58.5¢ per pound
Chewing Tobacco	19.5¢ per pound
Pipe Tobacco	\$1.0969 per pound
Roll-Your-Own Tobacco	\$1.0969 per pound
Small Cigars	\$1.828 per 1,000
Large Cigars	20.719% of wholesale price but not more than \$48.75 per 1,000

These rates took effect January 1, 2002, and are higher than the previous tax rates.

The federal liquor tax is \$13.50 per proof gallon (one gallon of 100 proof liquor). For example, a gallon of 80 proof alcohol is taxed at \$10.80 (80% of \$13.50). The Wisconsin liquor tax, in contrast, is based on the volume of the beverage in liters and does not consider the alcohol content.

Federal law provides five separate rates for the taxation of wine, as outlined below. These taxes are based on wine gallons (128 fluid ounces) rather than proof gallons.

Less than 14% alcohol	\$1.07 per gallon
14% to 21% alcohol	1.57 per gallon
21% to 24% alcohol	3.15 per gallon
Artificially carbonated wine	3.30 per gallon
Naturally sparkling champagne	3.40 per gallon

In addition, a separate rate is specified for hard cider from apples containing at least one-half of 1% and less than 7% alcohol. Prior to October 1, 1997, hard apple cider had been taxed as wine containing less than 14% alcohol. The Taxpayer Relief Act reduced the tax rate for hard cider from \$1.07 to 22.6¢ per gallon.

The federal beer tax is \$18 per barrel of 31 gallons (approximately 58¢ per gallon). A reduced rate of \$7 per barrel for the first 60,000 barrels of beer annually is provided for brewers who produce not more than two million barrels in a calendar year.

Taxes on Alcohol and Tobacco in Other States

Information on the excise taxes imposed by other states on cigarettes, tobacco products, liquor, and beer is summarized in the following tables. These tables reflect state tax law changes in other states as of October, 2002.

Table 6 identifies the cigarette tax rates in effect in other states. Table 7 presents a summary of excise tax rates on tobacco products for those states that imposed a tax. With respect to taxes on liquor, Table 8 summarizes the excise tax rates imposed on liquor for the 32 states (plus the District of Columbia) that license the sale of liquor by private individuals. In this table, tax rates are not provided for the 18 states that maintain a complete or partial government monopoly on the sale of liquor. In addition, most states have separate rates for wine, champagne, and other alcohol beverages. However, only the primary tax rate for sales of liquor is presented in Table 8. Finally, Table 9 presents a summary of the excise tax rates levied in other states on the sale of beer.

Table 6: Cigarette Tax Rates by State as of October, 2002

State	Tax Per Pack
Massachusetts	\$1.510
New Jersey	1.500
New York	1.500
Washington	1.425
Rhode Island	1.320
Oregon*	1.280
Michigan	1.250
Hawaii	1.200
Arizona	1.180
Connecticut	1.110
Alaska	1.000
Maine	1.000
Maryland	1.000
Pennsylvania	1.000
Illinois	0.980
Vermont	0.930
California	0.870
WISCONSIN	0.770
Kansas	0.700
Utah	0.695
District of Columbia	0.650
Nebraska	0.640
Indiana	0.555
Ohio	0.550
New Hampshire	0.520
Minnesota	0.480
North Dakota	0.440
Texas	0.410
Iowa	0.360
Louisiana	0.360
Nevada	0.350
Arkansas	0.340
Florida	0.339
South Dakota	0.330
Idaho	0.280
Delaware	0.240
Oklahoma	0.230
New Mexico	0.210
Colorado	0.200
Tennessee	0.200
Mississippi	0.180
Montana	0.180
Missouri	0.170
West Virginia	0.170
Alabama	0.165
Georgia	0.120
Wyoming	0.120
South Carolina	0.070
North Carolina	0.050
Kentucky	0.030
Virginia	0.025

*Rate effective Jan. 1, 2003
Source: Commerce Clearing House

Table 7: Tobacco Products Tax Rates by State as of October, 2002

States That Impose Tax as a Percentage of the Price

State	Tax	State	Tax
Alaska	75.0% of wholesale price	Nebraska	20.0% of manuf. selling price
Arkansas	23.0% of manuf. selling price	Nevada	30.0% of wholesale price
California	48.89% of wholesale value	New Hampshire	19.7% of wholesale price
Colorado	20.0% of manuf. list price	New Jersey	48.0% of wholesale price
Connecticut	20.0% of wholesale price	New Mexico	25.0% of product value
Delaware	15.0% of wholesale price	New York	37.0% of wholesale price
Florida	25.0% of wholesale price	North Carolina	2.0% of initial purchase price
Hawaii	40.0% of wholesale price	Ohio	17.0% of wholesale price
Idaho	40.0% of wholesale price	Oregon	65.0% of wholesale price
Illinois	18.0% of wholesale price	Rhode Island	30.0% of wholesale cost
Indiana	15.0% of wholesale price	South Carolina	5.0% of manuf. price
Iowa	22.0% of wholesale price	South Dakota	10.0% of wholesale price
Kansas	10.0% of wholesale price	Tennessee	6.0% of wholesale price
Michigan	20.0% of wholesale price	Utah	35.0% of manuf. selling price
Minnesota	35.0% of wholesale price	Vermont	41.0% of wholesale price
Mississippi	15.0% of manuf. list price	Washington	129.42% of wholesale price
Missouri	10.0% of manuf. price	WISCONSIN	25.0% of manuf. selling price
Montana	12.5% of wholesale price		

States That Impose Tax That Differs by Product

State/Product	Range of Tax Rates	State/Product	Range of Tax Rates
Alabama		Maine	
Cigars	\$1.50/1,000 to \$20.25/1,000	Cheating Tobacco	62% of wholesale price
Little Cigars	2¢ per 10	Snuff	62% of wholesale price
Smoking Tobacco	Up to 3¢ per ounce	Cigars	16% of wholesale price
Cheating Tobacco	3/4¢ per ounce	Smoking Tobacco	16% of wholesale price
Snuff	Up to 6¢ per ounce		
Arizona		North Dakota	
Cigars	6.4¢ for 3 to 6.4¢ each	Cigars	28% of wholesale price
Little Cigars	12.9¢ per 20	Pipe Tobacco	28% of wholesale price
Smoking Tobacco	6.5¢ per ounce	Tobacco Products	28% of wholesale price
Cheating Tobacco	6.5¢ per ounce	Snuff	60¢ per ounce
Snuff	6.5¢ per ounce	Cheating Tobacco	16¢ per ounce
Plug Tobacco	1.6¢ per ounce		
Georgia		Oklahoma	
Cigars	13% of wholesale price	Cigars	Up to \$30/1,000
Little Cigars	2 mills each	Little Cigars	9 mills each
		Smoking Tobacco	40% of factory list price
		Cheating Tobacco	30% of factory list price
Louisiana		Texas	
Cigars	8% to 20% of manuf. invoice price	Little Cigars	1¢ per 10
Smoking Tobacco	33% of invoice price	Cigars	\$7.50/1,000 to \$15/1,000
Smokeless Tob.	20% of invoice price	Smoking Tobacco	35.213% of factory list price
		Cheating Tobacco	35.213% of factory list price
		Snuff	35.213% of factory list price

Source: Commerce Clearing House.

Table 8: Liquor Tax Rates for License States as of October, 2002

State	Tax Per Gallon	State	Tax Per Gallon	State	Tax Per Gallon
Alaska	\$12.80	Tennessee	\$4.40	Indiana	\$2.68
Florida	6.50	Massachusetts	4.05	Kansas	2.50
New York	6.44	North Dakota	4.05	Louisiana	2.50
New Mexico	6.06	South Dakota	3.93	Arkansas	2.50
Hawaii	5.98	Georgia	3.79	Texas	2.40
Oklahoma	5.56	Rhode Island	3.75	Colorado	2.28
Delaware	5.46	California	3.30	Nevada	2.05
Minnesota	5.03	WISCONSIN	3.25	Missouri	2.00
Connecticut	4.50	Nebraska	3.00	Kentucky	1.92
Illinois	4.50	Arizona	3.00	Maryland	1.50
New Jersey	4.40	South Carolina	2.72	DC	1.50

Source: Commerce Clearing House; Federation of Tax Administrators

Table 9: Beer Tax Rates by State as of October, 2002

State	Tax in ¢ Per Gallon	Tax in \$ Per Barrel	State	Tax in ¢ Per Gallon	Tax in \$ Per Barrel
Hawaii*	93.0¢	\$28.83	Illinois	18.5¢	\$5.74
South Carolina	76.8	23.81	Kansas	18.0	5.58
Alabama	53.3	16.52	Ohio	18.0	5.58
North Carolina	48.4	15.00	West Virginia	17.7	5.50
Florida	48.0	14.88	Arizona	16.0	4.96
Mississippi	42.7	13.23	Delaware	15.6	4.85
New Mexico	41.0	12.71	Idaho	15.0	4.65
Oklahoma	40.3	12.50	Minnesota	14.8	4.60
Utah	35.5	11.00	Montana***	13.9	4.30
Alaska	35.0	10.85	Tennessee	13.8	4.29
Georgia	32.3	10.00	New York****	12.5	3.88
Louisiana	32.3	10.00	New Jersey	12.0	3.72
New Hampshire	30.0	9.30	Indiana	11.5	3.57
South Dakota	27.4	8.50	Massachusetts	10.6	3.30
Vermont	26.5	8.22	Rhode Island	9.7	3.00
Washington**	26.1	8.08	District of Columbia	9.0	2.79
Virginia	25.7	7.95	Maryland	9.0	2.79
Maine	25.0	7.75	Nevada	9.0	2.79
Arkansas	23.4	7.27	Oregon	8.4	2.60
Nebraska	23.0	7.13	Kentucky	8.1	2.50
Michigan	20.3	6.30	Colorado	8.0	2.48
California	20.0	6.20	North Dakota	8.0	2.48
Connecticut	19.4	6.00	Pennsylvania	8.0	2.48
Texas	19.4	6.00	WISCONSIN	6.5	2.00
Iowa	19.0	5.89	Missouri	6.0	1.86
			Wyoming	1.9	0.59

*Hawaii imposes a rate of \$28.83 per barrel on non-draft beer. The rate for draft beer is \$16.74 per barrel.

**Washington imposes a rate of \$8.08 per barrel on large breweries and imported beer. For small breweries, the rate is \$4.782 per barrel on the first 60,000 barrels produced each year.

*** Effective July 1, 2001, Montana brewers which produce 20,000 barrels or fewer per year pay tax per barrel according to the following schedule: first 5,000 barrels, \$1.30; barrels 5001 - 10,000, \$2.30; barrels 10,001 - 20,000, \$3.30.

****New York's rate will become 11¢ per gallon (\$3.41 per barrel) on September 1, 2003.

Source: Commerce Clearing House