



Alcohol Tax Cut Experience

Wine and Liquor Proves 3.0% Concept

Justin Katz, Research Director

Taxation > Sales Taxes > 3.0% > 3

Whenever a tax proposal would leave money in the hands of *all* Rhode Islanders, people who make their money or derive their influence from government denounce the recklessness. To them, the benefits of economic growth are abstract, while the potential loss of money for government is tangible.

It's irrelevant, from their point of view, for the RI Center for Freedom & Prosperity to project some number of jobs that a policy might create. Selfish eyes go right to the money out of the budget. They don't mind spending \$70,000 to create a job if there are only 10 of them and if politicians get to trade influence for the cash. But they see \$7,000 per job as a calamity if 12,000 of them are broadly distributed.

It's time to move away from abstraction. To gauge the likelihood of major economic growth if the state government were to reduce the sales tax to 3.0%, as well as to put some concrete evidence to the Center's claims, we reviewed results from the recent elimination of sales tax from wine and liquor.

Because of the peculiarities of the liquor industry, the state was able to eliminate the sales tax on some alcoholic beverages while passing much of the revenue loss on to the wholesalers, who pay the excise tax, without their raising prices substantially in response.¹ So, the \$10.7 million sales tax reduction in the first year was partially offset with a \$5.6 million increase in the excise tax, with limited effect on prices.

¹ Understood through conversations with former Representative Jan Malik, himself a liquor store owner.

The legislation implementing the change required the state to report annually on sales and taxation of alcoholic beverages in RI.² As the accompanying table shows, during the first two years, total liquor store sales of alcohol increased 20.0%. Sales of tax-free wine and liquor have gone up by 21.4%. This contrasts with an increase in all retail of only 8.3%.³ "Tax free," by the way, is simple parity with Massachusetts, which has no sales tax on alcohol.

Similarly, a low sales tax rate of 3.0% would attract consumers from other states while allowing Rhode Island to tax some of the sale. The Center estimates that the rate reduction's effect on total retail sales would be an increase of 21.2% versus what it would otherwise be. That's \$3.1 billion more sales for RI businesses. Even taxed at the lower rate, this boom will go a long way toward offsetting the reduction that a straight-line or "static" estimate would project.

The Center's RI-STAMP model projects that the 3.0% rate's revenue price tag for the state would ultimately be \$82.3 million (with an overall *increase* if local tax revenue is included).⁴ Government officials who refuse to implement this reform over that cost apparently don't think it's worth billions in more economic activity. For insiders, a tax in the pocket is better than a \$3 billion economic boom for the people.

² "Miscellaneous Reports": www.tax.ri.gov/reports/index.php

³ Inferred from tax collection reports: www.dor.ri.gov/revenue-analysis/2015.php

⁴ PDFs 1 & 2 of this series: rifreedom.org/2017/03/3-0-sales-tax-superior-reform-car-tax-repeal-free-college-tuition

Effect of Wine and Liquor Sales Tax Elimination on Total Sales, 2013-2015

	2013	2014		2015		Two-Year Growth
	Total	Total	Year-over-Year Growth	Total	Year-over-Year Growth	
Alcohol sales	\$316.5	\$358.8	13.4%	\$379.6	5.8%	20.0%
Wine & spirits	\$196.1	\$221.6	13.0%	\$238.0	7.4%	21.4%
Beer & malt	\$120.4	\$137.2	14.0%	\$141.6	3.2%	17.6%
Alcohol sales tax	\$20.3	\$9.6	-52.9%	\$9.8	2.9%	-51.5%
Alcohol excise tax	\$10.1	\$15.6	55.2%	\$18.0	15.2%	78.9%
All retail sales	\$12,859.5	\$13,294.8	3.4%	\$13,932.1	4.8%	8.3%
All retail sales tax	\$900.2	\$930.6	3.4%	\$975.2	4.8%	8.3%

Notes: Dollar amounts are millions. Data is calendar year. Alcohol data is for liquor store alcohol sales only.