

**Selective Sales Tax on Tobacco and Alcohol**

Washington State imposes two state taxes on tobacco—the cigarette tax and the tobacco products tax--and four state taxes on alcohol--the liquor sales tax, the liquor liter tax, the wine tax, and the beer tax. The yield for tobacco and alcohol taxes totaled \$440.2 million in Fiscal Year (FY) 2001. This is 3.8 percent of all state taxes.

The following table summarizes the tax rate, tax base, FY 2001 collections, and percentage of total state taxes for the tobacco and alcohol taxes.

**Table 1: State Tobacco and Alcohol Taxes  
(FY 2001)**

<b>Tax Type</b>	<b>Tax Base</b>	<b>Tax Rate</b>	<b>FY 2001 Collections (\$000)</b>	<b>% of All State Taxes</b>
Cigarette	Cigarettes	\$1.425 per pack of 20 cigarettes	\$244,550	2.1%
Tobacco Products	Cigars, pipe tobacco, chewing tobacco, and other forms of tobacco except cigarettes	129.42 % of the wholesale price	\$25,420	0.2%
Liquor Sales	Distilled spirits including wine with more than 24% alcohol by volume	20.5% for distilled spirits	\$57,389	0.5%
Liquor Liter	Strong beer (more than 8% alcohol)	17.1% for strong beer		
	Distilled spirits including wine with more than 24% alcohol by volume	\$2.4408 per liter	\$67,561	0.6%
Wine	Wine sold to wholesalers or to consumers on winery premises	Table wines--\$0.2267 per liter Fortified wines--\$0.4511 per liter Cider (table wine made from apples or pears)--\$0.0809 per liter	\$15,235	0.1%
Beer	Privilege tax paid by brewers and wholesalers on each 31-gallon barrel or equivalent in cans and bottles	\$8.08 per barrel	\$30,136	0.3%

Tobacco tax revenues are distributed to the state general fund (20.8 percent) and special programs for water quality (7.1 percent), drug enforcement (9.5 percent), and health services (62.6 percent). In November 2001, voters approved an additional 60-cent cigarette tax (Initiative 773) to fund low-income health programs and tobacco prevention and control programs aimed at reducing smoking among Washington residents.

Liquor tax revenues help fund the state general fund (57.8 percent), counties and cities (25.6 percent), and the health services account (16.6 percent). A portion of the liquor liter, beer, and wine taxes goes to violence reduction and drug enforcement. Part of the wine tax revenues goes to Washington State University for wine and grape research.

Tobacco and alcohol taxes are regressive. Low-income households pay as much as 1.43 percent of their income in tobacco and alcohol taxes, middle income pay about 0.53 percent, and those over \$130,000 pay only 0.07 percent. Table 2 shows the tobacco and alcohol taxes as a percentage of income that low-, middle-, and high-income households pay.

**Table 2: Tobacco and Alcohol Taxes as a Percentage of Household Income**

Households	Tobacco Taxes	Liquor Taxes	Total Alcohol & Tobacco Taxes
	% of Household Income	% of Household Income	% of Household Income
Low Income	1.15%	0.28%	1.43%
Middle Income	0.4%	0.13%	.53%
High Income (over \$130,000)	0.07%	0.06%	.13%

Per capita consumption of tobacco products has decreased in Washington. However, tax collections have risen much faster than personal income because of large tax increases in 1996 and 2002. It is difficult to determine the impact of higher taxes on consumption, since past consumption has been greatly affected by health concerns and public policy. Washington's current tax rate of \$1.425 per pack of cigarettes may contribute to a large and growing illegal market with as much as one-third of all cigarette sales untaxed by the state.

Alcohol tax receipts have grown more slowly than personal income in the long run, implying an inadequate tax source that does not keep pace with economic growth. Business cycle fluctuations have very little impact on alcohol tax receipts, therefore the tax collections are not volatile.

All states impose state alcohol and tobacco taxes. Census data from 1998 and 1999 show that a few states rely heavily on alcohol and tobacco taxes to fund their state budgets. For example, New Hampshire's tobacco and alcohol tax revenues comprise 13.78 percent of the state revenues, Alaska - 10.51 percent of state taxes, Oregon - 7.24 percent of state taxes, and Maine - 6.17 percent of state taxes. For most of the states, alcohol and tobacco taxes comprise less than 5 percent of state taxes. The 1998-1999 census data show that alcohol and tobacco taxes

comprised 4.51 percent of Washington's state taxes. Washington ranked 12<sup>th</sup> in the nation for reliance on alcohol and tobacco taxes as a percentage of the state budget. In 2001, alcohol and tobacco taxes as a percentage of state taxes decreased to 3.7 percent, indicating that Washington relies less on these taxes to fund state government.

Table 3 ranks the state alcohol and tobacco taxes from the state with the highest reliance on these taxes to the lowest reliance.

**Table 3: Reliance on State Alcohol and Tobacco Taxes 1998 and 1999**

	State Government Taxes	Alcohol Taxes	Tobacco Taxes	Percentage of Total State Gov't Taxes
New Hampshire	1,070,803	11,564	73,765	13.8%
Alaska	905,135	12,159	47,584	10.5%
Oregon	5,341,403	12,087	193,261	7.2%
Rhode Island	1,895,196	9,314	61,467	6.5%
Maine	2,540,581	32,658	78,359	6.2%
Michigan	21,856,552	124,843	615,447	5.6%
New Jersey	16,926,417	75,975	417,548	4.9%
Texas	25,675,587	483,172	623,569	4.9%
Illinois	21,211,263	57,235	501,650	4.7%
South Dakota	870,663	10,804	20,423	4.7%
Wisconsin	11,627,782	42,104	266,817	4.6%
<b>Washington</b>	<b>12,337,555</b>	<b>159,739</b>	<b>278,488</b>	<b>4.5%</b>
Arizona	7,542,735	48,152	162,836	4.3%
North Dakota	1,106,499	5,857	23,026	4.2%
Arkansas	4,608,936	27,658	94,594	4.1%
Iowa	4,868,494	11,916	98,305	4.0%
Massachusetts	14,731,769	61,520	284,439	3.9%
Florida	23,798,564	576,762	451,787	3.8%
Nevada	3,430,007	15,342	63,998	3.7%
Nebraska	2,662,103	16,792	46,922	3.5%
New York	38,700,774	181,999	663,286	3.4%
Ohio	18,178,726	82,197	292,728	3.2%
Pennsylvania	21,588,754	170,511	330,419	3.1%
Minnesota	12,481,688	58,401	184,885	3.0%
Oklahoma	5,417,232	58,904	77,761	2.9%
Utah	3,653,782	22,610	50,459	2.8%
Connecticut	9,623,591	44,143	130,537	2.7%
Maryland	9,501,164	23,908	128,785	2.7%
Hawaii	3,166,663	38,508	42,281	2.7%
Missouri	8,563,594	24,797	112,861	2.6%
Louisiana	6,491,235	50,144	85,441	2.6%
Idaho	2,171,127	5,762	28,491	2.6%
Mississippi	4,573,823	39,778	56,981	2.5%
California	72,387,698	273,398	899,531	2.5%
Delaware	2,030,789	11,155	24,455	2.4%
Kansas	4,589,475	69,580	54,550	2.4%
Tennessee	7,197,491	72,951	84,941	2.4%
Alabama	6,032,234	120,650	67,802	2.2%
Montana	1,345,730	16,127	14,083	2.1%
Colorado	6,568,185	26,193	68,013	2.1%
West Virginia	3,302,046	8,080	33,077	2.0%
Vermont	1,388,345	14,023	13,570	2.0%
Indiana	9,736,077	30,558	89,894	1.8%
Georgia	12,461,790	133,219	92,500	1.5%
New Mexico	3,454,440	35,562	24,749	1.4%
Wyoming	811,648	1,268	5,786	1.4%

## Washington State Tax Structure Study

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South Carolina	6,161,205	124,925	30,152	1.0%
North Carolina	14,436,294	182,970	44,694	0.6%
Kentucky	7,356,834	65,351	17,670	0.5%
Virginia	11,562,735	116,216	15,525	0.3%
<b>TOTALS</b>	<b>\$ 499,943,213</b>	<b>\$ 3,899,541</b>	<b>\$ 8,170,192</b>	<b>3.3%</b>