



**DRAGAS CENTER FOR
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SIN TAXES AND ALCOHOL CONSUMPTION IN VIRGINIA

Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes. – Benjamin Franklin, in a letter to Jean-Baptiste Leroy, 1789

The Commonwealth could look to so-called ‘sin taxes’ on alcohol as a source of sustainable revenue which could also have the potential to curb overconsumption. However, Old Dominion University researchers warn that these targeted tax hikes could temper growth in the burgeoning craft brewing and distilling industries.

In a chapter on sin taxes and alcohol consumption in the fourth annual State of the Commonwealth Report, researchers with ODU’s Dragas Center for Economic Analysis and Policy examined how the tax on alcohol sales has proven to be a “markedly resilient” source of revenue.

Even during the Great Recession a decade ago, revenue from excise taxes on alcoholic beverages for state and local governments nationwide actually increased from \$6.3 billion to \$6.5 billion between 2007 and 2009.

Virginia’s excise tax revenue reached \$257 million in 2015, an important revenue source during a time of federal spending uncertainty. Virginia’s excise tax rates on beer, wine and distilled spirits all rank in the top half nationally, 21st in beer, tied (with Georgia) for sixth for wine and third highest for distilled spirits (in part because our state government directly controls liquor sales, one of 17 states to do so).

These relatively high excise tax rates, which serve as one means for state and local governments to collect tax revenue, results in Virginia having a combined average sales tax rate of 5.63, placing it 41st among states that have a sales tax. Virginia, as an alcohol control board state, can also raise the markup on distilled spirits, increasing revenue without explicitly increases excise taxes.

However, research about the society-wide negative effects of overconsumption has generally found that alcohol taxation across the United States and within Virginia itself is lower than optimal. “That is, the tax revenue collected on alcohol does not appear to fully pay for the negative externalities imposed on society by way of its consumption,” the State of the Commonwealth Report notes.

“If the Commonwealth desires to further shift the societal costs associated with alcohol consumption to consumers, raising alcohol excise tax rates might be a prudent (though potentially unpopular) course of action.”

Therefore, an increase in “sin tax” on alcohol could provide a larger revenue stream for the state and Virginia’s local governments, while potentially reducing the risky behavior associated with overconsumption.

One potential negative byproduct of an increase in alcohol tax is a price-point threat to Virginia’s burgeoning craft brewing and craft distilling industries. While loyal customers of small, independent Virginia breweries and distilleries have not been motivated to switch brands because of modest price increases, “care must be taken not to throw these nascent and established firms out with the bathwater,” the report notes.

“There must be a balance between increasing revenue and job creation, especially given that some locations in the Commonwealth (Richmond and Hampton Roads, in particular) are now tourist destinations for beer, wine and, most likely in the future, spirits.”

Working to reduce onerous regulations on tasting rooms, especially for distilleries, is one way to encourage growth and revenue for the Commonwealth, the authors note.

This year’s full report is available at [ceapodu-2018SOC](#)

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The Dragas Center for Economic Analysis and Policy in the Strome College of Business at Old Dominion University undertakes a wide range of economic, demographic, transportation and defense-oriented studies. For eighteen years, the Center and its predecessors have produced the highly regarded State of the Region Report for Hampton Roads and economic forecasts for the region. If you would like more information about this topic, please contact Dr. Robert M. McNab at 757.683.3153 or email at rmcnab@odu.edu.