



1212 New York Ave, NW, Suite  
425  
Washington, D.C. 20005  
www.wineamerica.org

Telephone: 202.783.2756  
Fax: 202-347-6341  
E-mail: info@wineamerica.org

## Position Paper on Wine Excise Tax Increases

Taxes shouldn't be used to choose economic winners and losers unless there is a compelling reason to do so. Tax policy is an extremely complex area because the economic effects of changes can be widespread, unpredictable and have seriously adverse effects on certain economic players. Nowhere is this more significant than excise taxation, which by definition is product specific rather than broad based.

Excise tax increases affect consumer demand for particular products. Consequently, the economic prospects of those who produce, market and rely on those products for their livelihood are affected by revisions to excise tax rates.

### Increasing Wine Excise Taxes Is Questionable Policy

Typical reasons to increase excise taxes are: (i) as a user fee (tires and gasoline) to reimburse the societal costs associated with use of the product; (ii) as a means of reducing demand for the product because it is considered detrimental to society (tobacco); or (iii) as a luxury tax (sailboats and cars above a certain price). None of these justifications can be rationally applied to make a case for an increase in wine excise taxes.

#### i. User-Fee

Consumers of wine typically are moderate consumers, and as such do not impose net costs upon the domestic health care system. Increasing excise tax as a so-called "user fee" would, therefore, not make good policy sense. Indeed, the 2005 Dietary Guidelines Advisory Committee—a committee of experts formulated to advise the Secretaries of HHS and USDA—states that 95 percent of Americans who drink wine consume only light-to-moderate amounts. Studies have indicated that light to moderate consumption, especially of wine, is associated with certain health benefits.

The Guidelines Advisory Committee stated: "[s]tudies conducted around the world consistently show that alcohol has a favorable association with total mortality among middle-aged and older adults. A metaanalysis on all-cause mortality using approximately 50 studies demonstrated an inverse association between moderate drinking and total mortality under all scenarios. On average, the relative risk of all-cause mortality associated with moderate drinking was approximately 0.80. The J-shaped curve, with the lowest mortality risk occurring at the level of one to two drinks per day, is likely due to the protective effects of moderate alcohol consumption on CHD [coronary heart disease] and ischemic stroke, the first and third leading causes of death in the United States, respectively." (citations omitted).

Studies have also shown that *heavier drinkers are least responsive to tax changes*. Raising excise taxes on wine therefore reduces moderate consumption and the health benefits that accrue from it without satisfying the legitimate policy goal of reducing problematic drinking.

The scientific community has recognized that *moderate wine consumption reduces health care costs*. According to the U.S. Department of Health & Human Services, weekly consumption of 6 to 13 glasses of wine saves an average of \$400 annually per wine drinker in Medicare expenses. As President Abraham

Lincoln once said, “It has long been recognized that the problems with alcohol relate not to the use of a bad thing, but to the abuse of a good thing.”

The acknowledged health benefits of wine consumption make the “societal cost” policy justification untenable. There are better ways of attacking abusive consumption. The industry has long supported more targeted intervention methods that are far more effective than taxation. Through responsible advertising campaigns, policy research and other methods, the wine industry mobilizes enormous resources to address overconsumption.

## **ii. Detrimental Product**

Wine production is an important tool for growing rural economies. It provides employment, investment opportunity and economic stability. Taken together with wines’ cultural association as a complement to food and a healthy lifestyle—not inebriation—it would be misleading to classify wine consumption as “detrimental to society.”

## **iii. Luxury Tax**

Wine is not a true “luxury” item as it is typically consumed by Americans across the economic spectrum. Average moderate wine consumers would be the first to reduce consumption following an excise tax increase. Imposing such a tax would accordingly negate the health benefits that result from moderate consumption, but fail to achieve the intended purpose of a luxury tax, namely, targeting consumers most able to afford it. Because wine is not a luxury good, taxing the consumption of wine by typical consumers is regressive and does not target those consumers most able to afford it.

### **Increasing Wine Excise Taxes Will Seriously Damage the Economic Prospects of America’s Farm Based Family Wineries**

In addition to the policy reasons outlined above, a change in excise tax would also have a devastating economic impact on wineries, other industry members, and consumers.

**Undermines Rural Development.** Increasing excise taxes will seriously undermine the ability of new and growing wineries to establish and strengthen their business and to build a strong agricultural base. The number of wineries across the country has been growing dramatically, more than doubling in the last decade. The vast majority of the now nearly 6,000 wineries currently licensed to operate in the U.S. are rural businesses. Located in all 50 states, they provide significant employment opportunities to areas eager to create economic growth.

Economically depressed Eastern Washington currently boasts about 500 wineries, a 5 fold increase since 1990. Parts of Oregon’s Willamette Valley and Southern Oregon boast about 350 wineries, a greater than 3 fold increase since 1990. This growth should be encouraged, not stunted.

Poor tax policy would seriously undermine the small family farming and rural economic development renaissance that has been driven in large part by the exponential growth of small wineries across the country. In the New York Finger Lakes, a loss of manufacturing has created a depressed local economy. The nearly 110 local wineries, most of which began operating in the last decade, are a key economic engine. These rural businesses are growing more successful as the reputation of Finger Lakes wine improves. The same story can be repeated, albeit on a smaller scale in rural areas of Iowa, Southern Illinois, Northern Michigan, and Pennsylvania and many other rural areas throughout the country.

A typical small winery growing 20 acres of grapes and selling most of its wine from an on-site tasting room will have gross sales of about \$1 million per year—almost all of it value added. Even the smallest wineries typically provide good jobs for between 5 and 20 employees from their local community. Wine tourism is a bonus to these communities leading to the development of restaurants and accommodations. Even if each winery hires only 10 employees, it means tens of thousands of good jobs that cannot be outsourced.

**Hinders Growth.** Excise tax increases on wine have an important detrimental economic effect on wineries. Small wineries have limited access to credit—particularly in the current economic climate. The cash necessary to pay increased excise taxes will come directly out of the available capital for expansion and therefore will severely limit industry growth. Wineries that have no access to loans to help pay for an excise tax increase may cease to exist.

**Grape Overproduction.** If wine consumption drops because of increased wine taxes, grape overproduction will result in devastating decreases in grape prices. Vineyards are an expensive, long-term investment in a perennial crop not easily converted to other types of agricultural uses. The only viable use of wine grapes is to make wine.

**Exaggerated Cost.** Wine excise taxes are applied at the producer level, thus the impact of a wine excise tax increase, if passed along to the consumer, would be exaggerated by wholesaler and retailer standard percentage markups. The excise tax rate increase would accordingly be felt by consumers not at the cost of the excise tax, but at more than double that dollar value.

**Loss of Profitability.** Because wine is sold at specific price points to attract targeted demographics of consumers, excise tax changes are difficult to pass on to the consumer. This is particularly true given the way mandatory distribution channels exaggerate excise tax increases. Following an excise tax increase, wineries are likely to absorb the additional excise tax payment for at least several years until a new price point is established. Under these circumstances excise tax increases come directly from the winery's bottom line. Substantially raising wine excise taxes could therefore have a devastating effect on America's wine industry—severely hindering industry growth and threatening the viability of thousands of businesses.

### **Conclusion**

For these reasons, an increase in wine excise tax is both poor tax policy and economically harmful to small businesses and rural areas. Such a tax change would not achieve a definable positive policy purpose and would ultimately lead wineries to make an impossible choice—maintaining market share with a loss of profitability, or higher prices and loss of unit volume.

If the nation needs additional tax revenues they should be collected in a broad based manner. They should not come in the form of taxes that stunt the development of industries that can be beneficial to health and provide broad economic benefits to otherwise depressed segments of the economy.

*WineAmerica is the national trade association of American wine producers with more than 800 member wineries in 48 states.*