

FEDERAL EXCISE TAXES:  
COST TO AVERAGE AMERICAN HOUSEHOLD

Prepared for  
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by  
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Some federal legislators are seeking to raise \$18 billion in new revenues to meet the Gramm-Rudman federal budget target for the next fiscal year. One proposal to meet this net revenue target would impose additional federal excise taxes on gasoline, alcohol, tobacco products and telephone use amounting to over \$26 billion in calendar year 1988, and more in later years. This increase in excise taxes--the steepest rise ever--would take about \$285 from the average American household in calendar year 1988.

<u>Proposal and Estimated Impacts</u>			
	<u>Current Tax</u>	<u>Proposed Tax</u>	<u>Increase in Excise Tax For Average U.S. Household, 1988</u>
Gasoline	9¢ per gallon	19¢ per gallon	\$126
Cigarettes	16¢ a pack	32¢ a pack	43
Beer	16¢ per six pack	65¢ per six pack	51
Wine	3¢ per fifth	55¢ per fifth	23
Spirits	\$2.50 per fifth	\$3.00 per fifth	7
Telephone	0 (sunset)	3 percent	<u>34</u>
		TOTAL	\$284

The gross increase in excise taxes is larger than the net revenue target because a part of the excise tax rise--about \$70 for the average American household--would be offset by a reduction in income taxes. Thus, the net tax cost to the average household would be about \$215. The partial income tax offset is no benefit to American households, however, since it would come about because the new excise tax reduces household and business incomes (by the magnitude of the gross excise tax increase), and not because of a cut in income tax rates.

These estimates, as well as estimated household costs for the 50 states and some selected urban areas--shown in accompanying tables--were prepared by Quick, Finan & Associates (QFA) of Washington, DC, on the basis of one variant of the tax proposals currently being discussed in Congress. The proposal, shown in the third column of the table above, was recently put forward by the Congressional Budget Office and reported in The New York Times.

Under the current federal tax law, the average American household already pays \$370 annually (1986 dollars) for federal excise taxes on these and other products and services.<sup>1</sup> In addition, every state has excise taxes on some or all of these items, and others as well. Total federal, state and local excise taxes amounted to \$790 per household, or 2 percent of average household personal income, in 1986.

Under the proposal outlined here<sup>2</sup>, federal excise taxes would rise by more than 75 percent, with tax rates on different components rising as follows:

- On gasoline, would increase 111 percent.
- On cigarettes, would double.
- On beer, would increase 306 percent.
- On table wine, would rise 1733 percent.
- On distilled spirits, would increase 20 percent.
- On telephone service, would continue at 3 percent rather than expire as currently in the law.

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<sup>1</sup>Federal excise taxes are also imposed on a variety of other items, including air fares, wagering, firearms, and bows and arrows, (see Budget of the United States Government, FY 1988, Supplement, Table 13).

<sup>2</sup>A contending alternative proposal would substitute an oil import fee for the gasoline tax component. This alternative would impose a still larger burden on the average American households, with those in the Northeast and other oil-importing states bearing a disproportionate burden. (See The New York Times, Thursday, May 7, 1987.)

The impact on average household incomes is only one drawback of the proposed excise tax increases. Other problems include:

- Regressivity--According to the Congressional Budget Office, excise taxes in 1985 amounted to 4.9 percent of total income for the average household with incomes under \$5,000, versus only 0.6 percent for households with incomes of \$50,000 or more.
- Job Losses--Citizens for Tax Justice estimated that an excise tax increase, proposed last year, that was smaller than the current proposal would lead to net job losses of almost 12,000 workers.
- Inflation--In the short run, the proposed increase in excise taxes would push up overall prices by more than 1/2 percent, with consumer prices even harder hit; flow-through effects from escalator contracts and normal business mark-ups could result in additional price increases.<sup>3</sup>

Moreover, an increase in federal excise taxes would squeeze the states' revenue-raising capacity and could set off an upward spiral in state tax rates. That is, if the boost in federal excise taxes cuts purchases of those items the states also tax, then state revenues will fall. Many states, given the already severe fiscal pressures, would be forced to raise excise tax rates in order to maintain their revenues. Thus, the ultimate increase in excise tax rates is likely to be larger than those shown above.

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<sup>3</sup>See studies by the Congressional Budget Office, Citizens for Tax Justice, and Policy Economics Group cited in References and Data Sources at the end of this report. The effect on overall prices is estimated as the gross excise tax increase (assumed to be passed on to consumers) divided by total GNP in 1988, as projected by the Office of Management and Budget.

Table 1  
 EXCISE TAX INCREASES PER HOUSEHOLD  
 BY STATE, 1988

State	Gas	Cig.	Beer	Wine	Spirits	Tels.	Total
Alabama	\$140	\$42	\$39	\$12	\$ 5	\$26	\$264
Alaska	155	51	64	35	11	45	380
Arizona	130	38	60	25	7	31	290
Arkansas	152	44	38	7	4	25	271
California	119	37	52	45	7	39	299
Colorado	122	42	53	26	8	34	285
Connecticut	113	41	44	32	9	45	283
Delaware	144	51	56	23	9	35	320
Dist. of Colum.	73	42	58	24	8	41	246
Florida	116	39	55	23	8	31	272
Georgia	154	45	45	15	7	32	297
Hawaii	95	32	71	29	7	40	274
Idaho	141	40	52	19	5	28	285
Illinois	110	46	54	23	7	36	276
Indiana	145	51	48	13	5	30	292
Iowa	146	41	52	7	4	30	281
Kansas	148	43	43	9	4	32	280
Kentucky	141	69	41	8	5	26	290
Louisiana	147	50	54	18	7	28	304
Maine	133	48	47	20	7	29	284
Maryland	123	44	52	24	8	39	290
Massachusetts	108	46	56	34	10	40	295
Michigan	122	48	51	20	7	33	281
Minnesota	138	40	50	17	7	34	287
Mississippi	145	46	46	7	6	24	274
Missouri	145	46	50	15	5	31	291
Montana	170	40	64	19	6	28	328
Nebraska	147	39	54	12	5	31	289
Nevada	139	44	67	45	7	33	335
New Hampshire	114	50	51	25	8	17	285
New Jersey	123	43	47	15	8	43	299
New Mexico	162	33	62	19	4	27	306
New York	75	43	44	31	7	39	239
North Carolina	138	57	42	15	6	28	285
North Dakota	177	41	53	10	7	29	318
Ohio	127	46	54	15	4	32	278
Oklahoma	161	46	37	9	5	28	288
Oregon	128	40	46	31	5	29	279
Pennsylvania	107	42	54	14	5	32	254
Rhode Island	101	49	53	33	7	34	277
South Carolina	147	48	50	15	7	27	295
South Dakota	170	39	47	10	6	28	299
Tennessee	153	45	42	9	5	27	281
Texas	154	43	65	17	5	33	317
Utah	148	29	35	9	4	30	254
Vermont	130	52	56	30	8	30	306
Virginia	133	49	48	23	7	36	295
Washington	118	33	44	33	6	32	266
West Virginia	118	42	43	8	3	24	239
Wisconsin	122	39	71	19	8	32	291
Wyoming	234	50	59	14	7	32	396
US Average	\$126	\$43	\$51	\$23	\$ 7	\$34	\$284

Table 2

EXCISE TAX INCREASE PER HOUSEHOLD  
BY SELECTED URBAN AREA, 1988

<u>Area</u>	<u>Gas</u>	<u>Cigarette</u>	<u>Beer, Wine &amp; Spirits</u>	<u>Telephone</u>	<u>Total</u>
Atlanta, GA	\$174	\$48	\$113	\$33	\$367
Boston, MA	98	38	100	28	264
Chicago, IL	137	43	92	39	311
Cincinnati, OH	120	43	63	31	258
Cleveland, OH	130	46	88	33	297
Detroit, MI	177	57	97	44	375
Houston, TX	176	45	113	32	365
Knoxville, TN	153	43	60	29	285
Memphis, TN	156	43	62	29	290
Milwaukee, WI	114	44	106	25	288
Mpls-St. Paul, MN	147	55	101	30	334
New York, NY	97	43	80	50	269
Pittsburgh, PA	108	49	72	32	261
San Francisco, CA	152	39	123	44	359
Seattle, WA	120	45	92	34	290
St. Louis, MO	143	49	63	31	287

Methodology of the QFA Study

The estimates of the impacts on average households in each state and in selected metropolitan areas were prepared by Quick, Finan & Associates in five steps, in order to properly align the aggregate federal revenues for the fiscal year with available data on household income and consumption patterns that are available only for calendar years.

1. Aggregate revenue figures for fiscal 1988 (October 1987 to September 1988) were converted to estimates of the 1988 calendar year total, as shown below.

	<u>Tax Rates</u>		<u>Aggregate Revenues</u>	
	<u>Current</u>	<u>Proposed</u>	<u>Net<sup>4</sup></u>	<u>Gross</u>
			<u>Fiscal 88</u>	<u>Calendar 88</u>
Gasoline				
per gallon	9¢	19¢	\$ 8.6 Bn	\$11.6 Bn
Cigarettes				
per pack	16¢	32¢	2.9	4.0
Beer				
per six	16¢	65¢	5.1	4.7
Wine <sup>5</sup>				
per fifth	3¢	55¢		2.1
Spirits				
per fifth <sup>6</sup>	\$2.50	\$3.00	0.4	0.6
Telephone				
percent <sup>7</sup>	0	3%	1.3	<u>3.1</u>
Gross				26.1
Income Tax Loss				<u>(6.5)</u>
NET			\$18.3Bn	\$19.6Bn

<sup>4</sup>Net of reductions in income taxes due to reduced incomes; income tax offset allocated to each item.

<sup>5</sup>Excludes sweet wines and sparkling wines.

<sup>6</sup>Pro rata by proof gallon.

<sup>7</sup>Currently scheduled to expire at the end of 1987.

2. Note that the fiscal year figures from CBO are net of the income tax offset. The reduction in income taxes would occur because the excise tax increase would reduce household and business incomes by an amount equal to the new excise tax. Following the convention of the Treasury and the Congressional Budget Office, the aggregate income tax offset is estimated as the gross increase in excise taxes multiplied by the average rate of employment and income taxes. Applying this formula to the net fiscal year figures, the gross calendar year figures, as well as the aggregate \$6.5 billion income tax offset, are estimated. The aggregate income tax offset is then distributed to states and urban areas on the basis of their shares of total income and employment taxes paid. The average income tax offset per household, \$71 for all U.S. households, would be:

States

AL	\$ 40	KY	\$ 39	OH	\$ 76
AK	88	LA	49	OK	59
AZ	47	ME	39	OR	49
AR	34	MD	103	PA	71
CA	76	MA	87	RI	67
CO	78	MI	94	SC	38
CT	125	MN	93	SD	35
DE	120	MS	28	TN	52
DC	108	MO	81	TX	72
FL	52	MT	36	UT	56
GA	56	NE	63	VT	43
HI	57	NV	60	VA	56
ID	49	NH	59	WA	56
IL	90	NJ	100	WV	31
IN	66	NM	40	WI	57
IA	42	NY	102	WY	43
KS	58	NC	46		



SMSAs

Atlanta	\$64	Memphis	\$ 60
Boston	90	Milwaukee	77
Chicago	83	Mpls-St. Paul	86
Cincinnati	73	New York	101
Cleveland	89	Pittsburgh	82
Detroit	91	San Francisco	90
Houston	68	Seattle	63
Knoxville	52	St. Louis	85

3. Calendar year total liabilities for each tax were allocated to each state based upon data on tax bases by state for 1984 from the Advisory Commission on Intergovernmental Relations (ACIR). As no data are available on excise taxes collected on telephone use by state, personal income from the Commerce Department's Bureau of Economic Analysis was used as the base to allocate the telephone excise tax. The income tax offset was allocated according to the sum of 1984 federal income and employment taxes from the U.S. Census' State and Metropolitan Area Data Book, 1986.<sup>8</sup>
4. In each case, the tax per household by state was calculated using projected numbers of households for calendar year 1988. The projections were based upon recent Census projections for the total United States and allocated according to the most recent Census data (for 1986) on numbers of households by state. (The Census reports that there are just under 89 million households in the United States and that the average number of people per household is about 2.7.)

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<sup>8</sup>After reviewing the data, subjective corrections were made to data for New Hampshire (spirits, wine, beer, and cigarettes), the District of Columbia (spirits and wine), and Nevada (spirits and wine). The first two are excise tax havens for Massachusetts and Virginia, respectively, and the figures for Nevada are affected by the tourist trade. The corrections--details of which are available from the authors of the study--are necessary to convert ACIR data based primarily on sales in the state to figures closer to consumption by state.

5. Estimates for selected urban areas were then prepared in four steps. This methodology exploits consumption data that are available for regions and urban areas, but not for states.<sup>9</sup>
- i. The state data on excise increases above were aggregated to construct regional averages per household for the four national regions (northeast, midwest, south, and west) for which consumer expenditure data are available from the Bureau of Labor Statistics' Consumer Expenditure Survey.
  - ii. Regional expenditures per household for all households in 1982-83 for each taxed item, as well as for income, were estimated by calculating the ratio of 1984 spending (and income) of "all consumers" to "urban consumers" and applying this ratio to spending data for urban consumers by region in 1982-83.
  - iii. The ratio of consumer expenditures per household for each taxed item (and income) in each of the selected SMSAs in 1982-83 to those in the region, prepared in step ii, was calculated.
  - iv. Finally, the tax per household in each SMSA (for each taxed item) was calculated by applying the ratio of SMSA to regional spending calculated in step iii to the regional tax data prepared in step i.

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<sup>9</sup>Consumption data were unavailable for Memphis and Knoxville. For this reason, the estimates for these two urban areas are based upon a different methodology that utilize local income data and state and regional spending patterns. Details are available from the authors.

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APPROXIMATE EXCISE TAX BURDEN  
PER HOUSEHOLD, 1988

State	State Tax <sup>1</sup>	Federal Tax		Total <sup>4</sup>
		Excises <sup>2</sup>	Recesses <sup>3</sup>	
Alabama	952	930	924	1886
Alaska	374	499	360	1233
Arizona	422	363	290	1075
Arkansas	393	331	271	995
California	766	392	299	957
Colorado	273	376	285	934
Connecticut	737	422	287	1442
Delaware	401	422	330	1142
Dist. of Colum.	681	374	246	1281
Florida	439	354	272	1066
Georgia	318	388	237	1001
Hawaii	592	373	274	1239
Idaho	351	140	285	976
Illinois	454	377	276	1106
Indiana	279	367	292	938
Iowa	364	351	281	996
Kansas	349	362	280	990
Kentucky	408	342	290	1060
Louisiana	483	370	304	1157
Maine	494	364	284	1142
Maryland	560	408	290	1258
Massachusetts	370	420	295	1085
Michigan	325	374	281	980
Minnesota	543	383	287	1213
Mississippi	307	334	274	915
Missouri	222	361	291	884
Montana	464	378	328	1169
Nebraska	421	362	289	1072
Nevada	988	392	335	1716
New Hampshire	578	392	285	1254
New Jersey	703	421	299	1423
New Mexico	419	342	308	1067
New York	407	359	239	1006
North Carolina	397	361	285	1043
North Dakota	417	390	318	1126
Ohio	443	350	278	1071
Oklahoma	447	359	288	1094
Oregon	258	339	279	876
Pennsylvania	470	335	254	1059
Rhode Island	489	366	277	1131
South Carolina	439	368	295	1102
South Dakota	460	367	299	1126
Tennessee	365	349	281	995
Texas	565	385	317	1266
Utah	354	327	254	935
Vermont	770	380	306	1457
Virginia	444	394	295	1133
Washington	496	341	266	1103
West Virginia	478	283	239	1002
Wisconsin	447	370	291	1108
Wyoming	297	462	396	1154
US Average	424	371	284	1079

<sup>1</sup>Fiscal 1986 revenues, from U.S. Census Bureau. No projection available for 1988.

<sup>2</sup>Fiscal 1986 revenues, from OMB, allocated by QFA. Fiscal 1988 projected by OMB to be 1.5 percent higher.

<sup>3</sup>Calendar 1988 Liabilities, allocated by QFA.

<sup>4</sup>Details may not add to totals due to rounding.

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