

INCREASE STATE ALCOHOL EXCISE TAX

CONFRONTING NEW JERSEY'S UNDERAGE DRINKING PROBLEM

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*Promoting Addiction Treatment,
Prevention, and Recovery
through Advocacy and Education*

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Executive Summary

Raising the Alcohol Tax to Deter Youth Drinking

This paper outlines a proposal to have New Jersey increase its excise tax on alcohol to create a price barrier to underage drinking and to use a portion of the additional revenue for a comprehensive underage drinking program. The paper documents how many adolescents drink and how much they consume, one of the most alarming facts being that they account for 20 percent of all alcohol purchased in the United States. While the problem of underage drinking within the state has persisted and actually worsened over the past decade, New Jersey's alcohol excise tax rate in that time has remained flat, the last increase coming in 1992. During that period, the Alcohol, Education, Rehabilitation and Enforcement Fund, an allocation for alcohol and drug rehabilitation, prevention and education, has been fixed at \$11 million. NCADD—NJ recommends that the state deposit a significant portion of any new revenues generated from an alcohol tax increase to the AEREF. NCADD—NJ further proposes that some of the additional revenue apportioned to the AEREF be used to create and sustain a comprehensive underage drinking program.

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Table of Contents

THE CHALLENGE	4
AN OPPORTUNITY	4
THE RECOMMENDATION	4
<i>WHAT'S THE PROBLEM?</i>	5
<i>THE CONSEQUENCES ARE DEVASTATING AND COSTLY</i>	6
<i>WHY RAISE THE ALCOHOL TAX?</i>	7
<i>FACTS ABOUT NEW JERSEY'S ALCOHOL EXCISE TAX</i>	7
<i>ALCOHOL TAXES COMPARED WITH THE TOBACCO TAX</i>	8
<i>PUBLIC OPINION SUPPORTS INCREASED ALCOHOL TAXES</i>	8
CONCLUSION	9
REFERENCES	10

The Challenge

The National Council on Alcoholism and Drug Dependence—New Jersey recognizes that underage drinking remains a pervasive and critical public health problem throughout the United States, including New Jersey.

As advocates for the prevention and treatment of alcohol and other drug addiction, NCADD—NJ is strongly committed to reducing underage drinking and its devastating consequences. It believes the state must achieve and maintain an appropriate balance between education and enforcement initiatives to effectively address the problem. For this balance to occur, New Jersey must treat underage drinking as a high public policy priority.

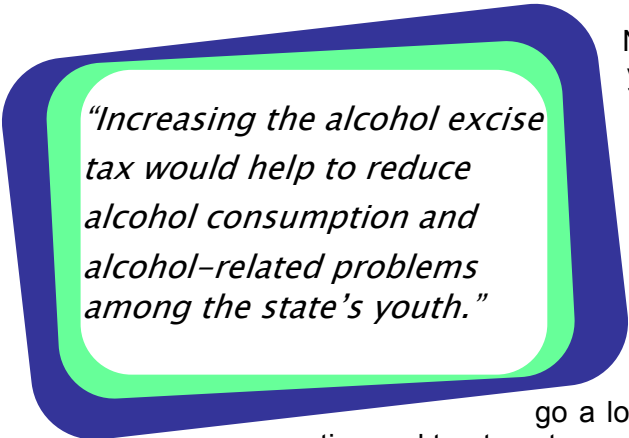
An Opportunity

To highlight the issue as a high priority public health problem and to reinforce its own commitment, NCADD—NJ is preparing a set of policy recommendations it believes New Jersey should implement to further address the extensive problem of underage drinking. The paper will serve as a vehicle to disseminate the Council's recommendations to state public policy makers and other interested parties.

While NCADD—NJ's comprehensive policy recommendations paper on underage drinking has not been released yet, April is a significant month to announce one of its proposals – to increase the alcohol tax in New Jersey. April is Alcohol Awareness Month, a month-long grassroots campaign sponsored by the National Council on Alcoholism and Drug Dependence, of which NCADD—NJ is an affiliate. The theme of the 2003 campaign is "Give Children a Chance – End Underage Drinking." It is designed to encourage communities to focus on underage drinking and to develop solutions. April is also the time when the New Jersey Legislature examines proposals and solutions to balance the state budget for the next fiscal year.

The Recommendation:

Increase New Jersey's Alcohol Excise Tax



"Increasing the alcohol excise tax would help to reduce alcohol consumption and alcohol-related problems among the state's youth."

New Jersey faces a deficit of about \$5 billion in fiscal year 2004. The state Constitution requires that New Jersey's budget be balanced, which can be achieved through cuts in services, increases in revenue or a combination of the two. NCADD—NJ believes that alcohol excise taxes are a source of revenue that the state should seriously consider.

Increasing the alcohol excise tax would help to reduce alcohol consumption and alcohol-related problems among the state's youth. It also would go a long way in funding much needed alcohol education, prevention and treatment programs in New Jersey.

A report released by a task force for the state Department of Health and Senior Services found that two in three teens in New Jersey can't get access to addiction treatment.¹

NCADD—NJ recommends that a significant portion of any new revenue generated from an alcohol excise tax increase in the state be credited to the Alcohol Education, Rehabilitation and Enforcement Fund. Currently, the AEREF receives by law an annual fixed deposit of \$11 million. This amount has not been increased since 1991. Under the AEREF, 75% of the money is dedicated to rehabilitation, 15% to enforcement and 10% to education. NCADD—NJ believes some of the additional revenue credited to the AEREF should fund a comprehensive underage drinking prevention and education program, much like the state funds the Comprehensive Tobacco Control Program, which effectively discourages teenage smoking, with the cigarette tax.

What's the Problem?

Underage and adult excessive drinking account for half of the alcohol beverage industry's sales (\$56.9 billion of the total \$116.2 billion Americans spend on alcohol each year). Underage drinking constitutes 20 percent of all alcohol consumed in the U.S., with excessive adult drinking accounting for an additional 30 percent.²

Alcohol is the number one drug of choice by America's teens. The *2002 Monitoring the Future Survey* – a national study of middle and high school students conducted annually to provide national prevalence of use information for alcohol, tobacco, and other illicit drugs – showed disturbing statistics:³

- ❖ A large majority of 8th graders (68%), 10th graders (85%), and 12th graders (95%) say that it is “fairly easy” or “very easy” to get alcohol.
- ❖ Nearly four out of every five students (78%) have consumed alcohol, more than just a few sips, by the end of high school. Nearly half (47%) have done so by 8th grade.
- ❖ The proportions of 8th, 10th, and 12th graders who admitted drinking an alcoholic beverage in the past 30 days were 20%, 35%, and 49%, respectively.
- ❖ More than half (62%) of the 12th graders and a fifth (21%) of the 8th graders report having been drunk at least once in their life while nearly a third (30.3%) of the 12th graders report having been drunk in the past 30 days while 18% of the 10th graders and almost 7% of the 8th graders have been drunk in the same time period.
- ❖ Even more alarming are the percentages that (1) report five or more drinks in a row in the last two weeks – 29% of 12th graders, 22% of 10th graders, and 12% of 8th graders, and (2) report *any daily use* of alcohol – 4% of 12th graders and 2% of 10th graders and almost 1% of 8th graders.

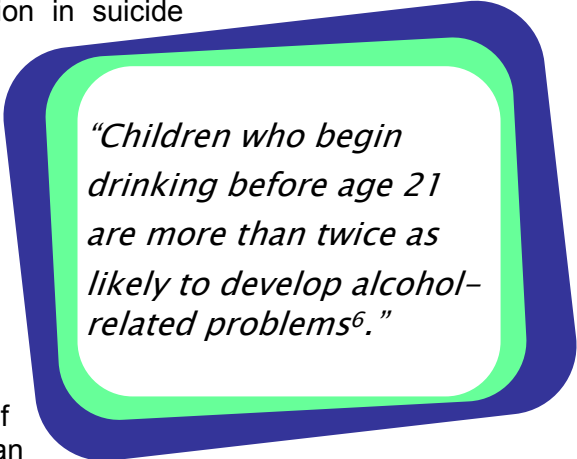
Given the national prevalence of alcohol among middle and high school students, it is not surprising that alcohol is the most used drug among middle school students in New Jersey. According to the *2001 New Jersey Middle School Survey* of 7th and 8th graders, 44.6% have used alcohol sometime in their lifetimes. Sixteen percent of New Jersey middle school students used alcohol in the past 30 days, with nearly 22% of 8th graders and 10% of 7th graders reporting use⁴. These figures, similar to those shown nationally, are higher than those reported for the use of tobacco or illegal drugs.

Although these recent surveys report small declines in the use of alcohol by youth, the United States has not conquered underage drinking by any means. The problem in America is epidemic by any public health standard. It begins in middle (and elementary) schools and erupts on college campuses, where many undergraduates binge drink.

The Consequences are Devastating and Costly

No other substance threatens as many of the nation's children as alcohol does. It is linked to many social, emotional and behavioral problems:

- ❖ Alcohol is implicated in the three top causes of teen deaths: accidents, homicide and suicide. Underage drinking costs Americans nearly \$53 billion annually, including more than \$29 billion in alcohol-related violent crime costs, over \$19 billion in traffic crashes, and over \$1.5 billion in suicide attempts (fatal and nonfatal).⁵
- ❖ Teen drinking is the number one source of adult alcoholism. Young people who begin drinking before age 15 are four times more likely to develop alcohol dependence than those who begin drinking at age 21. Children who begin drinking before age 21 are more than twice as likely to develop alcohol-related problems.⁶
- ❖ Underage drinkers are at greater risk of nicotine and illegal drug addiction. More than 67% of young people who start drinking before the age of 15 will try an illicit drug. Children who drink are 7.5 times more likely to use any illicit drug, more than 22 times more likely to use marijuana, and 50 times more likely to use cocaine than children who did not drink.⁷
- ❖ Using a national sample, a study reported that suicide attempts among heavy-drinking adolescents were three to four times greater than among abstainers.⁸
- ❖ Teens under 15 who have ever consumed alcohol are twice as likely to have sex as those who have not. Nearly 4 in 10 (30%) sexually active teens who use alcohol have had sexual intercourse with four or more individuals.⁹
- ❖ Researchers estimate that alcohol use is implicated in one to two-thirds of sexual assault and acquaintance or "date" rape cases among teens and college students.¹⁰



"Children who begin drinking before age 21 are more than twice as likely to develop alcohol-related problems⁶."

- ❖ Among young people, binge drinkers (five or more drinks per occasion) and heavy drinkers (five or more drinks per occasion on five or more days) are more than twice as likely as non-drinkers to report having attempted to injure themselves or having contemplated or attempted to commit suicide.¹¹
- ❖ In 2000, 21% of 15- to 20-year-old drivers who were killed in crashes were intoxicated.¹²

Why Raise the Alcohol Tax?

Make it harder for young people to get alcohol and they will drink less. Younger people are generally more price sensitive, so higher alcohol prices would help delay and reduce drinking among youths. The National Bureau of Economic Research concluded that even modestly increasing the tax by 30 cents for a bottle of liquor and 10 cents for a six-pack of beer would decrease drinking among young people as much as raising the drinking age by one year.

Numerous studies indicate that increasing alcohol taxes can be an effective means of deterring and reducing youth alcohol use. Coate and Grossman¹³ used data from the second National Health and Nutrition Survey (conducted between 1976 and 1980) to study the effects of state excise taxes on beer consumption by youth age 16-21. They found that when taxes on beer were increased, consumption decreased. They found this effect was stronger for frequent drinkers than for infrequent drinkers.

The work of Grossman and colleagues has consistently found that alcohol tax increases can reduce alcohol-related traffic fatalities. In a 1991 simulated tax increase on beer, Grossman, et al. found that had the 32 cent per six-pack tax been in existence from 1982-1988, 671 fewer young people between the ages 18-20 would have died. They also found that had the beer tax been set at 81 cents per six-pack during this period, 2,187 fewer people would have died.¹⁴

Facts about New Jersey's Alcohol Excise Tax

The alcohol excise taxes in the state of New Jersey were last increased in 1992. Like those in other states, New Jersey's alcohol taxes are low. The state ranks 39th in the nation in its beer tax (\$0.12 per gallon), 22nd in its wine tax (\$0.70 per gallon), and 10th in its liquor tax (\$4.40 per gallon).

Product	NJ	NY*	PA**	DE
Beer	39 th (.12/gallon)	36 th (.13/gallon)	48 th (.08/gallon)	31 st (.16/gallon)
Wine	22 nd (.70/gallon)	46 th (.19/gallon)	N/A	11 th (.97/gallon)
Liquor	10 th (4.40/gallon)	2 nd (6.44/gallon)	N/A	15 th (3.75/gallon)

*Delegate Jeffery Dinowitz introduced a bill (A6986) that would increase the excise tax on beer from \$0.125 to \$0.232 per gallon. Seventy-five percent of the revenues collected would go into the newly established alcohol abuse services fund.
 **Governor Rendell proposed increasing the malt beverage tax rate from \$0.08 to \$0.25 per gallon. The current "penny-a-pint beer tax" has held at \$0.08 per gallon since 1947. The proposed rate increase is expected to raise \$55 million per year.

New Jersey's tax on beer (the alcoholic beverage consumed most by youth) is among the lowest in the country, far below the national average of \$0.24 per gallon.

NCADD—NJ did projections for what the state could anticipate to raise from an alcoholic beverage tax increase. Using the new tax rates and current collections for calendar year 2002, New Jersey could expect to generate nearly \$300 million in revenue if it were first in the nation on alcohol taxes.

Alcohol Taxes Compared with the Tobacco Tax

The excise tax on cigarettes in New Jersey generates much more revenue for the state than the total revenue from alcohol excise taxes. New Jersey's excise tax collection on cigarettes for the fiscal year ending June 2002 was about \$236 million. Its excise tax collection on alcohol for the same year was approximately \$81 million.

To help close the \$5 billion gap in the FY2004 state budget, Governor McGreevey has proposed a 40-cent-per-pack increase in the cigarette tax. The increase would raise New Jersey's total per-pack tax to \$1.90, becoming the highest cigarette tax in the nation, and would raise an additional \$78 million for the state. FY2003 cigarette tax revenues for the state are estimated at \$446 million. The proposed increase this year follows two recent cigarette tax hikes in New Jersey: a \$.70 increase in 2002 (from \$.80 to \$1.50) and a \$.40 increase in 1998 (from \$.40 to \$.80).

Raising cigarette taxes is widely regarded as one of the most effective tobacco prevention strategies, especially among youth. Results from the *2002 Monitoring the Future Survey* of middle and high school students show a dramatic decrease in teenage smoking. New Jersey's rates are even lower than the national numbers recorded by the survey. The low number in the state can be largely attributed to New Jersey having twice increased its tobacco tax in recent years, which has helped price young smokers out of the market and to its financial commitment to a statewide prevention and control program and other initiatives to discourage teenage smoking. The enabling legislation for the state's cigarette tax increase in 2002 shifted the \$30 million in funding for New Jersey's Comprehensive Tobacco Control Program from the tobacco settlement dollars to the cigarette tax and will increase the funding for these initiatives to \$45 million over the next three years. Unfortunately, Governor McGreevey has proposed to cut the tobacco control program by \$20 million in FY2004.

Public Opinion Supports Increased Alcohol Taxes

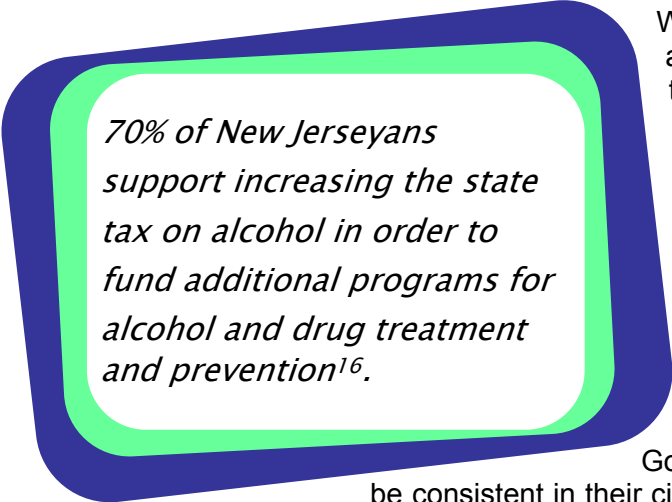
Support for increasing taxes on alcohol is broad-based. In a national survey, 81 percent of adults favored an increase of five cents per drink in the tax on beer, wine, or liquor to pay for programs to prevent minors from drinking and to increase alcohol treatment programs¹⁵.

In a New Jersey poll conducted in 2002 by the Eagleton Institute and commissioned by NCADD—NJ, 70 percent of New Jersey residents favored raising the alcohol tax and dedicating money from the increase to expanding treatment services and prevention programs¹⁶.

The New Jersey Senate Task Force on Alcohol Related Motor Vehicle Accidents and Fatalities recognized a growing disparity between the collection of alcoholic beverage taxes and their use to confront the problems created by the abuse of alcohol as well as the growing need for more services. In its 1998 report, the task force recommended that more public funds be used for public education, enforcement, and treatment to more effectively combat the drunken driving problem in New Jersey.

Conclusion

Alcohol is a major contributing factor to a host of economic costs and social problems in the United States. In 1998, the estimated economic cost of alcohol abuse in the U.S. exceeded \$184 billion¹⁷. The cost to Americans of underage drinking alone totals nearly \$53 billion. New Jersey and its taxpayers bear a substantial portion of these costs.



70% of New Jerseyans support increasing the state tax on alcohol in order to fund additional programs for alcohol and drug treatment and prevention¹⁶.

While policy makers have promoted a variety of alcohol education, law enforcement and treatment programs, they have largely ignored a policy measure that could help reduce many alcohol problems and provide substantial revenues: raising alcohol taxes. NCADD—NJ believes that increasing alcohol taxes in New Jersey is good fiscal policy and even better public health policy.

New Jersey must become as intolerant of underage drinking as it has of youth smoking and illicit drug use. NCADD—NJ urges Governor McGreevey and the state Legislature to be consistent in their cigarette and alcohol tax policy when it comes to improving the health, safety, and well-being of New Jersey's youth.

New Jersey should increase its tax on alcohol as an effective measure to reduce underage drinking in New Jersey, just as the state's increases on the cigarette tax have reduced youth smoking. NCADD—NJ recommends that the state deposit a significant portion of any new revenues generated from an alcohol tax increase to the Alcohol Education, Rehabilitation and Enforcement Fund. NCADD—NJ further recommends that some of the additional revenue apportioned to the AEREF be used to create and sustain a comprehensive underage drinking prevention and education program.

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