

Spirits Not Raised Revenue from alcoholic beverages has fallen from last year — possibly because of higher taxes

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Alcoholic beverages can be a significant source of tax revenue. A century ago, before the income tax, at least a third of federal revenue was derived from taxes on beer, wine and spirits. In Connecticut, the most recent yearly total of alcohol taxes amounted to \$43 million.

There's a peculiar thing about taxes, though, especially the so-called "sin taxes": Raise them too much, and people will buy elsewhere (if they can), thus depriving the state not only of the increased revenue, but of any revenue at all.

That appeared to be happening this summer in Connecticut, which in July raised both the sales tax and the excise (built-in) tax on alcohol.

Anecdotal evidence shows that more than a few consumers are now stocking up by the caseload in Massachusetts, which has no sales tax on alcohol bought in stores and which enjoys a lower excise tax than Connecticut's. A package store owner in **Enfield** was quoted recently in the Hartford Advocate as saying that "even our regular customers say it doesn't pay to buy here [in Connecticut]." A spokesman for the Connecticut Package Stores Association describes a "surge" of state residents buying in Massachusetts.

- **Losing Revenue**

A well-worn axiom in retail is "lower the price and make it up in volume." That can work for taxes, too, but the lesson is apparently not heeded by the administration of Gov. **Dannel P. Malloy** and the Democratic-led legislature.

Hoping to raise badly needed cash, they unwisely raised the excise tax on a gallon of spirits this year by 20 percent, to \$5.40. The excise tax is paid by wholesalers, but customers of liquor stores, bars and restaurants are likely to absorb some or all of the increase.

Preliminary numbers from the state Department of Revenue Services show that revenue from alcoholic beverages fell more than 20 percent from June 2010 (when Massachusetts still charged sales tax on alcohol) to June 2011.

State lawmakers need to come to grips with the truth that for certain products, people will shop where it's cheap and easy to do so.

Five Recommendations

To induce more people to buy their beer, wine and spirits in Connecticut instead of hopping over the border, the legislature needs to:

- Pull back the excise tax on spirits to the pre-2011 level or, better yet, match Massachusetts' rate of \$4.05 a gallon; and do the same with the taxes on beer and wine. There's probably no way we can match Massachusetts' no-sales-tax come-on, but lowering the excise tax will help keep business here.

- Allow Connecticut liquor stores to open on Sunday. This is the only Northeastern state that prohibits Sunday sales. Why send all that potential tax revenue out of state one day a week? Mom-and-pop package stores won't much like it, but in this economy, even the smallest businesses must do their part.

- Let supermarkets sell alcoholic beverages besides beer.

- And repeal the state law that says no alcoholic beverage may be sold below its cost. Almost all other retailers are allowed to charge whatever they like for products, and to feature "loss leaders" to draw customers. Such a change to liquor laws will likely most benefit groceries and big-box stores with liquor annexes, but the increase in both sales and excise taxes to the state could be considerable.

"Higher taxes equal more tax revenue" sounds like a reasonable argument, but it doesn't always work that way. Lowering liquor excise taxes and creating a shopper-friendly atmosphere will ultimately have a positive impact on the state's bottom line, and the quicker lawmakers grasp that, the better.