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Sin Taxes on Soda, Alcohol, and Cigarettes: Congress's Latest Vice

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So-called “sin taxes” are fashionable in Congress because they fall on unpopular behaviors and activities. This makes them easier to increase than other taxes and a politically convenient funding mechanism for expansion of government programs.

Sin taxes are an effort by Congress to curb behaviors that it does not favor. They also lead to higher deficits. Instead of raising taxes on unpopular behaviors and activities to fund its largesse, Congress should restrain spending to live within its means.

Tyranny Through the Tax Code. Below is a list of sin taxes Congress is currently considering or has recently passed:

- **Soda tax.** The Senate Finance Committee proposed a soda tax to partially fund health care reform and help fight obesity. It would apply to every 12 ounces of sugar-sweetened soda at an unspecified cost.¹
- **Alcohol tax.** The Senate Finance Committee is also considering a proposal to increase the taxes on alcohol to fund health care reform and deter consumption of alcoholic beverages. Currently, wine, beer, and distilled spirits are taxed at different volumes and different rates. This proposal would tax each type of alcohol at \$16.00 per proof gallon. By comparison, the tax on distilled spirits is currently only \$13.50 per proof gallon. The new way of taxing would significantly increase the tax on each variety.²
- **Cigarette tax.** Earlier this year, Congress passed an increase of the cigarette tax from \$0.39 to \$1.00

to fund an expansion of the State Children's Health Insurance Program and attempt to lower smoking rates to promote healthier lifestyles.³

In addition to these sin taxes, other targeted taxes Congress is currently considering include:

- **Stock transaction tax.** A tax of 0.1 percent on each transfer of stock proposed by the AFL-CIO and Representative Peter DeFazio (D-OR), chairman of the House Highways and Transit Transportation subcommittee, would discourage speculation in the stock market. It would be used to help fund transportation projects.⁴
- **Vehicle miles tax (VMT) or increased gas tax.** A VMT would tax each mile that taxpayers drive to pay for transportation projects and discourage driving. There are no specific proposals yet before Congress, but Transportation Secretary Ray LaHood raised the idea of such a tax earlier this year. There are several calls in Congress to raise the current gas tax, \$0.184 per gallon, for the same purposes.

Sin taxes raise the costs of legal products and activities. Increased prices dissuade people from buying the products or engaging in the activities hit by these higher taxes. Congress using its power to

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coerce people to curb legal behaviors and activities is tyranny through the tax code.

Nationalized Health Care Will Lead to More Sin Taxes. Proponents of targeted taxes argue that they curb behaviors and activities that impose a cost on society. Of course, if the government is in charge of paying for a large portion of the population's health care expenses, it has a vested interest in controlling costs. Behaviors that can increase the costs of health care, like smoking and drinking, should therefore be taxed heavily, so the logic goes.

But the problem with this logic is that it is a slippery slope to higher and higher taxes. If the federal government takes a greater role in health care, it will lead to more calls to influence people to maintain healthier lifestyles and inevitably to calls for more sin taxes to curb behaviors considered to increase health care costs.

The push for more sin taxes makes clear the dangers of the government having a greater role in the health care system. Rather than providing an increased incentive to influence personal choices through punitive taxation, the government should be kept out of health care decisions entirely.

Slippery Slope to Additional Tax Hikes. Furthermore, Congress cannot raise sufficient revenue through the income tax to pay for its desired spending increases because of President Obama's campaign pledge not to raise taxes on anyone making less than \$250,000 a year. And to get the necessary revenue from those making above that threshold,

Obama would have to raise the top marginal rates to levels that would devastate the economy.⁵

Constrained by this inability to get the money it wants from the income tax, Congress has set its sights on sin taxes. These targeted taxes would still break President Obama's campaign pledge, because they would hit many taxpayers earning far below \$250,000. But they would provide more political cover because they fall on unpopular behaviors and activities.

Higher Deficits. But if Congress enacts sin taxes to pay for increased government spending, deficits will actually rise in the long run because these taxes inevitably raise less revenue than anticipated. This is because they often fall on behaviors that are already declining in popularity. For example, smoking rates have fallen steadily for several years.⁶ A tax levied on cigarettes will raise declining revenue as this long-term downward trend continues. This puts Congress in the awkward situation of actually needing more Americans to smoke to pay for its spending increases.⁷

Revenue would be reduced further by people cutting back on the targeted behaviors and activities. They will smoke less, drink less sugary drinks and alcohol, trade stocks less, and drive less. Or they will find ways around paying the tax, such as by purchasing smuggled cigarettes.

Congress is unlikely to pare back programs even without the revenue it anticipates from sin taxes; thus, higher deficits will result. Congress will then

1. United States Senate Finance Committee, "Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options," May 20, 2009, at <http://finance.senate.gov/Roundtable/complete%20text%20of%20financing%20policy%20options.pdf> (September 9, 2009).
2. *Ibid.*
3. Joseph Henchman and Gerald Prante, "Funding S-CHIP with Federal Cigarette Tax Increase Is Poor Tax Policy," Tax Foundation, January 15, 2009, at <http://www.taxfoundation.org/research/show/24208.html> (September 9, 2009).
4. Alexander Bolton, "AFL-CIO, Dems Push New Wall Street Tax," *The Hill*, August 30, 2009, at <http://thehill.com/homenews/house/56789-afl-cio-dems-push-new-wall-street-tax> (September 9, 2009).
5. Peter R. Orszag, director, Congressional Budget Office, "The Long-Term Economic Effects of Some Alternative Budget Policies," letter to the Honorable Paul Ryan, May 19, 2008, pp. 8–9, at <http://www.cbo.gov/ftpdocs/92xx/doc9216/Letter-to-Ryan.1.1.shtml> (September 9, 2009).
6. Lydia Sadd, "U.S. Smoking Rates Still Coming Down," Gallup, July 24, 2008 at <http://www.gallup.com/poll/109048/US-Smoking-Rate-Still-Coming-Down.aspx> (September 28, 2009).
7. William W. Beach, "22 Million New Smokers Needed: Funding SCHIP Expansion with a Tobacco Tax," Heritage Foundation *WebMemo* No. 1548, July 11, 2007, at <http://www.heritage.org/Research/HealthCare/wm1548.cfm>.

inevitably look to raise other taxes, or levy new ones, to cover the shortfall. This could mean higher income taxes or the introduction of a value-added tax (VAT).⁸ A VAT is similar to a national sales tax that all consumers and businesses would pay on their purchases. It would drastically increase the tax burden on all Americans.

Wrong Target. Congress does not have a revenue problem; it has a spending problem. The projected revenue that existing taxes will raise is more than enough to hold deficits *below* historical levels if Congress simply restrains spending.⁹ It can hold spending to such levels by dropping plans

for an expensive takeover of the health care system and reforming existing entitlements—like Social Security, Medicare, and Medicaid—and inefficient spending programs to make them more affordable and effective.¹⁰

Congress should drop its efforts to levy sin and targeted taxes. Attempting to alter the legal behavior of law-abiding adults through the tax code leads only to higher deficits and higher taxes.

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8. Curtis S. Dubay, “Value-Added Tax: No Solution for Health Care or Fiscal Woes,” Heritage Foundation *WebMemo* No. 2532, July 9, 2009, at <http://www.heritage.org/Research/Taxes/wm2532.cfm>.

9. Curtis S. Dubay, “Budget Update Shows No Need for Tax Hikes,” Heritage Foundation *WebMemo* No. 2597, August 27, 2009, at <http://www.heritage.org/Research/Budget/wm2529.cfm>.

10. Brian M. Riedl, “New Budget Estimates Show Unsustainable Spending and Debt,” Heritage Foundation *WebMemo* No. 2595, August 25, 2009, at <http://www.heritage.org/Research/Budget/wm2595.cfm>.