

THE DISTRIBUTIONAL EFFECTS OF AN INCREASE IN
SELECTED FEDERAL EXCISE TAXES

Staff Working Paper

January 1987

The Congress of the United States
Congressional Budget Office

TI51432093

SUMMARY

Federal excise taxes accounted for \$36 billion in 1985, or 5 percent of all federal revenues. Concern about the rising deficit has prompted some to consider increasing federal excise taxes. This analysis by the Congressional Budget Office shows the distributional effects, among income classes, of a simulated increase of \$1 billion in gross excise tax revenues from separate increases in the excise tax on seven commodities: beer, wine, liquor, tobacco, gasoline, airfare, and telephone service.

The distributional effects of the tax increase are measured relative to family income and to total family expenditures. Because total expenditures generally are thought to reflect long-term incomes, total expenditures may be a better measure of a family's permanent economic situation than income in a single year.

When measuring the distributional effects relative to total expenditures, an increase in the airline ticket tax would be slightly progressive across income classes; the average increase in taxes as a percentage of total expenditures would be higher for families in higher income classes. Increases in the tax on wine or, for all but the highest and lowest income classes, the tax on gasoline would have the same effect on all income classes when measured as a percent of total expenditures. Increases in all other excise taxes would be at least marginally regressive; the average increase in taxes as a percentage of total expenditures would be less for families in higher income classes. An increase in the excise tax on tobacco would be the most regressive of all the tax increases considered.