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Tax Break for High-Alcohol Wine Sours Health Advocates

By Paul Feldman on May 11, 2017

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Winemakers could soon receive a tax break that would spur production of higher-alcohol wines, a move that would pad their bottom lines but that has health advocates seeing red.

The proposal, which has strong bipartisan support in Congress, would cut taxes by 50 cents per gallon on wines with high alcohol content. Wineries that now take steps to reduce the alcohol level of some wines, avoiding the tax, would no longer need to go to that expense.

“Overnight,” said Michael Scippa, public affairs director for the Bay Area-based advocacy group Alcohol Justice, “people would have about 18 percent more alcohol in the same glass of wine they’re now drinking. The health implications of that are serious.”

Tucked into a larger bill that would provide across-the-board tax cuts for craft beer and liquor distillers, the break for winemakers focuses specifically on reducing taxes for those producing a stronger product.

At the heart of the matter is a quirk of oenology. For generations, most wines contained less than 14 percent alcohol in their natural state. But as public demand has grown for fruitier, more robust wines, many vineyards have let their grapes ripen longer, increasing the sugar content, and correspondingly, the concentration of alcohol.

Now, some wineries take the intensified crush and quietly use reverse osmosis or steel devices known as spinning cone columns to reduce the alcohol content.

The pending legislation would drop the federal tax from $1.57 to $1.07 per gallon for all wines with 16 percent alcohol or less. That’s the same rate that has applied for decades to wines 14 percent or less. The action could significantly increase the level of alcohol consumers imbibe since there would no longer be a financial incentive to reduce the alcohol level to 14 percent or less.

Trickle-down economic impact

The Wine Institute, an industry group supporting the legislation, had no comment on possible health impacts. Sen. Ron Wyden , D-Oregon, a principal sponsor, did not respond to a request for comment.

Supporters say the bill would have a trickle-down economic impact. The savings on taxes, they contend, would provide a financial stimulus for the beverage industry. The federal excise tax for small craft brewers, for example, would be cut in half to $3.50 per barrel on the first 60,000 barrels, and lowered from $18 to $16 a barrel for larger producers (A barrel of beer contains 31 gallons).

"Oregon's economy earns significant benefits from the jobs and small business growth created by our state's world-renowned craft beer, wine and spirits producers," said a press release from Wyden, the top Democrat on the Senate Finance Committee, which oversees excise taxes and alcohol regulations, upon introducing the proposal Jan. 30. "This bill would ensure these industries no longer face the unfair burdens of Prohibition-era rules and taxes."

The trouble, said David Jernigan, director of the Center on Alcohol Marketing and Youth at the Johns Hopkins Bloomberg School of Public Health, is that "the trickle in this case is not about an ordinary consumer product, it's about a product that kills 88,000 people a year in the U.S." He was referring to a Centers for Disease Control and Prevention estimate of deaths due to excessive alcohol use.

Of particular concern to health advocates is the provision for winemakers that lowers taxes for stronger wines.

Said Dr. Ana Baylin, an associate professor at the University of Michigan School of Public Health: "If you increase the percentage of alcohol in wine and people are used to a certain volume, I really doubt that they are going to correct their usual volume based on the increased percentage."

Bipartisan backing

Yet even in this hyper-partisan era, The Craft Beverage Modernization and Tax Reform Act is currently co-sponsored by 25 Democratic and 18 Republican senators.

A corresponding House bill, is sponsored by Republican Erik Paulsen from Minnesota and is currently co-sponsored by 97 Republicans and 74 Democrats.

The legislation is supported by the Wine Institute, which represents the California wine industry, and by beer and distilling lobbying groups.

The Congressional Budget Office has yet to submit a cost estimate on the amount of tax revenue that would be lost if the bills become law.

Most wines now have an alcohol concentration of 14 percent or less, according to federal tax statistics. Some of these wines fall within that limit as a result of technological assistance, but it's uncertain how many because there are no official statistics.

Researchers at the University of California, Davis Center for Wine Economics say that since 1980, there has been “a substantial rise in the sugar content of wine grapes in California,” by far the largest growing area in the nation, with about 85 percent of U.S. wine production.
As a result, the researchers said in their 2011 study, a “significant effort is being spent in wineries to remove alcohol from wine,” adding that it was “possibly because of tax implications.”

Since the early 1990s, spinning technology has been used to separate alcohol from wine, but many winemakers are reluctant to disclose that they employ this or other methods, since it would undermine the image of wine as a purely natural product.
“Consumers don’t get the information they need to make informed decisions about drinking,” said Jernigan of Johns Hopkins. “One way that that information currently comes across is through the tax code because the tax code prices differently wines of different strengths. Now they’re going to lose even that.”