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Principles of Alcohol Taxation



Background

The following discussion and principles were the product of a two-day technical meeting on alcohol excise tax policy held in Mexico City, May 5–6, 2025 supported by the RESET Alcohol Initiative and hosted by the Economics for Health (EfH) team at the Johns Hopkins Bloomberg School of Public Health (www.economicsforhealth.org). There were more than 25 expert participants specializing in health tax policy development and implementation from the following organizations: Action for Economic Reforms (Philippines), Bloomberg Philanthropies, Boston University School of Public Health, Center for Global Development, the Centre for Addiction and Mental Health (Canada), Centro de Investigación Económica y Presupuestaria (Mexico), Economics for Health at the Johns Hopkins Bloomberg School of Public Health, the International Monetary Fund, Open Philanthropy, the Organisation for Economic Co-operation and Development, the Pan American Health Organization, Universidad Adolfo Ibañez (Chile), Universidade Católica de Brasília, University of Cape Town, University of Illinois Chicago, University of Toronto, Vital Strategies, the World Bank, and the World Health Organization.

Overarching Principles

The primary objective of increasing alcohol excise taxes is to improve population health and population health outcomes.

Decades of research have documented the enormous magnitude of the health, economic, and social harms of alcohol use (e.g., Babor et al., 2023; Brauer et al., 2024; Manthey et al., 2021; Shield et al., 2025). However, in most countries alcoholic beverages remain affordable to most people. There is unequivocal evidence across different countries' contexts (such as low-, middle-, and high-income) that substantial increases in alcohol prices will lead to significant reductions in consumption (Chaloupka et al., 2009; Drope & Powell, 2024; WHO, 2023). There is also unequivocal evidence across country contexts that excise taxes—not other taxes (such as a value-added tax (VAT), a general sales tax, or an import tariff that includes alcohol)—are the best tool to achieve the price increases that would lead to these reductions in consumption (Chaloupka et al. 2019; WHO, 2023).

Excise taxes are unique because, unlike broader taxes, raising excise taxes specifically on alcoholic beverages will increase their prices relative to other goods, which is more likely to lead to users consuming less alcohol. Moreover, improving excise tax systems in a way that reduces harm from alcohol will increase excise tax revenues under most conditions. According to 2024 data, taxes on and prices of alcoholic beverages remained low in most countries (WHO, 2025), and most governments that are currently applying excise tax to alcohol are primarily motivated by revenue generation rather than reducing harm from alcohol.

Governments should strive to have clear and simple definitions of an alcoholic beverage and product for the purposes of taxation and related regulation.

A clear and logical definition—for example, starting at 0.5% alcohol by volume—will ensure consistency and avoid potentially conflicting definitions across other parts of the alcohol-related regulatory framework. Note that higher alcohol content thresholds create potential opportunities to bypass excise taxes and could be used by producers/sellers to target potentially vulnerable groups (for example, children or youth). If there is significant consumption of high-alcohol-by-volume non-beverage products (for example, alcohol-based mouthwash or tinctures), governments can also tax these products similarly (Gil et al., 2009; Lachenmeier et al., 2009).

Alcohol taxation is best implemented within a comprehensive set of proven alcohol control interventions.

Increasing excise taxes is a proven and effective strategy to drive down alcohol consumption and delay youth initiation, but it is not a panacea for all the associated public health challenges. Not only are there other effective policies, programs, and interventions that help to drive down consumption, but preliminary research suggests that the effects of taxes may be enhanced when approaches are combined in a comprehensive alcohol policy package (Gapstur et al., 2025). Other effective policies include restrictions on availability, bans or restrictions on marketing, advancement and enforcement of drink-driving countermeasures, and improving access to brief interventions and treatment (Rekve et al., 2019).

The following principles help to frame more precisely how governments should tax alcoholic beverages. There will naturally be nuances that need to be considered based on a variety of country-level factors (such as enforcement capacity, the nature of the broader regulatory framework for alcohol sales and consumption, the security of supply/value chains, and regional tax consistency, among others).

Specific Principles of Alcohol Taxation

Principle 1

Because consumption of alcohol (ethanol) is the direct cause of health and social harms, its measure should underpin the tax structure.

Accordingly, in most circumstances, the most effective tax structure is a specific excise tax based on the amount of alcohol. A specific tax is a fixed monetary amount applied to a physical unit of a product. For alcohol products, it would be applied to a quantity (for example, a liter) of pure ethanol. A specific tax is typically simpler and more transparent than other tax types, such as ad valorem. Specific taxes are also more effective at raising the prices of the cheapest similar products—since it is not based on value—and shrinking the price dispersion within a product category and/or across categories.

There may be circumstances when governments choose a hybrid system that uses both a large(r) specific component based on the amount of alcohol and an ad valorem component. An ad valorem tax is a percentage of an assigned value (such as the reported retail price; the ex-factory price; or the cost, insurance, and freight (CIF) price). Because production costs and consequently the sale price of different types of alcoholic beverages vary substantially, governments may use ad valorem excise taxes combined with specific ones to help calibrate a price per standard drink across different categories (for example, spirits and beer). This is especially critical because retail price is arguably the most significant variable affecting the decision to consume alcohol.

Where there is a market segment of premium products, governments can also use an ad valorem tax to generate extra revenue from these higher-priced products—typically consumed mainly by those with higher incomes. In other words, thoughtfully applied ad valorem taxes can help governments achieve other goals.

Principle 2

Tax authorities should strive for consistency in how alcohol taxes are applied.

In general, as a starting point, authorities should tax alcohol per defined unit (for example, one liter of ethanol) the same regardless of the category and/or type of beverage. This uniformity principle should also apply to products whether they are produced domestically or imported. Some products, however, may have characteristics that could necessitate more aggressive taxation if they cause disproportionate harm per liter of ethanol consumed and/or if their retail price is comparably low because of low production costs or some other variable.

For example, some governments have responded with targeted policies to the alcohol industry's aggressive introduction of products often called "alcopops," which are clearly formulated for and marketed to children and teens (for example, through child-friendly flavors). Targeted policies are warranted in this case since youth are still developing neurologically and are thus more susceptible to greater alcohol-attributable harm per liter of alcohol consumed. Also, if initiation of drinking in a country is clearly linked to specific beverages, it has been shown that initiation could be avoided or slowed down by higher taxation (Sornpaisarn et al., 2015). Similarly, in some countries, certain spirits, fortified wines, and/or malt liquors may be associated with or even marketed for heavy drinking and/or heavy episodic drinking. Typically, these products are priced very low, and evidence suggests that the harm from them is disproportionately greater than other products (Patterson, 2023). In these circumstances, it may be suitable to use targeted higher taxation as a tool to mitigate consumption of these specific products, though authorities will need to monitor the implementation to ensure that unintended consequences do not undermine the broader goals (for example, through substitution to other like products).

Principle 3

Governments should implement substantial and regular increases in alcohol excise taxes to consistently push prices up (especially compared to other goods) and drive alcohol consumption down.

Consumers react to changes in real prices (that is, adjusted for inflation) related to their own real purchasing power (real income growth) (WHO, 2023). At a minimum, governments should link regular—at least annual—and automatic increases in the specific excise tax to the combination of inflation and real income growth. This will help to maintain the real value of the tax and ensure that alcoholic beverages are not becoming more affordable. In some contexts, inflation and/or real income growth may change quickly, so it may be necessary to update specific tax rates often—such as at least once a year—though some countries do it more frequently for similar products like tobacco (for example, Wilkinson et al., 2019).

Principle 4

When an ad valorem tax is used, it should be applied as closely as feasible to the retail price to have the greatest impact on the price paid by the consumer.

Price manipulation by producers with ad valorem taxes (often between related parties in the supply/value chain) has been known to occur frequently, so ensuring that the price on which an ad valorem tax is based is a true market one is key to its effectiveness. Since price manipulation is more likely to happen earlier in the supply/value chains, such as ex-factory and CIF import prices, it is best, whenever possible, to adopt a base closer to the retail price where the gap between market prices tends to be less. As governments often collect

retail prices for other reasons, such as VAT invoicing or consumer price index calculations, this information can help tax authorities implement these taxes more effectively.

Retail prices are also typically considerably higher—and they are more transparent, because they are publicly available by nature—so retail price-based ad valorem rates can be set lower to achieve a given revenue target than they would have to be at other points in the supply/value chain. In contrast, as ex-factory or CIF prices are typically lower, they require much higher rates to reach revenue targets, for which it can be challenging to gain political acceptance or support.

Principle 5

In cases where there is an ad valorem-only excise tax, governments should also use a minimum tax (in absolute value) that is updated for inflation and real income growth.

For a variety of reasons, including perceived capacity constraints, some governments insist on an ad valorem-only excise tax. If the base value for an ad valorem tax is very low, even with a high ad valorem tax rate the absolute tax level will still be low, and corresponding prices per standard drink are likely to also be low. If governments set a high minimum tax per standard drink in these instances, the ability of and incentives for companies to attempt to cheat the system are greatly diminished.

Note that a small handful of governments have tried related policies, wherein the government sets a minimum retail price by volume (MP)—for example, by beverage category like vodka in Russia—or by unit of alcohol (MUP). These policies are generally suboptimal and should only be utilized as a last resort, when there is no prospect for excise tax reform—for example, if a jurisdiction cannot independently raise taxes. Neither an MP nor an MUP is effective in raising prices of all alcoholic beverages because it applies only to the cheapest products. Furthermore, these policies do not generate revenue for public finance because the additional revenue goes to the industry as profit.

Instead of using MP or MUP policies, a substantial specific excise tax can typically achieve the same goal of raising retail prices of the lowest-priced products, while at the same time, raising prices across the marketplace. Importantly, using a substantial specific excise tax instead of minimum price or minimum unit price policies permits the government to keep the new tax revenues, rather than the alcohol industry and adjacent sectors generating greater profits. Proponents of excise tax reform should exhaust all efforts to improve excise taxes before turning to MP and MUP options, which are less efficient and effective than an excise tax and can be difficult to improve thereafter, even just to index to inflation and/or real income growth.

Principle 6

For no-/low-alcohol products, the same structural recommendations generally apply (for example, specific tax on alcohol volume).

The harm from these products is not from ethanol but mainly indirect, such as attracting youth to similar brands and products that contain larger amounts of alcohol. This issue typically requires the use of other evidence-based policies that help to address the public health challenges related to no-/low-alcohol products, such as limiting access for youth or prohibiting parallel marketing schemes or deliberate overlaps with other product categories and their taxation (for example, sugar-sweetened beverages).

A Note on Unrecorded Alcohol

Unrecorded alcohol is complex and largely country-specific, but thus far there is little evidence of marked substitution from licit to unrecorded alcohol when taxes increase; therefore, this concern should not prevent countries from raising taxes on licit products (Rehm et al., 2022). Given the evidence to date, we assume that—even if there is some substitution to unrecorded alcohol products—tax increases will still have positive effects on revenues, drive down overall consumption, and improve public health.

Though there is evidence that some (mostly lower-income) countries have substantial unrecorded alcohol, these markets are typically bifurcated—most often across rural versus urban and/or socioeconomic differences. Many of the rural markets are already largely outside of the existing tax systems, and these challenges are more related to the need for sustained systemic reforms that formalize broader markets. There are also proven policies that can effectively target unrecorded consumption with tailored interventions and enforcement strategies (Rehm et al., 2022). For example, Kenya and Sierra Leone have implemented successful tracking and tracing programs, which Kenya also paired with a registration system for firms operating in the supply/value chain (WHO, 2023).

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