

## Key Elements of the U.S. Tax System

What are the major federal excise taxes, and how much money do they raise?

EXCISE TAXES

**Q. What are the major federal excise taxes, and how much money do they raise?**

**A. Federal excise tax revenues—collected mostly from sales of motor fuel, airline tickets, tobacco, alcohol, and health-related goods and services—totaled nearly \$100 billion in 2019, or 2.9 percent of total federal tax receipts.**

Excise taxes are narrowly based taxes on consumption, levied on specific goods, services, and activities. They can be either a per unit tax (such as the per gallon tax on gasoline) or a percentage of price (such as the airline ticket tax). Generally, excise taxes are collected from producers or wholesalers, and are embedded in the price paid by final consumers.

Federal excise tax revenue has declined over time relative to the size of the economy. As a percentage of gross domestic product (GDP), excise tax revenue fell from 2.7 percent in 1950 to 0.7 percent by 1979 (figure 1). Receipts temporarily increased because of the crude oil windfall profit tax imposed in 1980, but excluding that tax, (the dashed line in figure 1) revenue was about 0.7 percent of GDP through the 1980s and 1990s. Excise tax revenues as a percentage of GDP gradually declined again throughout the 2000s to roughly 0.4 percent in recent years.

# Key Elements of the U.S. Tax System

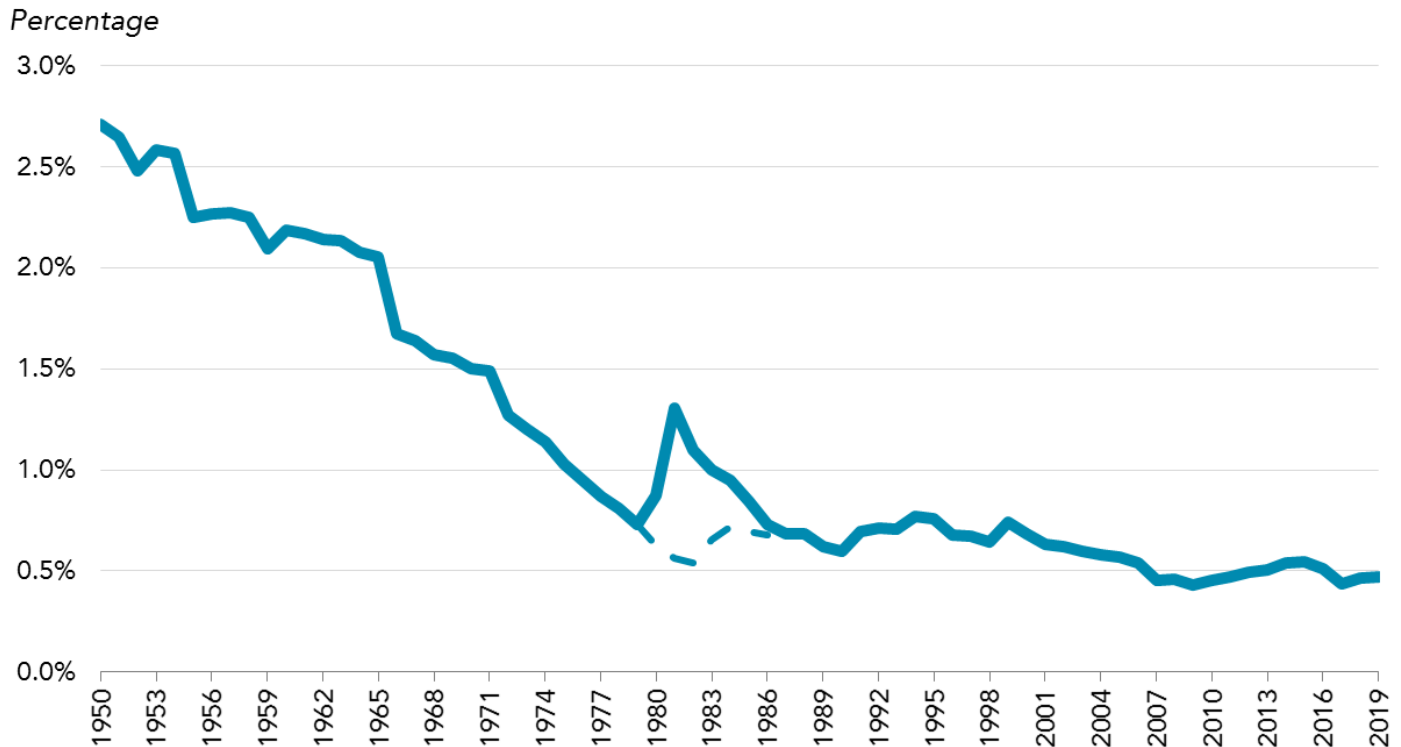
What are the major federal excise taxes, and how much money do they raise?

EXCISE TAXES

**FIGURE 1**

## Federal Excise Tax Revenue as a Share of GDP

Fiscal years 1950 – 2019



**Source:** Office of Management and Budget. Historical Tables. Table 2.1, "Receipts by Source: 1934–2025," and Table 1.2, "Summary of Receipts, Outlays, and Surpluses or Deficits (-) as Percentages of GDP: 1930–2025."

**Note:** The dashed line excludes receipts from the Crude Oil Windfall Profit Tax Act of 1980.

### GENERAL FUND OR TRUST FUND REVENUES

Excise tax revenue is either transferred to the general fund or allocated to trust funds dedicated to specified purposes. General fund excise taxes account for roughly 40 percent of total excise receipts, with the remaining 60 percent going to trust funds.

General fund excise taxes are imposed on many goods and services, the most prominent of which are alcohol, tobacco, and health insurance. Other general fund excise taxes include taxes on local telephone service, vehicles with low-mileage ratings ("gas guzzlers"), ozone-depleting chemicals, and indoor tanning services.

Excise taxes dedicated to trust funds finance transportation as well as environmental- and health-related spending. The Highway Trust Fund and the Airport and Airway Trust Fund account for over 90 percent of trust fund excise tax receipts, mostly from taxes on gasoline and other transportation fuels (Highway Trust Fund), and air travel (Airport and Airway Trust Fund).

# Key Elements of the U.S. Tax System

What are the major federal excise taxes, and how much money do they raise?

EXCISE TAXES

## MAJOR FEDERAL EXCISE TAXES

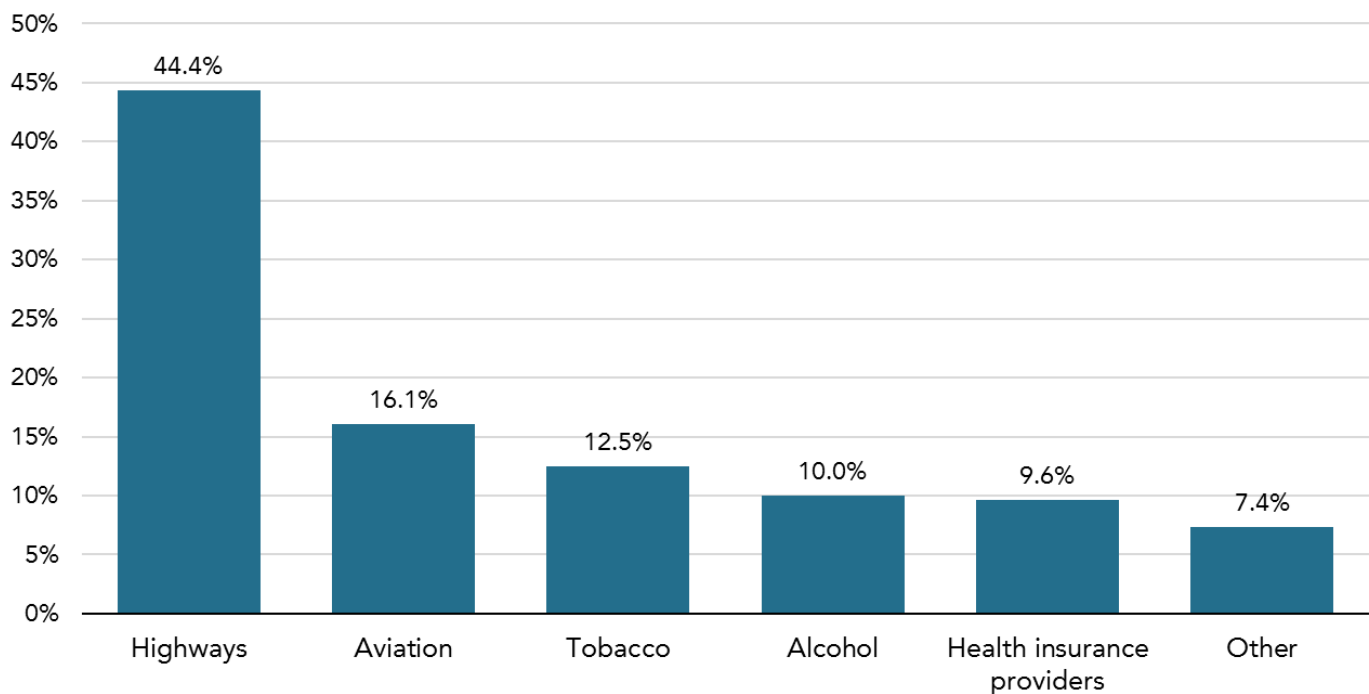
Five categories of excise taxes—highway, aviation, tobacco, alcohol, and health—accounted for 93 percent of total excise tax receipts in 2019 (figure 2).

**FIGURE 2**

### Sources of Federal Excise Tax Revenue Fiscal year 2019



Share of total



**Source:** Office of Management and Budget. Historical Tables. Table 2.4, "Composition of Social Insurance and Retirement Receipts and of Excise Taxes: 1940–2025."

**Note:** "Other" category includes receipts from supplementary medical insurance, aquatic resources, patient-centered outcomes research, vaccine injury compensation, telephone and teletypewriter services, and other miscellaneous excise taxes.

## EXCISE TAXES DEDICATED TO THE HIGHWAY TRUST FUND

Highway-related excise tax revenue totaled \$40.5 billion in 2019, 41 percent of all excise tax revenue. Gasoline and diesel taxes, which are 18.4 and 24.4 cents per gallon, respectively, make up over 90 percent of total highway tax revenue, with the remaining from taxes on other fuels, trucks, trailers, and tires. (The tax rates for gasoline and diesel include a 0.1 percent tax earmarked for the Leaking Underground Storage Tank Trust Fund.) Most other motor fuels are also subject to excise taxes, although "partially exempt" fuels produced from natural gas are taxed at much lower rates. Tax credits for producers of certain fuels deemed environmentally superior—including biodiesel, renewable diesel mixtures, alternative fuel, and alternative fuel mixtures—expired at the end of 2017 but were generally extended in

# Key Elements of the U.S. Tax System

What are the major federal excise taxes, and how much money do they raise?

EXCISE TAXES

December 2019 retroactively from 2018 through end of 2022, except for the alternatives fuels credit was extended only through 2020.

## EXCISES TAXES DEDICATED TO THE AIRPORT AND AIRWAY TRUST FUND

Revenue from excise taxes dedicated to the Airport and Airway Trust Fund totaled \$16.0 billion in 2019, accounting for 16 percent of all excise tax receipts. According to Congressional Budget Office data, more than 90 percent of aviation excise taxes came from taxing passenger airfares, with the remaining coming from taxes on air cargo and aviation fuels.

Domestic air travel is subject to a 7.5 percent tax based on the ticket price plus \$4.30 (in 2020) for each flight segment (one takeoff and one landing). A 6.25 percent tax is charged on domestic cargo transportation. International arrivals and departures are taxed at \$18.90 per person (in 2020); there is no tax on international cargo. Both the domestic segment fee and the international arrivals and departures fee are indexed for inflation.

## TOBACCO EXCISE TAXES

Revenue from tobacco taxes totaled \$12.5 billion in 2019, accounting for 13 percent of all excise tax revenue. Federal excise taxes are imposed on tobacco products, which include cigarettes, cigars, snuff, chewing tobacco, pipe tobacco, and roll-your-own tobacco. The tax is calculated per thousand cigars or cigarettes or per pound of tobacco, depending on the product. The tax equals about \$1.00 per pack of 20 cigarettes. Cigarette papers and tubes are also subject to tax. Tobacco taxes are collected when the products leave bonded premises for domestic distribution. Exported products are exempt. Unlike other excise taxes collected by the IRS, alcohol and tobacco taxes are collected by the Alcohol and Tobacco Tax and Trade Bureau of the US Treasury Department.

## ALCOHOL EXCISE TAXES

Excise tax revenue from alcoholic beverages amounted to \$10.0 billion in 2019, 10 percent of total excise receipts. There are different tax rates for distilled spirits, wine, and beer. Distilled spirits generally are taxed at \$13.50 per proof gallon (a proof gallon is one liquid gallon that is 50 percent alcohol), but a lower rate (\$13.34) applies through end of 2020 to quantities of less than 22.23 million proof gallons removed from the distillery or imported. Tax rates on wines vary based on type and alcohol content, ranging from \$1.07 per gallon for wines with 16 percent alcohol or less to \$3.40 per gallon for sparkling wines, but lower rates also apply through end of 2020 to smaller quantities of wine removed or imported. Beer is typically taxed at \$18.00 per barrel (31 gallons), although a reduced rate of \$3.50 per barrel applied to the first 60,000 barrels for breweries that produce less than two million barrels. Lower rates apply in both cases through end of 2020. Note that the alcohol content of beer and wine is taxed at a much lower rate than the alcohol content of distilled spirits.

## EXCISE TAXES ENACTED BY THE AFFORDABLE CARE ACT

The Affordable Care Act (ACA) legislation passed in 2010 contained several health-related excise taxes.

## Key Elements of the U.S. Tax System

### What are the major federal excise taxes, and how much money do they raise?

EXCISE TAXES

- The largest is an annual fee on health insurance providers. This fee represents a fixed aggregate amount for each calendar year (\$9.6 billion for 2019), imposed on insurance providers according to their market share. Various Appropriations acts suspended this tax for 2017 and 2019. It returned in 2020, but is repealed for 2021 and thereafter.
- Starting in 2014, an annual fee also applies to manufacturers and importers of branded prescription drugs, which, like the annual fee on health insurance providers, is a fixed aggregate amount for each calendar year (\$2.8 billion in 2020 and thereafter) allocated in proportion to sales.
- A 40 percent excise tax on certain high-cost employer-sponsored health insurance plans (the “Cadillac tax”) was scheduled to begin in 2018 but Congress passed a two-year postponement of the excise tax, and later extended the suspension through 2022. The tax was repealed in December 2019.
- Other health care–related excise taxes include a 2.3 percent tax on medical devices and a 10 percent tax on indoor tanning services. Congress suspended the excise tax on medical devices various times since implementation, and recently repealed it altogether in December 2019.

Health-related excise tax revenue totaled \$12.0 billion in 2019, 12 percent of total excise receipts.

The ACA also imposed two additional taxes—a penalty tax on individuals without essential health insurance coverage (the “individual mandate”) as an incentive to buy it, and a penalty tax on large employers that choose not to offer health care coverage (the “employer mandate”). The 2017 Tax Cuts and Jobs Act eliminated the individual mandate starting in 2019. This will reduce revenue but on net save money for the federal government because without the individual mandate, fewer people will enroll in government-subsidized health insurance programs and the saving from lower Medicaid costs and tax subsidies for health insurance premiums will exceed the lost revenues. Eliminating the individual mandate, however, will increase the number of people without health insurance—by an estimated 7 million more people by 2021, according to the Congressional Budget Office.

*Updated May 2020*

#### Data Sources

Congressional Budget Office. 2019. [“Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2019 to 2029.”](#) Washington, DC: Congressional Budget Office.

Internal Revenue Service. 2020. [“Annual Fee on Branded Prescription Drug Manufacturers and Importers.”](#) Updated February 21, 2020.

\_\_\_\_\_. 2020. [“Affordable Care Act Provision 9010 - Health Insurance Providers Fee.”](#) Updated January 14, 2020.

\_\_\_\_\_. 2020. [“Indoor Tanning Services Tax Center.”](#) Updated January 16, 2020.

# Key Elements of the U.S. Tax System

What are the major federal excise taxes, and how much money do they raise?

EXCISE TAXES

Alcohol and Tobacco, Tax and Trade Bureau. 2020. "[Tax and Fee Rates.](#)" US Department of the Treasury. Updated March 6, 2020.

Office of Management and Budget. [Budget of the United States Government, Fiscal Year 2021, Historical Tables](#). Table 2.3. "Receipts by Source as a Percentage of GDP: 1934–2025"; Table 2.4. "Composition of Social Insurance and Retirement Receipts and of Excise Taxes: 1940–2025."

## Further Reading

Congressional Budget Office. 2018. *The Budget and Economic Outlook: 2018 to 2028*. Washington DC: Congressional Budget Office.

Joint Committee on Taxation. 2015a. "[Present Law and Background Information on Federal Excise Taxes.](#)" JCS-1-11. Washington, DC: Joint Committee on Taxation.

———. 2015b. "[Exclusion for Employer-Provided Health Benefits and Other Health-Related Provisions of the Internal Revenue Code: Present Law and Selected Estimates.](#)" JCX-25-16. Washington, DC: Joint Committee on Taxation.

Looney, Adam. 2018. "[Who Benefits from the 'Craft Beverage' Tax Cuts? Mostly Foreign and Industrial Producers.](#)" Washington, DC: Brookings Institution.

Rosenberg, Joseph. 2015. "[The Distributional Burden of Federal Excise Taxes.](#)" Washington, DC: Urban-Brookings Tax Policy Center.