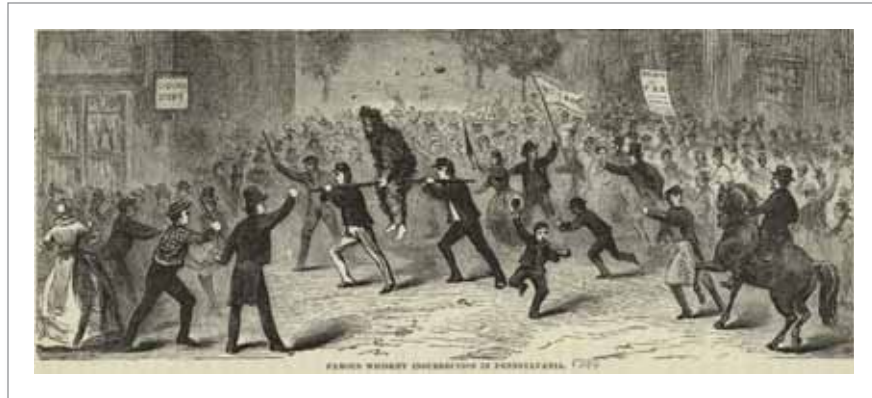


Finding the Excise Tax on an Item

There are many types of **excise taxes**. The most common excise tax applies to a specific class of goods, typically alcohol, gasoline, cigarettes, and gambling. Rather than being a certain percent, excise taxes are often a fixed dollar amount. For instance, a state might charge \$1 per gallon of gasoline or \$2 per pack of cigarettes. The tax is reported to the consumer as part of the retail price. For instance, when gasoline is reported as \$2.94 per gallon, this price includes any state or federal excise tax on the gasoline.



The first federal excise tax in the United States was levied in 1791 on distilled whiskey. The tax was unpopular with farmers on the western frontier who got their corn to market by distilling it into whiskey. The unpopularity of the tax grew into a revolt known as the Whiskey Rebellion.

EXAMPLE 3 Estimating Excise Tax

Estimate the amount of excise tax generated by cigarette sales each year in the United States.

SOLUTION

This is not an easy question, but you can still come up with a reasonable estimate. Assume the following.

- There are about 230 million people who are 18 years old or older.
- Of these, about 20% smoke cigarettes.
- A cigarette smoker smokes one pack per day.
- State and federal excise taxes total about \$2.50 per pack.

With these assumptions, you can obtain the following estimate.

$$(230,000,000)(0.20)\left(\frac{1 \text{ pack}}{\text{day}}\right)\left(\frac{\$2.50}{\text{pack}}\right)\left(\frac{365 \text{ days}}{\text{year}}\right) = \frac{\$41,975,000,000}{\text{year}}$$

So, a reasonable estimate for the revenue generated by state and federal excise taxes on cigarettes is about \$40 billion.

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The United States uses about 140 billion gallons of gasoline in a year. Estimate the amount of excise tax generated by gasoline sales each year in the United States.



Excise taxes on tobacco, alcohol, and gambling are sometimes called “sin taxes.”