

Alcohol taxation: impacts of policy inconsistencies

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Policy inconsistencies

(1) Between tobacco and alcohol

(2) Between different alcoholic beverages:

Two systems: Excise (or excise-equivalent customs duty); and Wine Equalisation Tax (WET); 17 price levers

- **Excise: beer, spirits** and ready-to-drink spirit-based drinks ('**alcopops**') are taxed on a '**volumetric**' basis (**16 categories and rates**)
- **WET: beverages** subject to the WET are taxed on the basis of wholesale prices (**one rate: 29 per cent since 2000-01**)

Key points

- Relative to policy actions over the past 30 years in the area of tobacco, alcohol has been let 'off the hook'.
 - Barriers to reform of the current dual taxation arrangements for alcoholic beverages are a major reason.
- Significant potential to reduce harm from alcohol abuse and to improve public finances across governments as a result of taxation reform.

(1) Policy inconsistencies: tobacco and alcohol

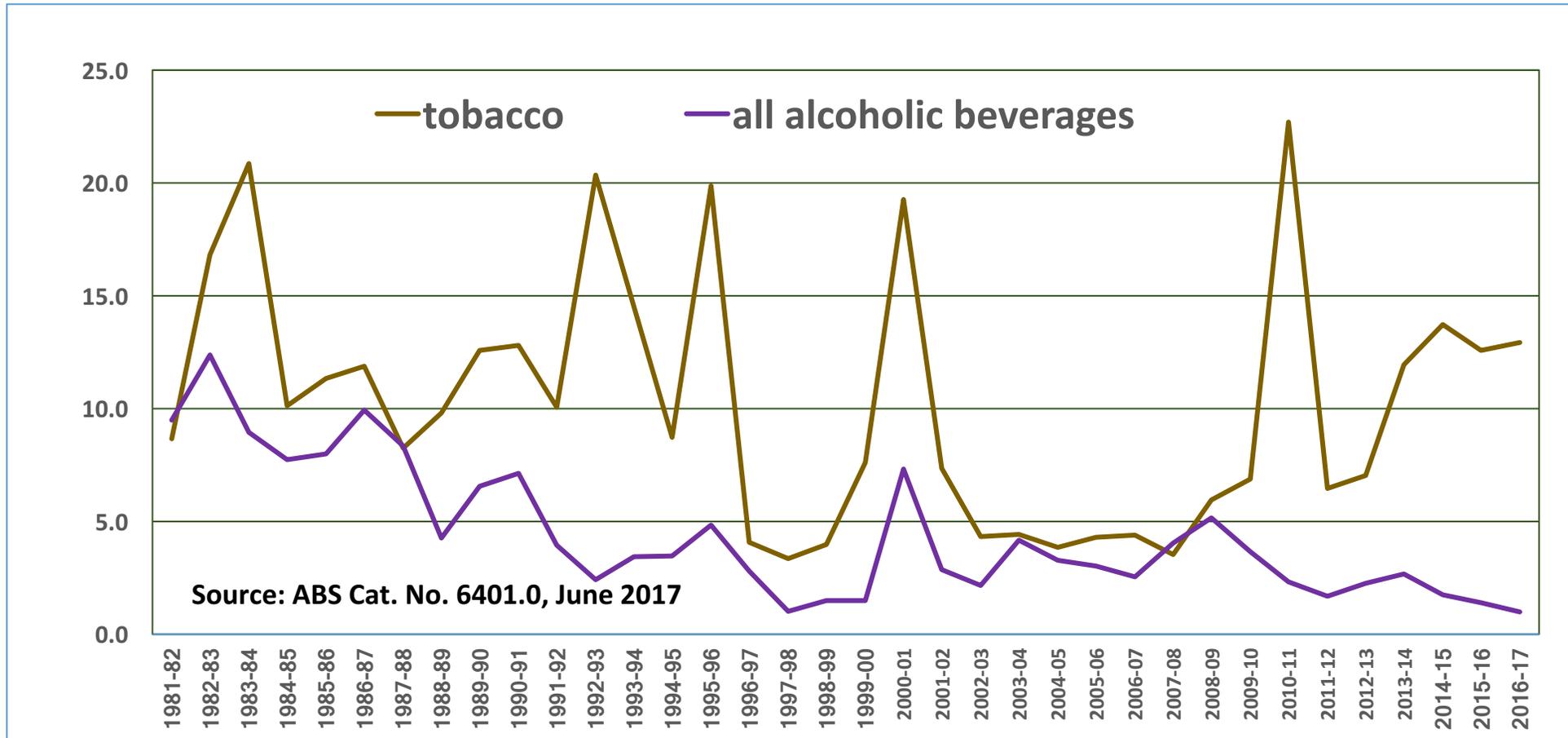
Tobacco products:

- **Disruption:**
 - All policy levers, especially price
 - Government advertising against smoking; industry advertising banned
 - Smoking banned in workplaces
 - Zero tolerance approach, including plain packaging
- Strong political leadership and clear national health policy objective

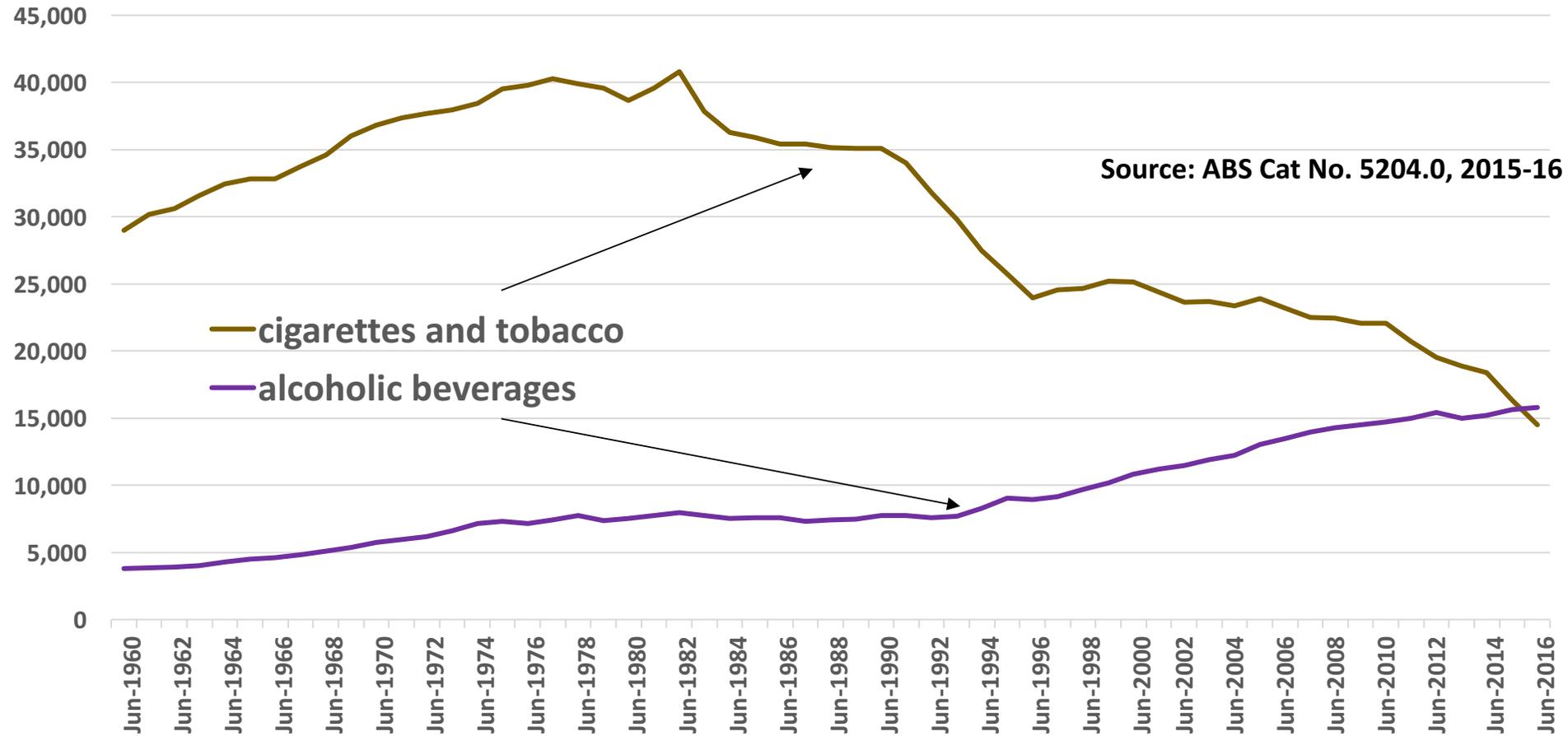
Alcoholic beverages:

- **Relative inaction:**
 - All policy levers, especially price
 - Industry advertising for drinking alcohol – in large amounts – continues
 - Happy hours continue
 - ‘Drink in moderation’ messaging
- Lack of political leadership and no clear national health policy objective

CPI components: tobacco, all alcoholic beverages (years ending June, annual changes – per cent)

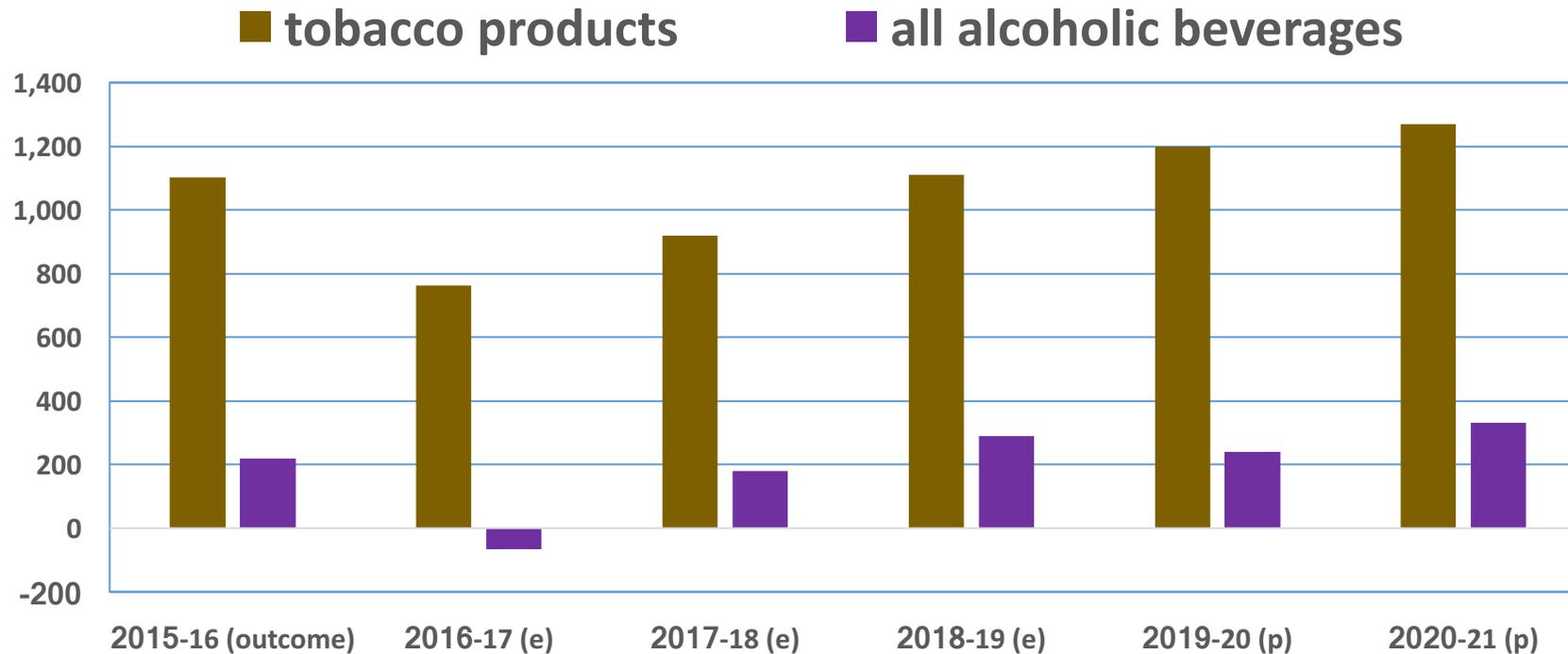


Tobacco and Alcohol: Household Final Consumption Expenditure (financial years 1959-60 to 2015-16, \$m volume)



Annual changes in Commonwealth revenue from taxes on tobacco products and alcoholic beverages (\$ million)

Source: Statement 10, Budget Paper No.1 2017-18



Commonwealth taxation revenue (accrual)

- **Between 2014-15 and 2020-21:**
 - Tobacco revenue up \$6.4 billion (as a share of GDP: +34%)
 - Alcohol revenue up only \$1.2 billion (as a share of GDP: -7%).
- **Revisions in 2017-18 Budget compared to MYEFO 2016-17**
 - Tobacco tax revenue up \$340 million over the four years to 2019-20
 - Alcohol tax revenue down \$660 million over the same period

Commonwealth revenue from specific taxes on tobacco and alcohol: 2014-15 to 2020-21 (accrual)

	outcome	outcome	estimates		projections			projected change
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2014-15 to 2020-21
	\$m							
Customs and Excise:								
tobacco	8,826	9,928	10,690	11,610	12,720	13,920	15,190	6,364
<i>annual growth rate (%)</i>	<i>3.5</i>	<i>12.5</i>	<i>7.7</i>	<i>8.6</i>	<i>9.6</i>	<i>9.4</i>	<i>9.1</i>	
Alcoholic beverages:								
Beer	2,312	2,386	2,350	2,390	2,470	2,520	2,670	358
Spirits	1,997	2,071	2,050	2,130	2,210	2,300	2,410	413
Other (a)	900	917	920	950	980	1,020	1,050	150
Wine Equalisation Tax (net)	828	883	870	900	1,000	1,060	1,100	272
Alcoholic beverages - total	6,037	6,257	6,190	6,370	6,660	6,900	7,230	1,193
<i>annual growth rate (%)</i>	<i>1.6</i>	<i>3.6</i>	<i>-1.1</i>	<i>2.9</i>	<i>4.6</i>	<i>3.6</i>	<i>4.8</i>	
(a) beverages not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine)								
Note: excludes GST revenue from these products								
Sources: Budget 2017-18 and final budget outcome reports								

What have we learned from actions to reduce the incidence of smoking?

- Price increases are crucial for reducing demand and social costs.
- With a uniform flexible price lever for all products, smart regulation and education campaigns can reduce demand and social costs further (all policy levers working consistently).
- Strong leadership from federal health ministers, the Prime Minister, Treasurer and Finance Minister – whole of government input – is required for major reforms.
- Durable reforms require bipartisan support.
- It takes three decades to change a drug culture.

Why has alcohol been left off the hook?

Tobacco

- Consistent taxation 'per stick': formerly excise, now customs duty
- One agricultural industry (now dead)
- Clear link to lung cancer (most diagnosed were men)
- Public finances – Commonwealth revenue > exp (Collins and Lapsley, 2008)

Alcohol

- Dual taxation system: WET; and excise – difficult to change
- Several agricultural industries (wine grape – now very large)
- Large hidden costs of abuse (women and children impacted)
- Public finances – States impacted adversely
- RBT and 'standard drinks': drink in moderation messaging

(2) Alcohol taxation policy inconsistencies: reform opportunities passed up

- **Gorton Government wine excise (1970-71 Budget) removed by Whitlam Government when elected**
- Hawke-Keating governments: WST on wine
- Howard Government: A New Tax System (WET)
- Rudd Government: Australia's Future Tax System 2010
- Gillard Government: Tax Forum, Parliament House October 2011
- Treasury's *Re-think* Discussion Paper 2015

Alcohol taxation: wine*

- No specific federal tax on domestic wine producers from 1972 to 1984
- From 1984 to 2000: federal **wholesale sales tax** (rising from 10 per cent to 41 per cent (including 15 per cent for States and Territories from 1997 when their alcohol taxes were deemed unconstitutional))
- From 2000: **Wine Equalisation Tax** (29 per cent) and GST

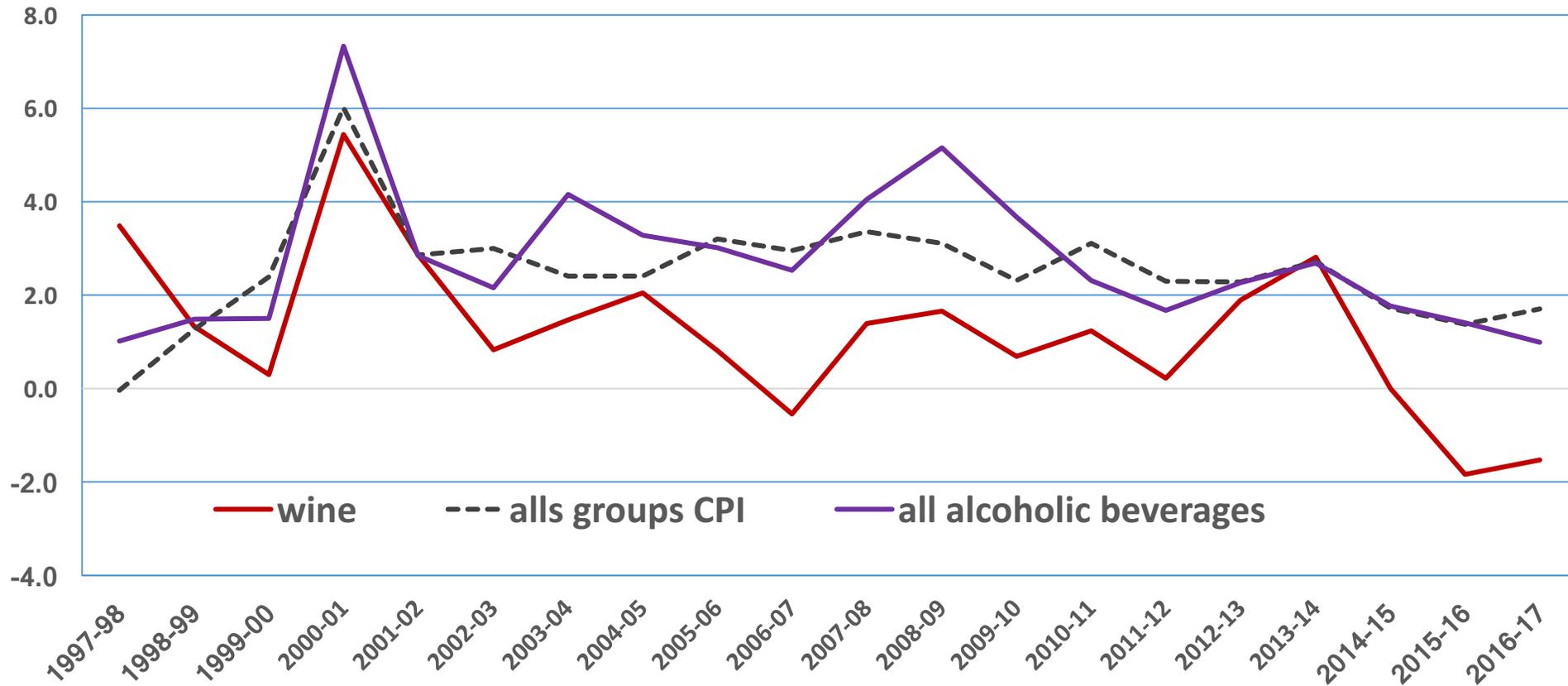
** Also includes: 'traditional' cider; perry; mead; and sake*

Alcohol: impacts of past decisions

LONG-TERM TRENDS (ABS *Apparent Consumption of Alcohol, Australia 2013-14* Cat No. 4307.0.55.001)

- Over the 50 years to 2013-14:
 - the proportion of pure alcohol available in the form of **beer** decreased from 75 per cent to 41 per cent;
 - the proportion of **wine** increased from 12 per cent to 38 per cent (add a further 2 per cent for cider); and
 - the proportion of **spirits** (including 'alcopops') increased from 13 to 19 per cent.
- (Next ABS update: September 2017)
- **Implications for revenue: wine and cider account for 40 per cent of apparent consumption of alcohol but the WET now generates only 14 per cent of the total revenue from taxes on alcoholic beverages**

Consumer price index: wine, all alcoholic beverages, all groups, annual changes (per cent)



Parliamentary Budget Office: *Alcohol taxation in Australia (3/2015)* - updated estimates for Senate Red Tape Committee, 8 March 2017

Effective excise rates per litre of alcohol (2015-16), assuming all products subject to excise:

- \$2.99 for a \$15 four litre cask of wine
- \$4.93 for low-strength draught beer; \$24.66 for packaged low-strength beer
- \$36.50 weighted average for all alcoholic products
- \$45.52 for a \$40 bottle of premium wine
- \$80.62 for spirits and alcopops; \$75.30 for brandy

Policy inconsistencies between alcoholic beverages: main impacts

- No clear policy objective for the taxation of alcoholic beverages.
- The Commonwealth's price mechanism for reducing harm from abuse of alcohol is hobbled.
 - All other related policies to reduce harm are also hobbled.
 - Commonwealth Government revenue underperforming and additional spending pressures (especially for States and Territories).
- Producers of certain products (e.g. cask wine) benefit, as do certain service providers (hotels – draught beer)
 - Powerful vested interests intent on maintaining the status quo.
- Unproductive activity: e.g. engineering products and restructuring businesses to receive more favourable tax treatment and excess resources in low value work in the ATO.
- **Much higher human suffering than would otherwise be the case.**

Australia's Future Tax System report 2010

- **Recommendation 71:** All alcoholic beverages should be taxed on a **volumetric** basis, which, over time, should converge to a single rate, with a low-alcohol threshold introduced for all products. The rate of alcohol tax should be based on evidence of the net marginal spillover cost of alcohol.
- What the report highlighted, *inter alia*:
 - shifting wine taxation from an *ad valorem* to a *volumetric* basis should be pursued as a priority: the WET is not well suited to reducing social harm;
 - a floor price to counter price discounting; and
 - a long implementation period.

Rudd Government response 2 May 2010

‘In the interests of business and community certainty, the Government advises that it will not implement ... at any stage:

- Change alcohol tax in the middle of a wine glut and where there is an industry restructure underway (see Rec 71)’

Conclusions

- Simple, consistent policy approaches are the most efficient and effective (and important for transparency and trust in government).
- Policy reversals and inconsistencies in the area of alcohol taxation have been very costly over a 50 year period (less revenue, higher government expenses, more deaths and human suffering, lost productivity, resource misallocation, etc).
- Notwithstanding recent reports, we still don't have an accurate picture of the extent of alcohol-fuelled domestic violence and sexual assault (especially date rape) impacting Australians and their children.
- Current alcohol taxation arrangements are not sustainable.

Discussion