Alcohol and Drug Foundation: Position Paper

Alcohol Taxation.

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What is it?

Taxation of alcohol is an important issue in Australia. It is a key way for governments to impact the price of alcohol. And, the cost of alcohol is one of the most effective ways to reduce alcohol-related harms.[1]

Alcohol taxation often takes the form of an excise, which is a tax on a product when it is manufactured, rather than when it is sold.[2]

Excises on certain products, including alcohol and tobacco, are sometimes called 'sin taxes', as they are seen to be levied to offset or reduce the social costs caused by these products.

In Australia the amount of the excise paid is generally based on the amount of alcohol contained within the product.

We also have a second taxation method – the Wine Equalisation Tax, which is a 29% tax on the monetary value of the final product charged to wine manufacturers and some other producers of alcohol products made from fruit and vegetables.

The WET indirectly encourages production of cheaper alcohol, which is associated with greater alcohol-related harms, because the cheaper the end product, the less tax is paid by the manufacturer.

Some purposes of alcohol taxation are to:

- raise revenue
- reduce demand for alcoholic products by increasing price
- offset some of the social costs associated with alcohol-related harms.[3]

So, while alcohol taxation is only one component of overall alcohol pricing, it can be seen as an effective policy lever for reducing alcohol-related harms by decreasing drinking and providing revenue to offset the social cost of these harms.[4]

Why?

The World Health Organization (WHO) has found that the pricing of alcohol is one of the most effective ways to reduce alcohol-related harms.[4] This reflects a large body of evidence that shows the relationship between alcohol pricing and consumption levels - including the fact that price increases lead to reduced drinking and reduced alcohol-related harms.[5-7]

Cheaper alcohol, on the other hand, leads to heavier alcohol consumption and worse health outcomes.[6] It is favoured by those who drink at higher levels and these heavier drinkers experience more harms.[8, 9] There's a lot of cheap alcohol available in Australia due to our current taxation system.

The contrasting designs of our two tax options - the alcohol excise tax and Wine Equalisation Tax - mean that certain products with high alcohol content can attract a relatively low tax rate under the WET, so they can cost the consumer less than similar products and lead to higher consumption.

As a public health measure, the system is inconsistent, treating some harmful products more favourably than others. A major Government review of the Australian tax system even labelled this as 'incoherent'.[10]

As a revenue raising measure, the system is also complex to administer and revenue is shrinking as a proportion of budget revenue.[10] In 2020-21, alcohol taxation revenue in Australia totalled $7.2 billion - around one-tenth of the $67 billion per year cost to society of alcohol-related harms recorded in 2017-18.[11, 12]

In the last decade there has been a consistent call for reform of alcohol taxation in Australia, to simplify and better design it to improve public health.[13]

Alcohol taxation in Australia

Australia currently has two alcohol taxes: the alcohol excise tax and the Wine Equalisation Tax (WET)*.

Both have been developed over time through policy decisions, industry lobbying, revenue raising and political concerns.[15,16]

Table 1: Alcohol Excise Tax vs Wine Equalisation Tax

Alcohol Excise Tax	Wine Equalisation Tax
Tax levied on beers, spirits, and certain other alcohol products, at differing rates, based on their volume of alcohol and other characteristics.	A 29% tax paid by wine and some other alcohol products made from fruit and vegetables (e.g. traditional ciders) on the cost value of the final product.
The amount paid is based on the amount of alcohol contained in the product.	The amount paid is based on the wholesale price of the product.
The tax is adjusted for inflation every 6 months in line with the consumer price index (CPI).	The tax is not adjusted - the WET is set at a consistent rate.
The tax rate is based on the amount per litre of pure alcohol in the product. For example: a full strength can of beer with 4.5% alcohol by volume will be taxed at the excise rate only on the 4.5% of the can's volume that is pure alcohol.	The amount of alcohol in the product does not impact the tax paid. Low and high alcohol products are taxed at the same rate.
Excise results in more tax being paid per unit of alcohol.	The higher value the product, the more tax is paid. But, the cheaper the product, the less tax is paid.

The methods used to determine which tax category a product belongs to can be complex, and there are some products emerging that take advantage of the differences in rates.

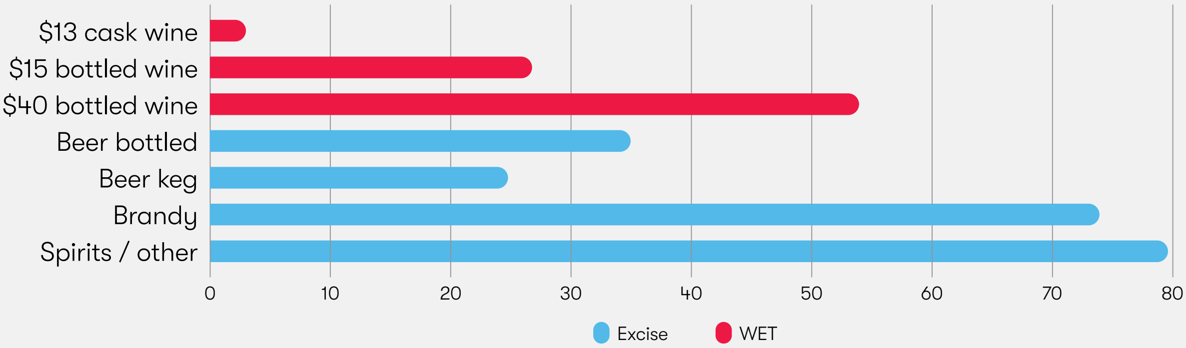
For example, alcoholic seltzers brewed as beer rather than as 'ready-to-drinks' fall under the excise category, qualifying for a lower tax rate.[15] This means the cost per standard drink of these products is significantly less than similar products taxed under the WET.

The rates of the excise also differ based on characteristics including the product type (e.g. spirits or full-strength beer), its packaging (e.g. keg or bottled), and whether the alcohol is sold for on or off-premises consumption.

While it is hard to provide exact comparisons due to taxation complexities, *Table 2* developed by the Foundation for Alcohol Research and Education (FARE) demonstrates this inconsistency in taxation.[16]

Table 2: Excise/WET before GST by beverage type

Excise / WET per litre of alcohol ($)



The Wine Equalisation Tax

The WET emerged out of the Goods and Services Tax (GST) reforms in 2000.

Wine had previously been subject to a 41% wholesale tax which was abolished as part of these reforms.[17] The WET was introduced to 'equalise' the price of wine products to remain near their then current levels.[16]

The WET is an *ad valorem* tax, which means it is levied on the value of the product produced.

As the WET is a percentage of the wholesale price of the product, it incentivises the production of lower value wine products, so producers pay less total tax.

This has led to an oversupply of cheap wine products in Australia, with producers favouring this type of output.[16,18]

These cheaper products include high alcohol volume cask wine, as well as other products 'brewed' from fruits that take advantage of the tax incentive by producing products under the WET, rather than the alcohol excise.

Examples include imitation spirits manufactured from grapes, and flavoured ciders with high alcohol content resembling soft drinks – a practice that may increase risk of harm for young people. The tax paid per standard drink for these products is significantly less than similar products taxed under the excise based on how much alcohol they contain.

The WET system increases the general availability of cheap alcohol, undermining the positive public health effects of the increasing alcohol excise tax, which is adjusted for CPI every six months.

* This paper will generally refer to wine products when discussing the WET, as they make up most of the products impacted by this tax.[14]

Arguments for reform

The effectiveness of alcohol pricing as a public health measure in Australia is inconsistent, due to our two different taxes.

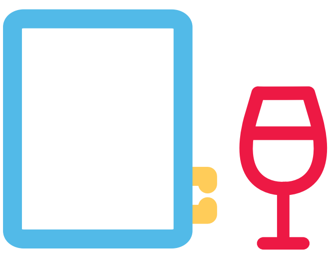
This influences alcohol-related harm.

Recent research shows that the heaviest 10 per cent of drinkers in Australia are almost twice as likely to report drinking cask wine, with cask wine representing a much larger share of alcohol drunk by this group, compared to the rest of the population.[19]

Reform to the alcohol taxation system has the potential to remove the inconsistency in alcohol taxation in Australia that produces certain low-cost, high alcohol content products.

Some key arguments for reform are outlined below.

- Moving wine products to the excise system will likely result in higher prices per standard drink for certain wine products, such as cask wine, which evidence suggests will decrease total alcohol consumption and, in turn, alcohol-related harms in the community.
- The increase in prices on the cheapest wine products resulting from such a change will reduce consumption and harms among those who drink at the most harmful levels.
- Evidence suggests that reform will result in a net benefit to the community, taking into consideration the costs of higher prices on consumers. Reform to the alcohol taxation system will lead to higher tax revenue for the Australian Government, which can be invested in the prevention and treatment of alcohol-related harms.
- Abolishing the WET will simplify the alcohol taxation system, reduce the cost of administration for Government, and reduce some of the burden that producers currently face navigating the system.
- Moving wine and other products to the excise system will remove the inconsistency in policy approaches between the two taxes.
- Taxing products currently taxed under the WET using the excise system will remove the incentive for manufacturers to produce high volume, low-value, and low-cost wine products.
- Taxing all alcohol products consistently will prevent consumers from moving to cheaper alcohol products as the pricing benefits will be removed.



Evidence

At least 13 Australian Government reviews have recommended that wine be taxed under the excise system. (See Appendix 1 for review details.)

Most recently, both the *National Alcohol Strategy 2019-2028* and the *National Drug Strategy 2017-2026* listed alcohol taxation reform as an effective, evidence-based strategy to reduce alcohol-related harms.[20,21]

A body of academic research has also modelled various reforms to the alcohol taxation system in Australia.

These studies show that abolishing the WET and replacing it with the alcohol excise tax would result in:

- decreased total alcohol consumption
- decreased health impacts of alcohol consumption
- increased savings in health spending
- increased revenue.

The evidence below is specific to the Australian context and reflects well-established trends in alcohol policy literature that demonstrate a clear link between the cost of alcohol and drinking levels.

Modelling of Alcohol Taxation Reform

In 2011, VicHealth modelled the health and economic impacts of 13 different alcohol tax reform scenarios.[24] The scenarios all included replacing the WET with different levels of the excise, ranging from universal excise rates for all products to variations on our current tiered excise system.

The report recommended a model in which all alcoholic drinks (excluding spirits) are taxed under an excise rate that increases based on alcohol content, while keeping the present excise rate for spirits. It estimated this system would reduce alcohol consumption by three per cent overall, save the health system almost $2 billion annually, and increase tax revenue by $2.78 billion.

A cost-benefit analysis commissioned by FARE in 2012 examined the impacts of different reform scenarios on alcohol-related harms to others, government revenue, and a range of other outcomes.[22]

This report concluded that expanding the alcohol excise tax to include products currently taxed under the WET and increasing the rate of the excise, would be beneficial for the Australian community. The report found a large cost saving of $230-250 million.

Benefits included reducing property damage; reducing costs to police, justice, child protection, and health systems; increasing tax revenue; and, reducing lost quality of life and lost time due to others' drinking.

Another 2013 study explored four alcohol taxation reform scenarios, all of which involved abolishing the WET.[23]

All four resulted in increased tax revenue, reduced drinking, savings in health care, and reduced health burdens.

The tax revenue increases ranged from 15.4% to 49.8%.

In two of the scenarios, total alcohol consumption decreased by 1.3% and 10.6% respectively, with cost savings of $840 million to $3.2 billion. A 2015 FARE report considered the impact of three alcohol tax reform scenarios on the consumption of various alcohol products.[24]

In these three scenarios the WET was removed and wine was taxed under the excise. The findings showed an alcohol consumption decrease as tax rates increased, demonstrating the effectiveness of alcohol taxation as a public health measure.

The study found that overall alcohol consumption decreased by 0.97%, 7.11%, and 6.7% in the three scenarios, depending on the rate of excise set for wine products.

While there are differences in these studies (including study design and purpose, scenarios modelled, and outcome measures), there are clear similarities in their findings.

Using taxes to fund treatment and prevention

It's been suggested that alcohol taxation reform include 'hypothecation' of a proportion of alcohol tax revenue to fund measures that prevent and treat alcohol-related harms.

Hypothecated taxes are taxes which are reserved under legislation or regulation to be spent on particular areas or uses.[25]

Hypothecation guarantees funding for the ongoing harms caused by alcohol in the community and is tied to the amount of alcohol taxation revenue.

This would align with the policy goal of alcohol taxation being used to offset the costs associated with drinking.

ADF positions

- The Wine Equalisation Tax should be abolished, with wine and other products currently taxed under the WET moving to the alcohol excise tax system.
- The Australian Government should make a clear statement regarding the purpose of alcohol taxation policy in Australia. This statement should support the role of alcohol taxation in reducing alcohol-related harms and offsetting their costs.
- The Government should, in consultation with leading public health experts, design and implement an alcohol taxation system that sets appropriate rates of excise for alcohol products to achieve their stated policy goals.
- The Government should hypothecate a proportion of the alcohol excise to fund programs that prevent and treat alcohol-related harms in the community.
- Reform to the alcohol taxation system should be undertaken in conjunction with ongoing work to introduce minimum unit pricing in states and territories.

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Appendix 1 – Government reports recommending volumetric taxation

1995 Committee of Inquiry into the Wine Grape and Wine Industry
2003 House of Representatives Standing Committee on Family and Community Affairs Inquiry into Substance Abuse
2006 Victorian Inquiry into Strategies to Reduce Harmful Alcohol Consumption
2009 National Preventative Health Taskforce *Report on Preventing Alcohol Related Harms*
2010 *Australia's Future Tax System* (Henry Review)
2010 Victorian Inquiry into Strategies to Reduce Assaults in Public Places
2011 Western Australia Education and Health Standing Committee Inquiry into Alcohol
2012 Australian National Preventive Health Agency *Exploring the public interest case for a minimum (floor) price for alcohol*, final report
2014 House of Representatives report on the *Inquiry into the harmful use of alcohol in Aboriginal and Torres Strait Islander communities*
2017 Interim *Report on the effect of red tape on the sale, supply and taxation of alcohol*
2017 Northern Territory *Alcohol Policies and Legislation Review - Final Report*
2017 Productivity Commission *Shifting the Dial: 5-year productivity review*