



Pre-budget Submission

2003-04

Prepared by:

**The Distilled Spirits
Industry Council of
Australia Inc**

(DSICA)

February 2003

Contact: Gordon Broderick,
Executive Director, DSICA
Ph: 03-9696 4466
Fax: 03-9696 6648
Email: gordonb@dsica.com.au
Website: www.dsica.com.au

TABLE OF CONTENTS

1	EXECUTIVE SUMMARY (1 PAGE)	1
2	SUMMARY OF RECOMMENDATIONS (4 PAGES)	2
2.1	TAXATION RECOMMENDATIONS AND REVENUE ESTIMATES.....	2
2.2	ADMINISTRATION RECOMMENDATIONS.....	3
2.3	BUDGET PRESENTATION RECOMMENDATIONS.....	4
2.4	COMPARISON OF NON-GST TAXATION PER STANDARD DRINK	5
3	WHO IS DSICA?	6
4	WHAT IS THE ALCOHOL MARKET IN AUSTRALIA?	7
4.1	CURRENT MARKET SHARES BY ALCOHOL CATEGORY	7
4.2	MARKET SHARES BY ALCOHOL CONTENT	7
4.3	TRENDS IN ALCOHOL CONSUMPTION	8
4.4	THE SPIRITS MARKET	10
5	ALCOHOL TAXATION POLICY PRINCIPLES	11
5.1	OVERVIEW.....	11
5.2	COMMONWEALTH TAXATION DISCRIMINATES AGAINST SPIRITS.....	11
5.3	NON-EXISTENT POLICY RATIONALE.....	13
5.4	ALCOHOL TAXATION UNDER THE NEW TAX SYSTEM.....	14
5.5	NEED FOR AN ALCOHOL TAXATION INQUIRY	14
5.6	NEW ZEALAND TAXATION REVIEW.....	15
5.7	STRUCTURE OF THE SUBMISSION	16
6	TAXATION OF SPIRITS	17
6.1	BACKGROUND.....	17
6.2	UNSUSTAINABLY HIGH LEVEL OF SPIRITS TAXATION	17
6.3	INDEXATION OF SPIRITS EXCISE	18
6.4	REDUCTION FOR THE SECOND ROUND EFFECT OF THE NEW TAX SYSTEM	19
6.5	1 TO 3 YEAR FREEZING OF INDEXATION OF SPIRITS EXCISE.....	20
6.6	REMOVAL OF CONCESSIONAL RATE FOR BRANDY	20
6.7	REMOVAL OF 5% PROTECTIVE TARIFF.....	21
7	TAXATION OF BEER	22
7.1	BACKGROUND.....	22
7.2	REMOVAL OF ANOMALY FOR IMPORTED BEER.....	23
8	TAXATION OF READY TO DRINK BEVERAGES	24
8.1	BACKGROUND.....	24
8.2	THE NEED FOR COMPLETE TAXATION EQUIVALENCE WITH BEER.....	24
8.3	REMOVAL OF CIDER TAXATION ANOMALY	25
9	TAXATION OF WINE	27
9.1	CURRENT TAXATION OF WINE.....	27
9.2	WIDE SUPPORT FOR A VOLUMETRIC WINE TAX.....	27
9.3	DSICA'S SUPPORT FOR A VOLUMETRIC WINE TAX.....	28
9.4	MYTHS AND OLD ARGUMENTS AGAINST A VOLUMETRIC WINE TAX.....	28
9.5	OPTION TO SWITCH TO VOLUMETRIC WINE TAX	29
9.6	RECOMMENDATIONS.....	29

10	SINGLE JURISDICTION FOR EXCISE EQUIVALENT GOODS.....	31
10.1	SINGLE AGENCY FOR REVENUE ACQUITTAL AND ADMINISTRATIVE ISSUES.....	31
10.2	GENERIC GOVERNMENT LICENSING ISSUED BY THE ATO SHOULD REPLACE MULTIPLE LICENCES	31
10.3	APPROPRIATE ALIGNMENT AND LINKAGES BETWEEN RELEVANT ELECTRONIC AND BUSINESS SYSTEMS IN CUSTOMS AND THE ATO	32
10.4	STREAMING OF REVENUE PAYMENTS ON AN ESTIMATED BASIS WITH DEFERRED RECONCILIATION AND ACQUITTAL	32
11	CUSTOMS DUTY DRAWBACK	34
11.1	AMENDMENT TO PREVENT OVERPAYMENT OF DUTY DRAWBACK CLAIMS.....	34
12	CONCLUSION	35

Attachment 1: DSICA Australian Alcohol Market Estimates 2003/04

Attachment 2: DSICA Budget Revenue Estimates 2003/04

Attachment 3: DSICA Standard Drink and Effective Tax Rate Calculations

Attachment 4: DSICA Pre-Budget Submission Recommendation Calculations

Document details: DSICA03-RTD1-FD-W02-PBS0304-12Feb-CTR

1 Executive Summary (1 page)

DSICA is the peak industry body representing the interests of distilled spirit manufacturers and importers in Australia. DSICA observes that:

- Australia's alcohol taxation system unfairly discriminates against spirits (which comprises 11% of the alcohol market, but pays 26% of non-GST revenue) and favours wine (30% of the alcohol market, but pays 16% of non-GST revenue);
- spirits pays an unsustainably high 73 cents per standard drink; low alcohol packaged beer (21 cents) with full strength packaged beer (33 cents); tap beer receives favourable treatment (23 cents for full strength) and cask wine pays only 7 cents (when all compared on a non-GST tax per standard drink basis).

DSICA recommends:

- that a comprehensive inquiry into Australia's alcohol taxation system be conducted to ensure that the appropriate level of Commonwealth taxation is being applied to each of the major categories of alcohol product;
- that the overall future level of taxation of spirits be reduced (either by a reduction in the dollar volumetric duty rate or by a freeze of indexation);
- that the 5% ad valorem protective tariff for imported spirits and RTDs be abolished;
- that brandy be taxed at the spirits rate;
- that ready-to-drink alcohol products (RTDs) obtain complete taxation equivalence with beer;
- that cider be taxed on the same basis as RTDs;
- that the revenue gained from taxing cider at the RTD rate, be used to provide RTDs with a revenue neutral 0.1% abv concession, similar (but smaller) than that which beer currently receives;
- that a revenue neutral volumetric wine tax replace the existing value-based Wine Equalisation Tax (WET);
- that a new volumetric duty rate be set for all alcohol products of between 15% abv and 22% abv;
- that the Australian Taxation Office (ATO) be the single government agency responsible for the collection of revenue and the administration of imported and locally produced spirits, RTDs (and beer);
- that the Customs Regulations be amended to ensure that importers/duty payers of alcohol beverages are required to certify as to the value for duty of imported beverages which are subsequently re-exported by third parties and subject to duty drawback claims;
- that the Budget provide a greater level of detail regarding excise duty and customs duty to be collected and duty drawback payments/cellar door rebates to be made in relation to beer, spirits, RTDs and wine.

2 Summary of recommendations (4 pages)

DSICA is aware of the tight budgetary circumstances prevailing at present. DSICA's priorities include:

- the recommendation for an alcohol taxation inquiry;
- the recommendations for the complete taxation equivalence for RTDs (with beer); and
- the recommendation for an amendment to the Customs Regulations to overcome the existing problems in relation to overpayment of duty drawback claims.

2.1 Taxation recommendations and revenue estimates

DSICA's detailed taxation recommendations are set out below:

Alcohol taxation inquiry (see section 5)

- That a comprehensive inquiry into Australia's alcohol taxation system should be commenced in 2003 to ensure that the appropriate level of Commonwealth taxation is being applied to each of the major categories of alcohol product;

Taxation of spirits (see section 6)

- that the overall future level of taxation of spirits should be reduced, in particular, at least to remove the effect of the 1978 80% increase in the taxation of spirits;
- that the future rate of excise duty¹ for spirits should be reduced at least by a dollar amount equivalent to the NTS component of the 1 February 2001 indexation increase [Estimated revenue cost: -\$26.4m]²
- that the concessional excise rate for brandy should be abolished and that the excise rate for brandy should be set at the same rate as for spirits. [Estimated additional revenue: +\$3.9m]³;
- that the 5% ad valorem protective tariff for imported spirits and RTDs should be abolished. [Estimated revenue cost: -\$24.4m];

Freezing indexation of spirits excise (see section 6)

- In the absence of a one-off reduction in spirits excise, DSICA proposes a number of changes to the current alcohol indexation system which would see a freezing of indexation on spirits excise for a period until an alcohol taxation inquiry could be conducted;

Taxation of beer (see section 7)

- The 5% protective tariff should be imposed on imported beer if it is not removed from imported spirits and RTDs. [Estimated revenue gain: +\$3.8m];

¹All references to excise duty include references to the volumetric component of customs duty.

²All revenue estimates, or estimates of the risk to revenue, are for 2003/4.

³All calculations of estimates of revenue cost of recommendations are set out in *Attachment 4*.

Taxation of ready to drink (RTD) beverages (see section 8)

- That packaged RTDs below 10% abv be subject to excise duty at exactly the same tiered rates as packaged beer. [Estimated revenue cost: low alcohol packaged RTDs – negligible; mid-strength packaged RTDs - \$1.6m; full strength packaged RTDs - \$102m. The change for full strength packaged RTDs could be introduced on a phased basis, with the first phase being the introduction of a 0.1% abv excise free threshold for full strength packaged RTDs, funded by the revenue to be collected from taxing cider at the RTD rate (see below).]
- That tap RTDs below 10% abv be subject to excise duty at exactly the same three tiered rates as tap beer. [Estimated revenue cost: Negligible]
- That traditional cider be subject to a similar tiered excise regime as beer, and other RTD products. [Estimated additional revenue: +\$10m pa]
- The additional revenue that the Government receives from cider being taxed at the same rate as RTDs, should then be used to provide full strength packaged RTDs and cider with a 0.1% abv excise free threshold, similar to the 1.15% abv concession received by beer. [Estimated revenue cost: Revenue neutral]

Taxation of wine (see section 9)

- That the issue of the replacement of the WET with a revenue neutral volumetric wine tax be referred to the alcohol taxation inquiry recommended in section 5.
- In reference to wine, that a revenue neutral volumetric wine excise replace the existing value-based WET, structured as follows: (i) *Fortified wine rate*: for all WET products and liqueurs of alcohol content >15% abv to 22% abv: a rate of \$15.00 per Lal; (ii) *Table wine rate*: for WET products of alcohol content >6.5% abv to 15% abv: a rate of \$13.80 per Lal; (iii) *Low alcohol wine rate*: for WET products of alcohol content of 6.5% abv or below, a lower rate to encourage the production of low alcohol wine; (iv) *Excise duty election*: That as a flexible alternative to the WET, winemaker entities be eligible to elect to be subject to excise duty at the volumetric excise duty rates set out above; and (v) *Indexation*: that these rates be subject to 6 monthly indexation similar to beer and spirits excise rates.
- In reference to *Other excisable beverages*: That non-wine excisable beverages and liqueurs be subject to a tiered scale of taxation, based on alcohol content, as follows: (i) >10% abv and up to 15% abv: to be subject to excise at a new rate; (ii) >15% abv and up to 22% abv: \$15.00 per Lal rate as for fortified wine; and (iii) >22% abv would continue to be subject to duty at the current spirits rate.

2.2 Administration recommendations

DSICA's recommendations for administrative and legislative changes include:

Single jurisdiction (see Section 10)

- That the Australian Taxation Office (ATO) should be the single government agency responsible for the collection of revenue and the administrative arrangements relating to “excise equivalent goods”, such as imported spirits and imported RTD alcohol products. [Estimated cost to revenue: Nil]
- That generic government licensing issued by the ATO should replace multiple licences now required by both the ATO and the Australian Customs Service (Customs);

- That entity licensing should be introduced under which a single licence is sufficient for an entire distribution network;
- That there should be appropriate alignment and linkages between relevant electronic and business systems in Customs and the ATO to facilitate increased effectiveness of the administrative processes imposed on industry;
- That Customs should continue to have responsibility for the border management aspects relating to the importation of excise equivalent goods;
- That streaming of revenue payments on an estimated basis with deferred reconciliation and acquittal should be implemented.

Amendment of customs duty drawback Regulations (see Section 11)

- That Customs Regulations 134 and 135 be amended to ensure that importers/duty payers of imported alcohol beverages are required to certify as to the value for duty (VFD) of imported beverages which are subsequently re-exported and subject to a claim for duty drawback. [Estimated risk to revenue: To be finalised]

2.3 Budget presentation recommendations

DSICA's recommendations for changes to the presentation of the Budget include:

Revenue estimates

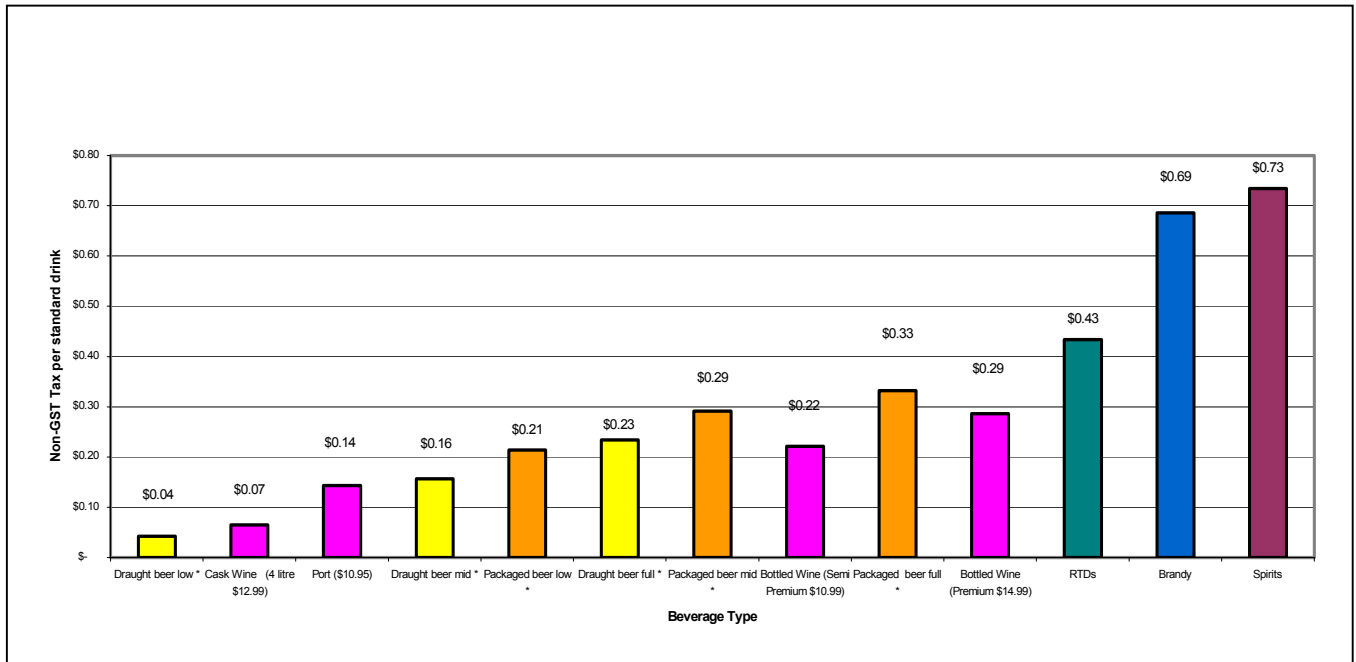
- That the Budget include separate excise duty revenue estimates for:
 - full strength spirits (including brandy); and
 - RTDs (i.e. other excisable beverages not exceeding 10% abv).
- That the Budget include separate customs duty revenue estimates for:
 - Beer;
 - Full strength spirits (including brandy);
 - RTDs (i.e. products equivalent to the other excisable beverages not exceeding 10% abv).
- That the Budget identify the estimates for:
 - Customs duty drawback to be paid on beer, spirits and RTDs;
 - Excise duty drawback to be paid on beer, spirits and RTDs; and
 - Cellar door and other WET rebates to be paid on wine and wine products.

2.4 Comparison of non-GST taxation per standard drink

DSICA has prepared a comparison of the amount of non-GST taxation revenue collected on a per standard drink⁴ basis for each category of alcohol product⁵. In Australia, a standard drink contains 10 grams of pure alcohol (equivalent to 12.67mls). The concept of a standard drink allows a uniform means of comparison of the amount of pure alcohol in various alcohol beverages of different alcohol strengths. DSICA's taxation per standard drink comparison highlights:

- the unsustainably high level of spirits taxation (73 cents per standard drink);
- the continued anomaly in the taxation of RTDs (43 cents) compared with full strength packaged beer of the same alcohol content (33 cents); and
- the extent of the concessionary taxation regime enjoyed by cask wine (7 cents per standard drink).

Figure A: Non-GST Tax Per Standard Drink as at 1 February 2003



⁴ In Australia, a standard drink is 10g of pure alcohol. See page 27 of the *Australian Alcohol Guidelines* (Endorsed by the National Health and Medical Research Council, October 2001). The Guidelines refer to a standard drink as comprising 12.5 mls of pure alcohol (see page 27). However, this is incorrect. The more accurate measure is 12.67 mls (this is calculated by dividing 10g by the specific gravity of pure alcohol (0.789g/ml). See page 19, Queensland Health Department *Standard Drinks Calculator*, 1997.

⁵ See Attachment 3 for DSICA's *Standard Drink and Effective Tax Rate Calculations*.

3 Who is DSICA?

The Distilled Spirits Industry Council of Australia Inc (DSICA) is the peak body representing the interests of distilled spirit manufacturers and importers in Australia. DSICA was formed in 1982, and the current member companies are:

- Allied Domecq Spirits & Wine (Australia) Pty Ltd
- Brown-Forman Beverages Australia Pty Ltd
- Bundaberg Distilling Co Pty Ltd
- Diageo Australia Ltd
- Jim Beam Brands (Australia) Pty Ltd
- Maxxium Australia Pty Ltd
- Quality Brands International (Aust) Pty Ltd
- Suntory (Australia) Pty Ltd
- Swift and Moore Pty Ltd
- William Grant & Sons International Ltd.

DSICA's goals are:

- to create informed political and social environments that recognise the benefits of moderate alcohol intake and provide opportunities for balanced community discussion on alcohol issues; and
- to ensure public alcohol policies are soundly and objectively formed, that they include alcohol industry input, that they are based on the latest national and international scientific research and that they do not unfairly disadvantage the spirits sector.

DSICA members are committed to:

- responsible marketing and promotion of distilled spirits;
- supporting social programs aimed at reducing the harm associated with the excessive or inappropriate consumption of distilled alcohol;
- self-regulation and pre-vetting of all advertising; and
- making a significant contribution to Australian industry through primary production, manufacturing, distribution and sales activities.

The primary focus of this submission is upon the taxation of alcohol. This is because DSICA believes that the current system of alcohol taxation unfairly discriminates against spirits.

DSICA believes that a comprehensive alcohol tax inquiry is urgently needed to review the current system.

4 What is the alcohol market in Australia?

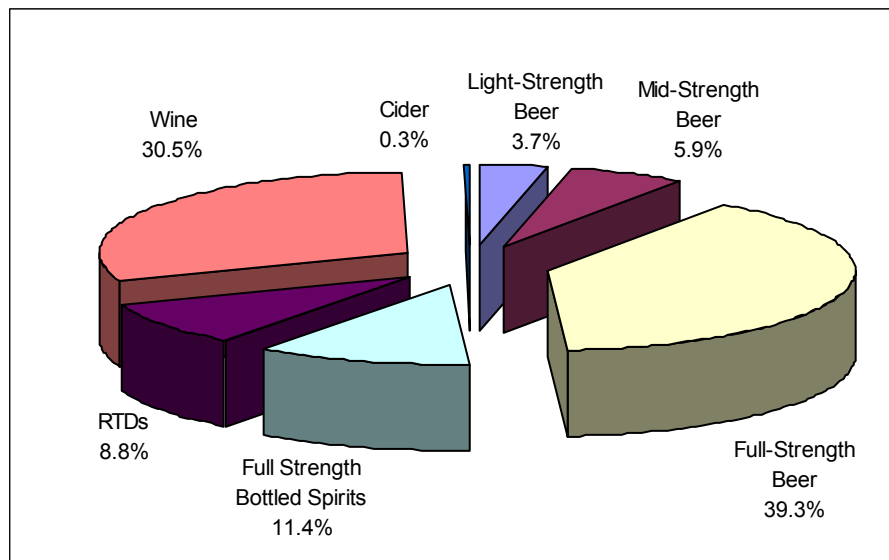
4.1 Current market shares by alcohol category ⁶

DSICA estimates that, in 2003/04, beer will continue to comprise almost 49% of the total alcohol market, and wine (including fortified wine) will have grown to approximately 30%.

Full Strength Bottled Spirits (spirits) continues to comprise a very small 12% of the total market, and ready-to-drink alcohol products (RTDs) including premixed spirits accounts for a tiny 9% of the market.

The respective market share of the key alcohol product categories in Australia is illustrated in *Figure 1* below⁷. The measure adopted for comparison purposes is litres of alcohol (Lals) rather than litres of product.

Figure 1: Australian Alcohol Beverage Market - % share in Lals (2003/04⁸)



4.2 Market shares by alcohol content

The respective market shares of the key alcohol product categories can also be further analysed in terms of alcohol content. DSICA has undertaken a detailed analysis of the amount of alcohol, in each alcohol product category, within common tiers of alcohol content that are relevant for comparing existing taxation rates.

The conclusions from this analysis are that:

⁶ See Attachment 1 for DSICA's Australian Alcohol Market Estimates.

⁷ Industry estimates derived from statistics supplied by the Liquor Merchants Association.

⁸ Data comes from DSICA Senate Economics Committee Submission, October 2002.

- a direct comparison can be made between the three tiers of beer and RTD products which are of equivalent alcohol content;
- there is a significant volume of traditional cider which is of similar alcohol content as beer and RTDs;
- there is a significant quantity of cask wine as a proportion of total wine;
- there is a significant volume of wine products which are between 15% alcohol by volume (abv) and 22% abv, and which are of similar alcohol content as a small quantity of liqueurs;
- there is only a very small quantity of lower alcohol wine (i.e. below 6.5% abv) in Australia.

4.3 Trends in alcohol consumption

Australia is a moderate consumer of alcohol by world standards. Australia is 19th on a league table of total alcohol consumption by country⁹. Per capita consumption is comparable with New Zealand, USA and UK. The key trends in Australia for the first three years under the New Tax System have been as follows:

- **Wine (including fortified wine):** is maintaining total market share (30% in 2003/04); cask wine sales to fall in 2002/03, but recover in 2003/04;
- **Beer:** falling share of total market (on a Lals per capita basis, -3.4% and -1.6% in the first two years of tax reform), but still comprises about 49% of the total alcohol market. Trends in consumption of specific beer categories changes include:
 - *full strength beer* sales are falling (fallen from 42.5% of the total market in 1999/00 to 39.3% of the total market in 2003/04). The volume in Lals fell 1.7m Lals, or -3% from 2000/01 to 2001/02. This was the biggest single fall for any alcohol category in that year;
 - *low alcohol beer* volumes have been falling (-4.9% decrease for the last 2 years); but
 - *premium beer* volumes have been increasing (+13% and +23% on a per capita basis in the last 2 years). Premium beer volumes are now equal to 70% of the RTD market.
- **Full strength bottled spirits:** losing market share (fallen from 13.7% of the total market in 1999/00 to 11.5% of the total market in 2003/04);
- **RTDs:** there has been significant growth (from a very low base) in the market for RTDs, including premixed spirits. RTDs previously using a fermented alcohol base have switched to using spirits (such as vodka) as a result of the removal on 1 July 2000 of the tax incentive to use fermented alcohol. This growth has been at the expense of full strength beer and full strength bottled spirits.

⁹ See *Statistics on Drug Use in Australia 2000*, Australian Institute of Health and Welfare.

Figure 2: Australian Alcohol Consumption by Beverage Type, 1969-70 to 2003-04

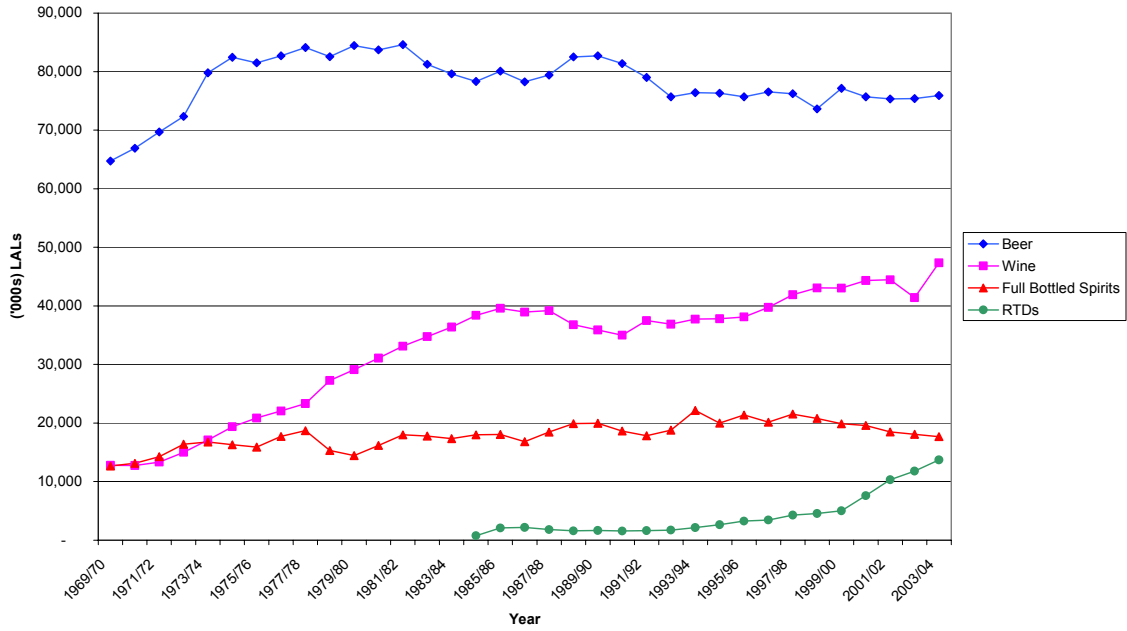
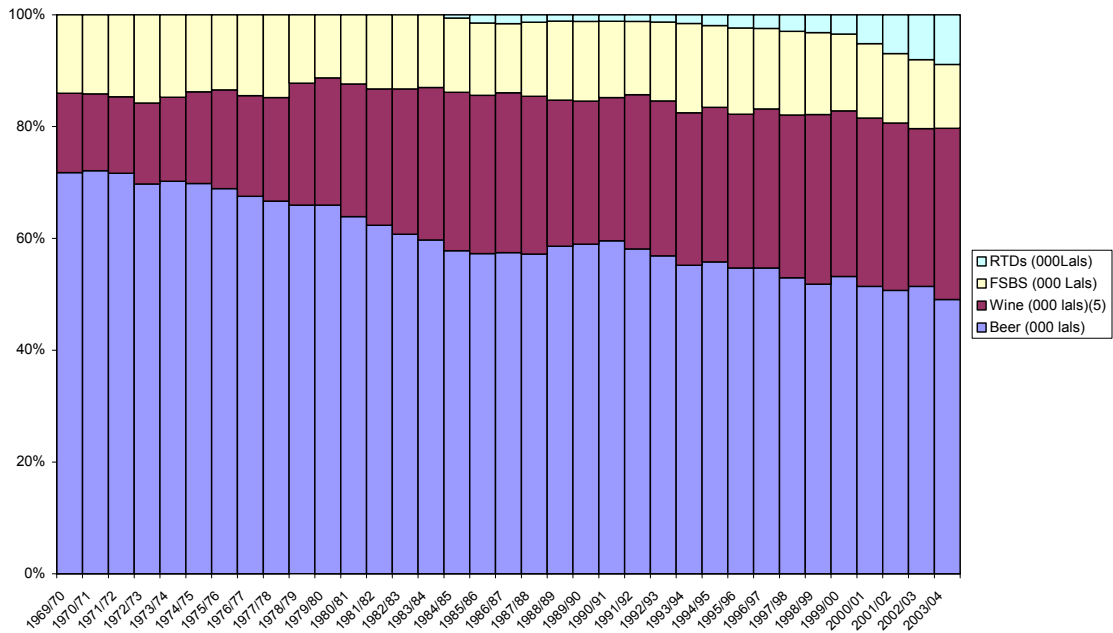


Figure 3: Australian Alcohol Consumption by Beverage Type, 1969-70 to 2003-04

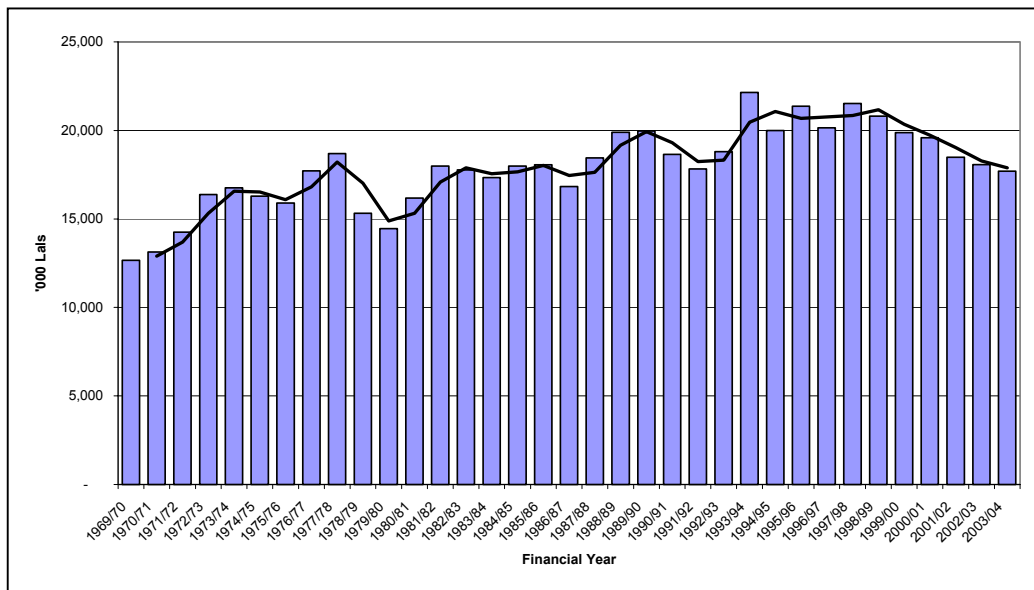


4.4 The spirits market

Decline in total spirits market

Spirits consumption in more recent years has seen a significant decline. For example, in the five years from 1998/99 to 2002/03, the spirits consumption saw a decline of 6.5%¹⁰. For a period of nearly 30 years (i.e. between 1969/70 and 1997/98), spirits consumption has only grown at an average annual rate of 2.4% (see *Figure 4* below). DSICA estimates that spirits consumption will decline by 2.1% in 2003/04 in line with trends over the past five years. This illustrates the fact that a significant proportion of the growth in RTDs is at the expense of full strength spirits.

Figure 4: Spirits Consumption 1969/70 to 2002/04



Spirits are extremely price sensitive. It should be noted that spirits consumption fell dramatically in 1978/79, as a result of a more than 80% increase in spirits excise in the August 1978 Commonwealth Budget¹¹. It took some 7 years (i.e. until 1984/85) for spirits consumption to return to the levels that existed prior to the 1978/79 year.

¹⁰ 1984/85 is the earliest time at which reliable industry estimates are available to enable RTDs to be separated out from the spirits category.

¹¹ The excise rate for whisky was increased from \$10.29 per litre of alcohol to \$18.75 per litre of alcohol.

5 Alcohol taxation policy principles

5.1 Overview

DSICA believes that the current system of Commonwealth alcohol taxation:

- unfairly discriminates against spirits;
- fails to tax alcohol products of similar alcohol content at a similar rate;
- fails to provide adequate incentives to encourage the production of lower alcohol products; and
- fails to provide adequate incentives for drinkers to choose those alcohol products that are least associated with harm.

DSICA believes that a comprehensive and independent alcohol tax inquiry is urgently needed to review the current system.

“The ‘random’ nature of the current indirect taxation arrangements has resulted in the tax levied on wine being a contentious issue for some years, mainly because of the large discrepancies in the tax treatment of wine and other alcoholic beverages”

*Committee of Inquiry into the Winegrape and Wine Industry*¹²

“... current taxation arrangements do not provide financial incentives for drinkers to choose alcoholic drinks that are least associated with harm.”

*Dr. Tim Stockwell, National Drug Research Institute*¹³

5.2 Commonwealth taxation discriminates against spirits

This submission focuses on the non-GST revenue collected by the Commonwealth from alcohol taxation. The three key Commonwealth revenue sources from alcohol taxation are customs duty, excise duty and Wine Equalisation Tax (WET).

One simple means of analysing the effectiveness of the Commonwealth’s alcohol tax regime is to compare the respective market shares of the four main categories of alcohol beverages (i.e. wine, beer, RTDs and spirits) with the amounts of non-GST revenue collected from those categories.

The key conclusion that can be drawn from this analysis is that wine is the category of alcohol that receives the most favourable tax treatment, and that spirits is the category most discriminated against.

As can be seen from *Figure 1 (Australian Alcohol Beverage Market - % share (2003/04))* and *Figure 5 below (Commonwealth Revenue from Alcohol Taxation (2003/04))*, the respective market and tax shares of the three main categories of alcohol are as follows¹⁴:

¹² *Winegrape and Wine Industry in Australia* – A Report by the Committee of Inquiry into the Winegrape and Wine Industry, AGPS, 30 June 1995 at page 8 (Wine Inquiry Report).

¹³ “*Consumption of different alcoholic beverages as predictors of local rates of night-time assault and acute alcohol-related morbidity.*” Stockwell et al, pg 242.

¹⁴ See Attachment 2 for all classes of alcohol revenue estimates.

- Full strength Beer: 39% of market 38% of non-GST revenue;
- Mid-strength Beer: 6% of market 5% of non-GST revenue;
- Low-strength Beer: 4% of market 2% of non-GST revenue;
- Spirits: 11% of market 27% of non-GST revenue;
- RTDs: 9% of market 12% of non-GST revenue;
- Wine: 30% of market 16% of non-GST revenue.

DSICA has prepared a detailed forecast of likely Commonwealth revenue from alcohol taxation for 2003-04, as set out in *Figures 5 and 6* below.

Figure 5: DSICA forecast of non-GST Commonwealth Revenue from Alcohol Taxation by Alcohol Category (2003/04)

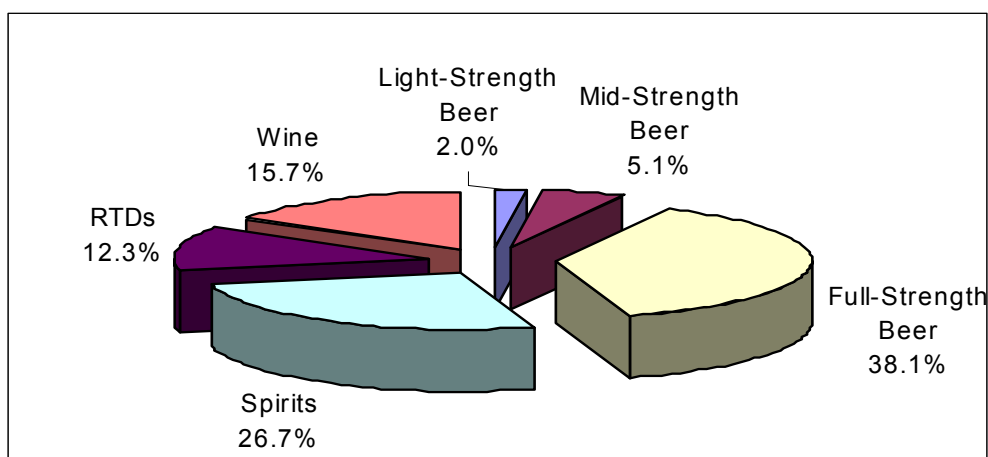


Figure 6: DSICA's estimates of non-GST Commonwealth Revenue from Alcohol Taxation by Alcohol Category (2003/04)

	Customs Duty	Excise Duty	WET	TOTAL	%
Light-Strength Beer	-	\$ 80,546,733	-	\$ 80,546,733	2.0%
Mid-Strength Beer	-	\$ 203,214,421	-	\$ 203,214,421	5.1%
Full-Strength Beer	\$ 35,430,565	\$ 1,469,534,425	-	\$ 1,504,964,990	38.1%
Sub-total Beer	\$ 35,430,565	\$ 1,753,295,579	-	\$ 1,788,726,144	45.3%
Spirits	\$ 884,514,091	\$ 168,083,616	-	\$ 1,052,597,707	26.7%
RTDs	\$ 9,524,595	\$ 476,229,737	-	\$ 485,754,332	12.3%
Wine	-	-	620,327,472	\$ 620,327,472	15.7%
Grand Total	\$ 919,944,655	\$ 2,397,608,932	\$ 620,327,472	\$ 3,947,405,654	100.0%

DSICA estimates of non-GST alcohol taxation revenue

DSICA's estimates of likely sales and non-GST revenue collections from the various categories of alcohol are set out in *Attachment 2*. These estimates are prepared on the basis of reliable industry sources.

5.3 Non-existent policy rationale

The differing tax rates which apply to the different alcohol categories are the result of a long history of decisions for which there has not been a consistent policy rationale. There has been no overriding principle upon which alcohol taxation decisions have been based in the past.

There are a number of alternative principles that could be applied as the basis for determining optimum alcohol taxation decisions. These include:

- that alcohol beverages of similar alcohol content should pay similar rates of taxation; or
- that alcohol taxation rates should be set on a basis which encourages the production of lower alcohol beverages; or
- that alcohol taxation rates should be set on a basis which provides financial incentives for drinkers to choose alcohol beverages that are least associated with harm.

DSICA strongly supports alcohol taxation arrangements that will provide a more rational and equitable system of taxation in Australia. DSICA also supports alcohol taxation arrangements that will produce appropriate health outcomes that will benefit the whole community.

DSICA believes that, at the very least, alcohol beverages of similar alcohol content should pay similar rates of taxation.

This submission identifies a number of specific anomalies in the current alcohol taxation system. That is, examples of situations where two competing products of equal alcohol content pay vastly different taxation rates. DSICA believes that each of these anomalies should be removed from the current system at the earliest opportunity.

One effect of the previous taxation system of customs/excise duty and wholesale sales tax (WST) on alcohol beverages was to favour the consumption of wine (particularly cask wine) and full strength beer. The system discouraged the consumption of spirits (whether full strength spirits or premixed spirits).

The Government's own 1998 publication announcing the proposed design features of the New Tax System (NTS) acknowledged that spirits had been discriminated against:

“The change in excise will be limited such that the retail price of whisky, *which is currently heavily taxed*, will not need to change”¹⁵ (Our emphasis.)

DSICA believes that under the Government's NTS, with one notable exception for RTDs, the previous discriminatory regime has largely been perpetuated.

¹⁵ *Tax Reform: not a new tax, a new tax system. AGPS, 1998 at page 87.*

5.4 Alcohol taxation under the New Tax System

Under the Government's NTS, which applied from 1 July 2000, WST was abolished and replaced with a Goods and Services Tax (GST). All categories of alcohol are subject to the GST at the general rate of 10%.

However, wine, beer and spirits are subject to different Commonwealth taxation regimes.

All wine (including cask and bottled wine) is subject to the WET. Unlike the situation in relation to beer and spirits (see below), there is no automatic indexation of the WET rate. This is because it is levied on an ad valorem basis (i.e. it is a tax on value) rather than a volumetric tax (i.e. a tax, like excise duty, which is levied on the volume of alcohol in the product).

Beer, spirits and RTDs are subject to excise duty. Excise duty rates are automatically increased twice a year (1 August and 1 February) to take account of movements in the consumer price index in the previous 6 months.

5.5 Need for an alcohol taxation inquiry

New Tax System price changes

Under the NTS, the WET rate, and the relevant excise duty rates which were set for spirits and beer, were chosen on a basis that related to achieving specified price changes for selected representative products for each category upon abolition of WST. That is, rates were set in order to achieve retail bottle shop (or liquor shop) price changes as follows:

- no price change for scotch whisky;
- no price change (or perhaps a small price fall) for a carton of packaged low alcohol beer;
- a 1.9% price increase for a 4 litre cask of wine; and
- a 1.9% price increase for a carton of full strength packaged beer.

The Government did not provide any specific rationale for the selection of these different price change targets. It could be argued that the "no price change" target for low alcohol beer and for spirits indicated that the Government does not view these two categories of alcohol as posing as much of a possible risk of abuse as is the case for cask wine and full strength beer.

Under the NTS, all GST revenues are passed through to the States (less an administrative charge for the costs of collection by the ATO and Customs). The GST applies equally to wine, beer and spirits in the same way as for most other consumer goods (other than fresh food). This tax collection mechanism can be viewed, from one perspective at least, as being for the appropriate general revenue raising purposes of the States. That is, for the provision of roads, schools and hospitals.

On the other hand, the WET collected on wine, and the excise duty and customs duty collected by the Commonwealth Government on locally produced and imported beer, spirits and RTDs is not passed through to the States. The Commonwealth Government pays a rebate for cellar door sales of wine.

It can thus be seen that there are in fact three quite different methods of collecting Government revenue from alcohol.

DSICA does not believe that the price outcome method of setting WET and excise duty rates is an adequate method for setting these rates for the long term. Such an approach merely entrenches the current taxation disparities, subject to minor incremental adjustments.

However, DSICA believes that the taxation disparities between wine, beer, spirits and RTDs should be subject to a comprehensive review, to commence in 2003.

Furthermore, DSICA believes that the total amounts of Commonwealth taxation revenue likely to be collected in the future from wine, beer, spirits and RTDs should be included in the review. One purpose of the review should be to determine whether the amount of Commonwealth revenue being collected from each category of alcohol product is appropriate, and is growing at an appropriate rate.

5.6 New Zealand taxation review

DSICA notes that a comprehensive review of the New Zealand tax system has recently been completed. The New Zealand Tax Review 2001¹⁶ made a number of observations and recommendations concerning alcohol taxation in New Zealand, as follows:

- high alcohol taxes seem out of step with the low rate, broad base approach taken in respect of other tax bases;¹⁷
- the case for excises must rest on the notion that they correct market mis-pricing;¹⁸
- the NZ levels of alcohol excise that could be justified on externality grounds are likely to be well below those currently applied in New Zealand;¹⁹
- the Review was unable to discover why spirits are taxed at rates, per volume of alcohol, almost twice that of other alcohol beverages;²⁰
- that, as a matter of principle, the general revenue component of [alcohol] taxes should be replaced by an increase in the GST;²¹ and
- at a minimum, the many anomalies in the [excise] area of the tax system should be subject to further review.²²

DSICA believes that arguably some of these observations apply equally to the issue of alcohol taxation in Australia. For example, in Australia, spirits are taxed at rates, on a per standard drink basis, that are:

- more than ten times the rate applied to cask wine;
- more than twice the rate applied to packaged full strength beer; and
- almost twice the rate applied to bottled wine.²³

¹⁶ NZ Tax Review 2001 – Final Paper, 12 October 2001.

¹⁷ Ibid at page IV.

¹⁸ Ibid at page V.

¹⁹ Ibid at page V.

²⁰ Ibid at page 39.

²¹ Ibid at page V.

²² Ibid at page 41.

Of course the GST situation in New Zealand is quite different to that applying in Australia, where the GST revenue flows to the States, and is not retained by the Commonwealth. Consequently, future increases in Australian GST revenues cannot be relied upon to replace future Commonwealth excise revenues.

The New Zealand review of excise duties recommended in 2001 has only recently been completed. This was the Brian Easton review entitled *Taxing Harm: Modernising Alcohol Excise Duties* (November 2002). DSICA has not yet completed a detailed analysis of the recommendations of that review.

As outlined above, DSICA believes that a comprehensive inquiry into alcohol taxation in Australia is urgently required in order to examine these issues.

Recommendation: That a comprehensive inquiry into Australia's alcohol taxation system should be commenced in 2003 to ensure that the appropriate level of Commonwealth taxation is being applied to each of the major categories of alcohol.

5.7 Structure of the submission

DSICA's specific recommendations for taxation changes for each of the four major categories of alcohol products are discussed in the relevant sections of this submission as follows:

- taxation of spirits (section 6);
- taxation of beer (section 7);
- taxation of RTDs (section 8);
- taxation of wine (section 9).

The submission then addresses a number of administrative issues as follows:

- single jurisdiction for excise equivalent goods (section 10); and
- customs duty drawback issues (section 11).

²³ See *Figure A* in the *Summary of Recommendations*.

6 Taxation of spirits

6.1 Background

As discussed earlier, the NTS documents recognised that spirits are currently “heavily taxed” in Australia²⁴. The documents set a price target of no change in the retail price of Scotch whisky.

Australian produced spirits (other than brandy), and other alcohol products over 10% alcohol content (not covered by the WET) are now subject to excise duty at the rate of \$57.97 per Lal²⁵ (this is referred to as the volumetric duty rate).

Imported spirits (other than brandy) are subject to customs duty at the same volumetric rate, and are also generally subject to a 5% ad valorem customs duty (i.e. a protective tariff). As discussed above, spirits excise (and the volumetric component of the customs duty) is automatically indexed on 1 August and 1 February each year.

Note that all references to “excise duty” in the remainder of this submission are used as a shorthand reference to both excise duty as well as a reference to the equivalent volumetric component of customs duty.

6.2 Unsustainably high level of spirits taxation

DSICA believes that the existing level of taxation of spirits is unacceptable and unsustainably high. The total level of Commonwealth taxation on spirits is in the order of 63% of the total retail price of an average bottle of Scotch whisky²⁶.

The extent to which spirits excise rates are too high can be demonstrated by comparing the volumetric excise duty rates for spirits with the actual or hypothetical rates (on a non-GST basis) applying to other alcohol products, as follows:

- The actual spirits rate is \$57.97 per Lal;
- The actual brandy rate is \$54.13 per Lal;
- The effective rate for full strength packaged beer is \$26.19 Per Lal²⁷;
- The effective rate for mid-strength packaged beer is \$22.98 Per Lal;
- The effective rate for low alcohol packaged beer is \$16.85 Per Lal;
- A hypothetical revenue neutral volumetric wine tax (VWT) rate to achieve the non-GST revenue collected on wine below 15% abv would be \$13.80 per Lal;

²⁴ *Tax Reform: not a new tax, a new tax system.* AGPS, 1998 at page 87.

²⁵ Effective as at 1 February 2003.

²⁶ Total tax of at least \$18.98 (comprising \$16.23 volumetric customs duty and \$2.75 GST) where the average retail scotch whisky price is \$29.95 (GST inclusive).

²⁷ Beer excise is subject to a 1.15% alcohol by volume (abv) excise free threshold in each category (full strength, mid-strength and low alcohol). The effective excise rate is the hypothetical rate that would apply if there was no excise free threshold, and the same amount of excise were collected per litre of alcohol. For these purposes, the average alcohol content of beer is assumed to be as follows: full strength beer 4.9% abv; mid-strength beer 3.5% abv; and low alcohol beer 2.7% abv.

- A hypothetical VWT rate for cask wine (to achieve the current level of taxation revenue collected from cask wine) is \$5.15 per Lal.

A comparison of the amount of non-GST tax collected from each category of alcohol product on a per standard drink basis is set out in *Figure A* in the *Summary of Recommendations*. This comparison highlights the unsustainably high level of spirits taxation and other anomalies in the current alcohol taxation regime, as follows:

- spirits pays an unsustainably high 73 cents per standard drink;
- the continued anomaly in the taxation of RTDs (43 cents) compared with full strength packaged beer of the same alcohol content (33 cents); and
- cask wine enjoys the greatest taxation concession, and pays only 7 cents per standard drink.

DSICA believes that continued automatic indexation of the current spirits duty rates will result in unsustainable price increases. These price increases will eventually have a significant adverse impact on consumption, and consequently on potential Commonwealth revenues. The issue of the likely future impact of these price increases on consumer behaviour, and therefore ultimately on Commonwealth revenues, needs to be properly examined.

DSICA believes that the overall level of spirits taxation should be reduced in the future. This unacceptably high level of spirits taxation in Australia is, in part, the legacy resulting from the 80% increase in spirits excise that took place in the August 1978 Commonwealth Budget²⁸. As mentioned earlier, it took some 7 years (i.e. until 1984/85) for spirits consumption to return to the levels that existed prior to the 1978/79 year.

DSICA believes that the alcohol taxation inquiry recommended earlier is one means by which the unacceptable level of spirits taxation can be reviewed and reduced.

Recommendation: That the overall future level of taxation of spirits should be reduced, in particular, at least to remove the effect of the 1978 80% increase in the taxation of spirits.

6.3 Indexation of spirits excise

DSICA believes that the introduction of the current system of automatic twice-yearly indexation of spirits excise in 1983 unfairly discriminated against spirits because it came shortly after the 1978 excise hike. This has meant that automatic indexation increases have built upon an unfair taxation base. Consequently, spirits taxation in Australia has been too high at least since 1978, and this unfair level of taxation has been perpetuated since that time.

DSICA does support the general principle of automatic twice-yearly indexation of spirits excise. However, if the Government does not reduce the dollar volumetric rate of spirits duty to rectify at least the unfair rate increases in 1978 and 2001 (see below), then DSICA supports a 1 to 3 year indexation freeze for spirits.

²⁸ The excise rate for whisky was increased from \$10.29 per litre of alcohol to \$18.75 per litre of alcohol.

6.4 Reduction for the second round effect of the New Tax System

Under the NTS, the spirits excise duty rate increased by more than 35% on 1 July 2000, and Commonwealth revenue from spirits excise duty alone is estimated to increase by more than 60%. This increase was designed to replace the WST which previously applied at the rate of 37% of the final wholesale selling price for spirits.

DSICA strongly believes that the forward estimates underlying the 1998 NTS documents were prepared on the basis that the Government would discount the 2000/01 automatic excise indexation increases for the impact of the NTS (that is, that there would be no second round effect of the NTS on excise duty rates). This view is supported by Mr Chris Murphy, of Econtech.

DSICA believes that the revenue estimate tables in the NTS documents clearly show that the 2000/01 and the 2001/02 excise revenue estimates were discounted for the estimated impact of the second round NTS effect.²⁹ This can be seen in that the estimate for the increase in excise collections from beer and spirits between the 2000/01 and the 2001/02 years was only estimated to be \$43.4 m³⁰. Given the small annual fall in spirits volumes of -0.1% pa, and the likely low underlying inflation figures for these periods, this figure is only compatible with a fully discounted indexation increase on 1 February 2001.

Consequently, DSICA believes that the indexation increase on 1 February 2001 should have been discounted for the impact of the NTS component of the consumer price index in the first half of the 2000/01 financial year. The Government's own figures indicate that the NTS component of the 1 February 2001 indexation increase was approximately 3.0%.³¹

DSICA therefore submits that spirits taxation should be reduced by at least a dollar amount equivalent to the 3.0% NTS effect. DSICA estimates that this amount is approximately \$1.58 per Lal.

The imposition of twice yearly excise indexation increases in the future on a much higher base of spirits excise duty than DSICA believes should have been the case in 2001, will necessarily result in unjustifiable future increases in Commonwealth revenue from spirits. This will occur at a time when total spirits consumption is declining, and when there is no evidence that the health costs of spirits consumption are increasing appreciably.

Recommendation: That the future rate of excise duty for spirits should be reduced at least by a dollar amount equivalent to the NTS component of the 1 February 2001 indexation increase.

Revenue estimate: The cost to revenue would be -\$26.4 million.³²

²⁹ *Tax Reform: not a new tax, a new tax system. AGPS, 1998, Revenue Measures Tables: indirect tax at page 100 and 101.*

³⁰ That is, the difference between \$1.32 billion additional excise revenue estimated for 2001-02 compared with \$1.28 billion additional excise revenue estimated for 2000-01.

³¹ See the Treasurer's Press Release of 24 January 2001, 12 noon.

³² Calculations related to the cost of revenue for a one off decrease in the excise rate by \$1.58 are located in *Attachment 4.5*.

6.5 1 to 3 year freezing of indexation of spirits excise

The indexation of spirits excise has contributed to a situation where automatic indexation of spirits excise has locked in the existing discriminatory tax rates on alcohol in the form of spirits, compared with other forms of alcohol. As set out above, DSICA has identified at least two historical reasons for the current discriminatory taxation of spirits, that is:

- **1978 spirits excise increase:** Spirits taxation was increased unfairly by approximately 80% in 1978, shortly before the introduction of automatic indexation in 1983; and
- **Need for a reduction for the second round effect of the New Tax System:** secondly, the 1 February 2001 increase in spirits excise duty rates should have been discounted for the second round effect of the New Tax System.

If the Government does not reduce the dollar volumetric rate of spirits duty to at least rectify the unfair rate increases in 1978 and 2001, then DSICA proposes an indexation freeze of 1 or 3 years (as set out below).

Recommendations:

- In the absence of a one-off reduction in spirits excise duty rates, DSICA recommends 2 alternative options for a 1 or a 3 year freeze on indexation of spirits excise, as set out below:
 - *Option 1:* that indexation of spirits and brandy excise rates be frozen for 1 year (until 1 August 2004), whilst a comprehensive alcohol tax inquiry is undertaken (beer and RTD excise rates would continue to be indexed); and
 - *Option 2:* that indexation of spirits excise rates be frozen for 3 years (until 1 August 2005), whilst a comprehensive alcohol tax inquiry is undertaken; that brandy excise rates would continue to be indexed, until the brandy rate was fully aligned with the spirits rate, with effect from 1 August 2005, (beer and RTD excise rates would continue to be indexed).

6.6 Removal of concessional rate for brandy

Australian produced brandy is subject to excise duty at a concessional rate of \$54.13 per Lal³³. Imported brandy is subject to the same concessional customs duty rate, plus a 5% ad valorem customs duty.

DSICA believes that this concessional rate for brandy can no longer be justified, and should be removed. DSICA notes that the Winegrape and Wine Industry Inquiry made a similar recommendation in 1995.³⁴

Recommendation: That the concessional excise rate for brandy be abolished and that the excise rate for brandy be set at the same rate as for spirits.

Revenue estimate: +\$3.9m pa³⁵

³³ Rate applicable as at 1 February 2003.

³⁴ *Winegrape and Wine Industry in Australia* – A Report by the Committee of Inquiry into the Winegrape and Wine Industry at page 20.

³⁵ Calculations related to the revenue gain for the Government from the removal of the concessional rate for Brandy are located in *Attachment 4.1*.

6.7 Removal of 5% protective tariff

DSICA is disappointed that the Government has decided not to remove the 5% protective component of the customs duty applying to spirits and RTDs.

DSICA lodged a submission with the Productivity Commission Inquiry into nuisance tariffs seeking the abolition of the 5% ad valorem customs duty rate. However, the Federal Government decided to retain the 5% ad valorem component.

With a very few notable exceptions, there is no domestic spirits industry which Australia needs to protect. Consequently, there is no defensible policy rationale for continuing to retain the existing 5% “protective” tariff.

There are also significant administrative costs to business of paying the 5% ad valorem component, especially in the case of imported spirits to be used in the manufacture of RTDs in Australia (bulk RTD spirit). New procedures have applied from 1 February 2002, for the payment of the 5% component on the bulk RTD spirit to Customs, and then the subsequent payment of the volumetric duty component as excise duty to the ATO. A number of DSICA members have had to change their administrative and operating procedures to accommodate these new arrangements. The abolition of the 5% ad valorem component would significantly simplify the administrative burdens currently imposed on DSICA members.

DSICA does not accept the argument that the Government wishes to retain the tariff to use as leverage in the current Doha round of world trade negotiations. That is no justification for continuing to retain a tariff that operates effectively with no other purpose than as a revenue-raising device. Its retention simply results in Australian consumers paying higher prices for imported spirits and RTDs than they otherwise should.

In the absence of a unilateral removal of the 5% ad valorem tariff, DSICA does support Australia seeking the removal of the 5% tariff in the current Doha round of trade negotiations, and in any forthcoming Free Trade Agreement (FTA) negotiations, such as those about to commence with the United States.

Recommendation: That the 5% ad valorem protective tariff for imported spirits and RTDs be abolished.

Revenue estimate: -\$24.4m pa³⁶

³⁶ Calculations related to the cost of revenue for the Government from the removal of the 5% protective tariff on spirits are located in *Attachment 4.2* and on RTDs in *Attachment 4.2*.

7 Taxation of beer

7.1 Background

Under the NTS, beer is now subject to a tiered excise (and customs duty) regime, as at 1 February 2003, as follows:

Packaged Beer (to the extent that the alcohol content exceeds 1.15%):

- *Low strength (0% to 3%)* \$29.36* per Lal
- *Mid strength (above 3% to 3.5%)* \$34.22* per Lal
- *Full strength (above 3.5%)* \$34.22* per Lal

Tap/bulk Beer (to the extent that the alcohol content exceeds 1.15%):

- *Low strength (0% to 3%)* \$5.86* per Lal
- *Mid strength (above 3% to 3.5%)* \$18.41* per Lal
- *Full strength (above 3.5%)* \$24.09* per Lal

Beer imported into Australia is subject to customs duty at the same volumetric rates as set out above. However, it is not subject to the same 5% ad valorem customs duty that applies to imported spirits and imported RTDs.

All beer has access to a 1.15% abv excise free threshold. This is represented by the asterisk (*) above. A special rebate of excise duty for micro-breweries also applies.

DSICA strongly supports the principle of a tiered excise regime, if it achieves the generally accepted principle of ensuring that a higher amount of tax will be levied on products with higher levels of alcohol content. A tiered regime should have the effect of providing a taxation incentive to produce lower alcohol products.

Such an approach is consistent with the *National Alcohol Strategy*, which identifies the need to provide taxation incentives for consumers to choose lower strength alcohol products. See the *National Alcohol Strategy 2000-01 to 2003-04, Key Strategy Area 6: Pricing and Taxation*.

DSICA endorses this section of the *National Alcohol Strategy*. DSICA has consistently recommended a tiered approach to the taxation of alcohol products in previous pre-budget submissions and in its submission to the Senate Economics Legislation Committee review of the *Excise Tariff Amendment Bill (No. 1) 2002*.

However, DSICA is extremely concerned that the current tiered regime for packaged beer no longer provides a taxation incentive to produce mid-strength packaged beer.

7.2 Removal of anomaly for imported beer

Imported beer is subject to customs duty at the same volumetric rate as excise duty. However, it is not subject to a similar 5% ad valorem customs duty as applies to spirits.

This is a major anomaly which should be rectified at the earliest opportunity. If the Government is not prepared to remove the 5% ad valorem protective tariff that applies to spirits (as discussed in section 6 above), then it should impose a similar 5% protective tariff to imported beer.

Recommendation: That if the Government is not prepared to remove the 5% ad valorem protective tariff that applies to spirits, then it should impose a similar 5% protective tariff in the case of imported beer.

Revenue estimate: Additional revenue +\$3.8m pa³⁷.

³⁷ Calculations related to the revenue gain from the removal of the imported beer anomaly are located in Attachment 4.3.

8 Taxation of ready to drink beverages

8.1 Background

A key and commendable feature of the NTS was the Government's decision that all alcohol beverages below 10% alcohol content (other than products covered by the WET) would be subject to tax at the same rate as beer:

“The excise on beer and other beverages with less than 10% alcohol content, will be increased to make up for the removal of the present 37% wholesale sales tax.”³⁸

The products covered by this category include:

- Designer drinks utilising fermented alcohol (eg *Sub Zero, Two Dogs*);
- Premixed spirits drinks utilising distilled alcohol exclusively (eg UDL products, Jim Beam & cola, Bundaberg rum & cola); and
- Hybrid products, utilising a combination of distilled alcohol and fermented alcohol (eg *Stoli Lemon Ruski*)³⁹.

Within the *Excise Tariff Act*, these products are defined as “other excisable beverages”. In this submission, these products are referred to as “RTDs” (that is, ready to drink products).

RTDs which are imported are subject to customs duty at the same volumetric rate as the excise duty rate, as well as a 5% ad valorem customs duty.

This new regime has been a major reform of the alcohol taxation system. It has removed the taxation incentive to substitute different forms of alcohol in RTDs. All RTDs (other than beer and products, such as cider, which are covered by the WET) are now subject to the same excise duty regime.

However, DSICA does not support the final NTS outcome, under which RTDs are taxed at the dollar rate for full strength packaged beer, without the provision of any tiering and without the benefit of the 1.15% excise free threshold that applies to beer.

Furthermore, when the new concessional duty rates for tap beer were introduced (with effect from 4 April 2001), no similar provision was introduced for tap RTDs. This effectively means that tap RTDs pay a much higher duty rate than tap beer products of identical alcohol content.

The current situation can best be described as “partial taxation equivalence” between RTDs and beer.

8.2 The need for complete taxation equivalence with beer

DSICA believes that all alcohol beverages below 10% alcohol content (including the products covered by the WET) should be subject to exactly the same tiered excise regime as beer (i.e. “complete taxation equivalence”).

DSICA believes that the fundamental underlying principle that should be applied in the development of all alcohol taxation systems is that alcohol products of identical alcohol content should be taxed at identical rates.

³⁸ *Tax Reform: not a new tax, a new tax system. AGPS, 1998 at page 87.*

³⁹ Note that *Stoli Lemon Ruski* has been produced using distilled alcohol exclusively since October 2000.

There is no policy justification for taxing RTDs at a different rate to beer. There is clear evidence that these products are direct substitutes for one another and compete for market share.

Complete taxation equivalence will encourage the production of mid-strength and low alcohol RTDs, such as the 3.5% abv product (i.e., *Bundaberg Gold*, which is a combination of Bundaberg rum and cola) and the only low alcohol RTD product which DSICA is aware of (ie *Brewers Lite*, 2.2% abv).

DSICA believes that there should be complete taxation equivalence between RTDs (whether packaged or tap) and beer. This is DSICA's preferred method of ensuring that the taxation regime continues to provide an authentic incentive to produce lower alcohol RTDs, consistent with the *National Alcohol Strategy*.

There are significant community and health benefits to be obtained from encouraging the production of lower alcohol products. These benefits are not limited to the production of low alcohol beer. It is only with complete taxation equivalence that any taxation discrimination in favour of beer, at the expense of RTDs, will be completely removed.

DSICA's estimate of the likely cost to revenue of providing complete taxation equivalence for RTDs with DSICA's proposed new beer taxation regime is \$102m. Currently beer receives a 1.15% abv concession in determining the excise paid on beer. Complete taxation equivalence would also grant RTDs the 1.15% concession to align it with beer. This could be introduced on a phased basis, with the first phase being the introduction of a 0.1% abv excise free threshold for full strength packaged RTDs, funded by the revenue to be collected from taxing cider at the RTD rate (see below).

Recommendations: That packaged RTDs below 10% abv be subject to excise duty at exactly the same tiered rates as packaged beer. [Estimated revenue cost: low alcohol packaged RTDs – negligible; mid-strength packaged RTDs - \$1.6m; full strength packaged RTDs - \$102m. The change for full strength packaged RTDs could be introduced on a phased basis, with the first phase being the introduction of a 0.1% abv excise free threshold for full strength packaged RTDs, funded by the revenue to be collected from taxing cider at the RTD rate⁴⁰.]

That tap RTDs below 10% abv be subject to excise duty at exactly the same three tiered rates as tap beer. [Estimated revenue cost: Negligible]

8.3 Removal of cider taxation anomaly

DSICA does not accept the current situation under which traditional cider is covered by the WET, and is not subject to a volumetric taxation regime along with other RTDs of similar alcohol content.

Traditional cider is an alcohol product of less than 10% alcohol content.

⁴⁰ Calculations related to the cost of revenue for the Government resulting from the alignment of RTDs with packaged beer are located in Attachment 4.

The Government's NTS documents had proposed that cider would be taxed, at the beer rate, on a similar basis as the other ready to drink beverages.⁴¹ This approach was good policy, because it proposed to remove the taxation incentive to produce cider, compared with other ready to drink products.

The Government subsequently reversed the NTS policy after the 1998 election, and determined that traditional cider would be taxed under the WET. This decision has resulted in an ongoing anomaly under which cider enjoys a taxation advantage, simply because it is fermented using a particular method that bears some similarity to how wine is fermented.

DSICA does not support the retention of any anomalies in the alcohol taxation system which rely upon particular methods of production. This creates an unfair system which discriminates between production methods on an ad hoc basis.

DSICA believes that cider should be subject to excise duty on the same basis as all RTDs. The additional revenue that the Government receives from cider being taxed at the same rate as RTDs (\$10m approximately), should then be used to provide full strength packaged RTDs and cider with a 0.1% abv excise free threshold, similar to the concession received by beer.

Recommendation: That traditional cider should be subject to a similar tiered excise regime as beer and RTDs.

Revenue estimate: +\$10m pa⁴².

⁴¹*Tax Reform: not a new tax, a new tax system.* AGPS, 1998 at page 87.

⁴² Calculations related to the revenue gain resulting from removal of the cider taxation anomaly are located in Attachment 4.3.

9 Taxation of wine

9.1 Current taxation of wine

Wine, and wine products are currently subject to the WET, at a rate of 29% of the last wholesale selling price.

A comparison of the amount of non-GST tax collected from each category of alcohol product on a per standard drink basis is set out in *Figure A* in the *Summary of Recommendations*. This comparison highlights the fact that cask wine enjoys the greatest taxation concession, and pays only 7 cents per standard drink. A hypothetical volumetric wine tax (VWT) rate for cask wine (to achieve the current level of taxation revenue collected from cask wine) would be \$5.15 per Lal. This can be compared with \$26.19 per Lal (effective rate) for packaged full strength beer, and \$57.97 per Lal for spirits.

9.2 Wide support for a volumetric wine tax

The 1995 Inquiry into the Winegrape and Wine Industry in Australia recommended a composite ad valorem and volumetric tax on wine “to address the external costs associated with alcohol consumption”.⁴³

A volumetric tax on wine would result in price increases for low value wine (such as cask wine) and price reductions for high value premium wine. There are many small independent premium wine producers, such as the Independent Winemakers Association (IWA), who wish to see a volumetric tax on wine⁴⁴. There are also many health groups who support a volumetric wine tax. These groups have made recommendations along these lines in submissions to the Parliamentary Inquiry into Substance Abuse in Australian Communities⁴⁵ and to the Senate Economics Committee review of the *Excise Tariff Amendment Bill (No. 1) 2002*. These groups include:

- the Alcohol and Other Drugs Council of Australia;⁴⁶
- the National Drug and Alcohol Research Centre;⁴⁷
- the National Drug Research Institute;⁴⁸
- the Australian Medical Association;⁴⁹ and
- the Public Health Association of Australia.⁵⁰

⁴³ See *Winegrape and Wine Industry in Australia – A Report by the Committee of Inquiry into the Winegrape and Wine Industry*, AGPS, 30 June 1995 at page 9 (Wine Inquiry Report).

⁴⁴ See Submission No. 158 to the Substance Abuse Inquiry at page 2417.

⁴⁵ This inquiry was commenced by the House of Representatives Standing Committee on Family and Community Affairs under the previous Parliament.

⁴⁶ See Substance Abuse Submission No. 61 at page 598.

⁴⁷ See Substance Abuse Submission No. 72 at page 835.

⁴⁸ See Substance Abuse Submission No. 110 at page 1381, and Submission No. 123 at page 1506.

⁴⁹ See Substance Abuse Submission No. 121 at page 1463.

⁵⁰ See Submission No. 159 at page 2432.

DSICA believes that there is an urgent need to review the wine taxation arrangements that will apply under the New Tax System in the future. As can be seen from the submissions to the Inquiry referred to above, there is a wide range of support across many organizations within the health sector for a change to the current wine taxation arrangements.

9.3 DSICA's support for a volumetric wine tax

DSICA believes that 'alcohol is alcohol' and as such all alcohol products should be taxed on a similar basis. Three of the four major categories of alcohol products in Australia are taxed on a volumetric basis (i.e. spirits, beer and RTDs). This means that the amount of tax they pay increases with the amount of alcohol in the product.

However, wine (and cider) are taxed under the WET, which is an ad valorem tax. This means that as the value of wine increases, the tax paid increases. As such, the amount of tax paid by a wine product bears no relation to its alcohol content. This system benefits the less expensive cask wine and disadvantages premium bottled wines.

Taxing wine on a volumetric basis would ensure a uniform taxation structure across all alcohol products. Additionally, a volumetric wine tax would tax wine according to the amount of alcohol it contains, thus encouraging the consumption of lower alcohol wine products as opposed to the current system, which encourages the production of cheaper products, regardless of their alcohol content. As discussed earlier, DSICA accepts that it is impracticable to impose a flat rate of volumetric excise duty on all alcohol products, as this would result in a doubling of the tax take from the wine industry.

9.4 Myths and old arguments against a volumetric wine tax

In the past there have been a number of supposed difficulties (or disadvantages) with the potential imposition of excise duty on wine. These are outdated arguments, and include difficulties in measuring alcohol content.

Measuring the alcohol content of wine

The *Excise Amendment Act (No. 1) 2002* passed by the Parliament in October 2002 overcame any alleged difficulties in calculating the excise duty payable on wine under a volumetric wine excise.

The Bill provides that where the actual alcohol content of an alcohol product is less than the alcohol content shown on the label, then excise duty will be payable on the labelled strength. As all wine product labels are now required to show alcohol content, this measure will remove any difficulty in making the necessary calculations of excise duty liability.

It should be noted that the *Foods Standards Code* allows a tolerance of 1.5% abv when describing the alcohol content on the label of wine of more than 6.5% abv⁵¹. That is, it is acceptable, under the *Food Standards Code* for the actual alcohol content in wine (or wine products) to vary up to +/- 1.5% abv from the alcohol content stated on the label.

The combination of these two measures will ensure that any variations in actual alcohol content from the alcohol content stated on a wine label will not impact on the calculation of the excise liability (which will be based entirely on the labelled strength).

9.5 Option to switch to volumetric wine tax

DSICA is aware that Senator Andrew Murray has formulated a proposal that, as a flexible alternative to the WET (that as a value added tax is problematic for high value wines), winemaker entities could elect to be subject to (volumetric) excise duty. This could be at the proposed revenue neutral VWT rate of \$13.80 per Lal rather than be subject to the WET. Senator Murray considers that such an election option could be once only and irrevocable for ease of administration.

DSICA takes the view that it may be possible to consider alternative options such as allowing winemaker entities that make the election to choose to return to the WET if they wished. While there are no immediate or direct benefits to DSICA in supporting such an approach, DSICA considers that it is consistent with good alcohol taxation policy and would provide obvious taxation savings for bottled quality wine products.

DSICA considers that this idea has considerable merit, and suggests some additional features as follows:

- *Election:* winemaker entities would be eligible to elect, in writing to the Commissioner of Taxation (who administers both the WET and the excise duty system) to be subject to a revenue neutral volumetric excise duty, rather than WET. The right to make the election would be available on a once-only basis;
- *Minimum 12 months effect:* the election would apply for a minimum of 12 months;
- *Return to WET:* any winemaker who had elected to be subject to excise duty would be eligible to return to being taxed under the WET within 3 years after the expiration of the initial 12 months period. This would allow winemakers to effectively trial the excise duty regime, and then elect to return to the WET if they wished to. These winemakers would relinquish any rights to return to the excise duty system;
- *Commonwealth cellar door rebates:* Commonwealth cellar door rebates would not be paid during the period in which the excise duty applied to the winemaker. This is because the likely amount of excise duty payable by the winemaker would, in most instances, be less than the amount of WET (net of Commonwealth cellar door rebates).

9.6 Recommendations

Wine: That a revenue neutral volumetric wine excise replace the existing value-based WET, structured as follows:

⁵¹ See Foods Standards Code 2.7.1, see Clause 2, the Table to subclause 2(2). Food Standards Australia and New Zealand (FSANZ).

- ❑ *Fortified wine rate:* for all WET products and liqueurs of alcohol content >15% abv to 22% abv: a rate of \$15.00 per Lal;
- ❑ *Table wine rate:* for WET products of alcohol content >6.5% abv to 15% abv: a rate of \$13.80 per Lal (excluding cider);
- ❑ *Low alcohol wine rate:* for WET products of alcohol content of 6.5% abv or less, a lower rate to encourage the production of lower alcohol wines; and
- ❑ *Excise duty election:* That as a flexible alternative to the WET, winemaker entities be eligible to elect to be subject to excise duty at the volumetric excise duty rates set out above;
- ❑ *Indexation:* that these rates be subject to 6 monthly indexation similar to beer and spirits excise rates.

Other excisable beverages: That non-wine excisable beverages and liqueurs be subject to a tiered scale of taxation, based on alcohol content, as follow:

- ❑ >10% abv and up to 15% abv: to be subject to excise at a new rate;
- ❑ >15% abv and up to 22% abv: \$15.00 per Lal rate as for fortified wine; and
- ❑ >22% abv would continue to be subject to duty at the current spirits rate.

10 Single jurisdiction for excise equivalent goods

10.1 Single agency for revenue acquittal and administrative issues

Under present administrative arrangements, collection of customs duties on imported spirits and RTDs is a function of Customs, while collection of excise duties on locally manufactured spirits and RTDs is the responsibility of the ATO.

DSICA would prefer to deal with a single agency for all revenue acquittal and administrative arrangements issues. As the Government has transferred responsibility for excise administration to the ATO, it would appear unlikely that Customs would be the single agency for these purposes. In these circumstances, DSICA recommends that the ATO be the single agency with responsibility for revenue acquittal and administrative arrangements in relation to both locally produced and imported spirits and RTDs.

Recommendation: That the ATO should be the single government agency responsible for the collection of revenue and the administrative arrangements relating to “excise equivalent goods”, such as imported spirits and imported RTD alcohol products.

10.2 Generic government licensing issued by the ATO should replace multiple licences

If spirits are imported in a “ready for retail sale” form, with appropriate labelling and marking to comply with Australian requirements, the goods can be immediately entered and cleared through Customs. This clearance includes payment of the appropriate customs duties and interaction is only necessary with Customs.

Given the extent of the duty involved in importing spirits, importers invariably choose to defer payment by first entering the spirits into a distribution network (comprising separate Customs licensed warehouses) until the goods are needed for further manufacture or sale. If the goods are subsequently cleared and entered for home consumption in the form in which they are imported, the appropriate customs duty is paid at that time to Customs.

However, if spirits are imported in bulk, which is frequently the case, importers have no option but to first enter the goods for warehousing. Any subsequent reduction, blending and bottling processes are required to be undertaken in Customs licensed premises. Where the subsequent processes extend beyond mere reduction and bottling, and comprise a process of manufacture, the premise also requires an excise manufacturer’s licence issued by the ATO. A particular example of this later circumstance is the local manufacture of RTDs utilising imported spirits and locally produced flavourings, juices and essences.

As a result of the increasing number of RTDs which contain imported spirits, DSICA members have become involved in the distribution of both imported and locally produced products. Most of the various premises throughout the Australia-wide

distribution network of affected DSICA members require both Customs and ATO licences, issued separately. The licences are specific to each premise and DSICA members are accountable to both agencies to ensure that there is adequate internal control over these premises.

Recommendations: That generic government licensing issued by the ATO should replace multiple licences now required by both the ATO and Customs;

That entity licensing should be introduced under which a single licence is sufficient for an entire distribution network.

10.3 Appropriate alignment and linkages between relevant electronic and business systems in Customs and the ATO

DSICA applauds the initiatives undertaken by Customs in the field of trade modernisation, including abandoning the principle of “one size fits all” in relation to the processes involved in the entry and clearance of goods. DSICA is, however, concerned that the new approaches should provide the best possible opportunities for spirits industry members to achieve maximum efficiency and reduce compliance costs.

In approaching directions for future systems and communications, DSICA is also concerned that Customs and the ATO give due regard to the unique complexities affecting DSICA members in their attempts to comply with regulatory regimes of both Customs and the ATO.

DSICA acknowledges the significant steps taken by Customs in its efforts to modernise communications systems and business processes applied to the clearance of imported goods.

However, Government requirements imposed on the industry sector occupied by DSICA members necessitates systems and communications not only with Customs, but also with the ATO for clearance of its goods.

Recommendations: That there should be appropriate alignment and linkages between relevant electronic and business systems in Customs and the ATO to facilitate increased effectiveness of the administrative processes imposed on industry;

That Customs should continue to have responsibility for the border management aspects relating to the importation of excise equivalent goods.

10.4 Streaming of revenue payments on an estimated basis with deferred reconciliation and acquittal

DSICA members are currently covered by the weekly settlement provisions of the customs and excise law, which require weekly accounting and payment for actual sales made each week of all excisable and excise equivalent imported goods.

DSICA supports the current direction whereby the GST and other taxes are collected via the Business Activity Statement (BAS). DSICA sees opportunities for these benefits to flow to the collection of customs and excise duties, either under the BAS or under a separate arrangement. In particular, DSICA believes that there is an

opportunity to reduce business compliance costs if duty payments were able to be made on an estimated basis, with periodic reconciliation and acquittal.

Recommendations: That streaming of revenue payments on an estimated basis with deferred reconciliation and acquittal should be implemented.

11 Customs duty drawback

11.1 Amendment to prevent overpayment of duty drawback claims

There are significant quantities of imported spirits which are being re-exported from Australia. This has been an ongoing problem for spirits brand owners, and DSICA has been making detailed representations to Customs on the issue.

These potential overpayments relate to the payment of duty drawback on consignments of imported spirits which are subsequently re-exported from Australia by third parties. Preliminary analysis indicates that the number of claims overpaid may exceed 20% of claims paid in a particular period.

This problem arises because of Customs Regulation 135 which allows for duty drawback payments to be calculated by means of an imputation formula. Customs has now accepted that Regulation 135 requires amendment. DSICA has made 2 detailed submissions to Customs regarding the industry's preferred approach to amending Regulation 135. DSICA recommends that the Customs Regulations be amended to ensure that no duty drawback claims will be paid on re-exported spirits unless the importer or duty payer (eg wholesaler) who paid the duty on the entry for home consumption of the goods is consulted by Customs to certify the value for duty of the imported spirits. This will ensure that payment of any significant drawback claims does not exceed the duty paid.

DSICA is concerned that Customs has unilaterally (by Australian Customs Notice ACN 2002/51) removed the administrative requirement for suppliers' declarations to be provided with drawback claims, pending the future amendment of the Regulations. This decision appears to be reducing the extent to which Customs can properly scrutinise drawback claims. DSICA queries the legality of Customs applying a revised imputation method of calculating duty drawback (as set out in ACN 2002/51) in the absence of an amendment to Regulation 135.

DSICA continues to be concerned about the possibility that premium branded spirits are being diverted from export into the domestic market (at significantly reduced prices because duty drawback has been claimed illegally on the diverted product).

Recommendation: That Customs Regulations 134 and 135 be amended to ensure that importers/duty payers of alcohol beverages are required to certify as to the value for duty of imported beverages which are subsequently re-exported and subject to a claim for duty drawback.

12 Conclusion

DSICA is aware of the tight budgetary circumstances prevailing at present.

DSICA has sought to set out in this submission a range of taxation recommendations, together with detailed revenue estimates for each recommendation.

DSICA's immediate priorities include:

- the recommendation for an alcohol taxation inquiry (see section 5);
- the recommendations for complete taxation equivalence for RTDs (see section 8); and
- the recommendation for an amendment to the Customs Regulations to overcome the existing problems in relation to overpayment of duty drawback claims (see section 11).

DSICA will be discussing its other priorities with Ministers and advisers in the near future.

February 2003