



Distilled Spirits Industry Council of Australia Inc.

Mr Bert van Manen MP
Chair
House of Representatives Standing Committee on Tax and Revenue
PO Box 6021
Parliament House
CANBERRA ACT 2600

21 September 2015

Dear Mr van Manen

Inquiry into the Tax Expenditures Statement

Thank you for the opportunity to participate in the inquiry by the House of Representatives' Standing Committee on Tax and Revenue (the Committee) into the Tax Expenditures Statement (TES).

I am writing on behalf of the Distilled Spirits Industry Council of Australia Inc. (DSICA), the peak body representing the interests of distilled spirits manufacturers and importers in Australia. DSICA was formed in 1982 and its members account for over 80 per cent of the distilled spirits industry in Australia.

The Committee is inquiring into the TES, including the recommendations made by:

- the Australian National Audit Office (ANAO) in its reports of May 2008 and May 2013;
- the Joint Committee of Public Accounts and Audit in its report of June 2009; and
- the Australia's Future Tax System Review of December 2009.

The primary focus of this submission will be on the ANAO's report of May 2008 (the 2008 Report).

Background

A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment. Benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activity.

Currently, the TES has three different benchmarks for alcohol taxes as explained in the latest TES¹:

ALCOHOLIC BEVERAGES

The tax base for the consumption of alcoholic beverages is separated into three components based on the types of beverage:

- *the consumption of lower alcohol content beverages (beverages not exceeding 10 per cent alcohol content) such as beer and ready to drink beverages;*
- *the consumption of higher alcohol content beverages (beverages with greater than 10 per cent alcohol content) such as brandy and other spirits; and*
- *the consumption of wine and alcoholic cider.*

The taxation of these activities reflects a longstanding feature of the tax system whereby different tax rates apply to beer, spirits and wine:

- *The benchmark excise rate for lower alcohol content beverages (for example, beer) is the volumetric excise rate that applies to full strength packaged beer (including the excise-free threshold of the first 1.15 per cent of alcohol).*
- *The benchmark excise rate for higher alcohol content beverages (for example, spirits) is the volumetric excise rate on spirits other than brandy.*
- *The benchmark rate for wine and alcoholic cider is the ad valorem wine equalisation tax rate.*

The 2008 Report specifically discussed the three benchmarks for alcohol beverages and whether this was appropriate:

3.21 The different benchmarks for alcoholic beverages have been adopted notwithstanding that the consumption of alcohol, regardless of type, is a similar activity. By way of comparison, a single benchmark is used for all petroleum fuels and a single benchmark is also used for all tobacco products (on which commodity taxes are also imposed).

3.22 The adoption of a uniform benchmark for alcohol (beer, spirits and wine) would be consistent with the principle that a tax benchmark should represent a consistent treatment of similar activities or classes of taxpayers. It would also provide useful information by better reflecting the preferential taxation treatment (such as lower tax rates for low alcohol products) of some categories of alcoholic beverages compared to others.

¹2014 Tax Expenditures Statement, Treasury, Canberra, p 137

Though not one of the six high level recommendations of the 2008 Report, the ANAO clearly indicated that a single benchmark for alcohol beverages was preferable. That the matter was included in the key findings of the 2008 Report suggests it was a significant issue:

17. Although there is widespread recognition of the existence of tax expenditures, there is no universally accepted definition of the expression 'tax expenditure'. Differentiating a tax expenditure from a benchmark tax concession is, in some cases, a matter of fine judgment. For example, different benchmarks for alcoholic beverages have been adopted notwithstanding that the consumption of alcohol, regardless of type, is a similar activity. By way of comparison, a single benchmark is used for all petroleum fuels and a single benchmark is also used for all tobacco products (on which commodity taxes are also imposed). As a result of the different benchmarks, reporting in the TES does not reflect the preferential taxation treatment (such as lower tax rates for low alcohol products) of some categories of alcoholic beverages compared to others.

Issue

Recommendation 1 of the 2008 Report was that Treasury should conduct an ongoing prioritised review of the existing program of tax expenditures which the department accepted. An ongoing review of existing tax expenditures would obviously be the most appropriate avenue to consider and implement the ANAO's preference for a single benchmark for alcohol beverages. Given the high profile of the issue in the 2008 Report it is reasonable to expect that this should have been given a high priority.

To date, the three different benchmarks remain.

It is DSICA's view that for the reasons set out by the ANAO in the 2008 Report, a single benchmark for alcohol beverages in the TES should be introduced.

The current benchmarks, whereby beer and ready-to-drink (RTD) beverages are subject to one benchmark and cider is subject to another, highlights the need for a single benchmark. All three beverages have very similar characteristics such as alcohol strength, packaging and marketing but they are taxed differently. The difference in the taxation of beer and RTDs measured against a single benchmark is highlighted in a transparent way as a tax expenditure, in this case a negative tax expenditure for RTDs. The tax on cider is measured under a different benchmark with the result that there is no tax expenditure and, therefore, no comparison can be made. This is illogical.

Conclusion

DSICA considers that in relation to the alcohol beverages benchmark in the TES, the 2008 Report was not fully implemented and that future publications of the TES should use a single benchmark for alcohol beverages.

Thank you once again for the opportunity to participate in the inquiry and please do not hesitate to contact me on [REDACTED] if there is anything you would like to discuss.

Yours faithfully

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Gordon Broderick
Executive Director