

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Estimates 22-23 October 2008

Question: sbt 3

Topic: Increase in Excise for 'Alcopops/Ready-to-Drinks (RTDs)

Hansard Page: Written

Senator CORMANN asked:

1. What has been the amount collected in tax revenue since the implementation of the increase in the excise on alcopops on 27 April 2008?
2. Is there evidence of substitution of beer and/or wine products with spirit-based products since the introduction of this tax?
3. Has this question been examined?
4. Is there evidence of the amount of revenue collected from any other alcohol products increasing?
5. Is there an expectation in the Treasury/ATO that revenue as a percentage of total tax take from alcohol products will rise from substitute products?
6. Is the minister/department aware of the new 'alcopop' Bolt which is derived from beer?
7. Has the department had dealings with treasury or any other department as to the impact the substitution effect away from the higher taxed alcopops to Bolt?
8. Has the department discussed/considered whether a potential reduction in the level of alcohol consumption may be at risk by taxing this product at beer tax levels?
9. Has the department in any way been consulting with other departments as to ways to reduce a possible substitution to Bolt?
 - If so, what are these?
 - If not – was it not the reason of this increase to reduce the social cost of alcohol, or as you are saying is this just a revenue raising stunt?
10. The taxation of alcohol is being reviewed by the Henry committee. What is the Treasury's/ATO's preferred position on the taxation of alcohol?
11. In the event that legislation to ratify the excise increase is not passed, what would happen to the revenue collected?
12. Are there any precedents of a similar situation where a tax has been raised that was ultimately not supported by legislation? Can you provide details of what happened in those cases?
13. Has a tax ever had to be returned? How was that done?
14. Referring to the *Final Budget Outcome 2007-08*, released by the Treasurer on 26 September 2008:
 - Table 2 of the Final Budget Outcome 2007-08 includes a line-item under the heading 'Excise duty' headed 'Other excisable beverages'. Has Treasury attempted to measure the actual increase in retail price or the

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actual decline in sales volume for the 'Other excisable beverages' category since the introduction of the 70% tax increase?

- For this category, the *Final Budget Outcome* lists a change on the 2008-09 Budget of -\$106 million. What proportion of this -\$106 million is attributable to the two months after the tax on RTDs was increased by 70% - that is May and June 2008?
 - What was the difference in sales volume between the 2008-09 Budget and the actual figures in the *Final Budget Outcome* that contributed to the significant overestimation of RTD revenue in the 2008-09 Budget?
15. In the Treasury Executive Minute titled, "*Information Paper on the Costing of the Impact of the Increase in Excise on 'Other Excisable Beverages'*" dated 14 May 2008, Treasury describes modelling that resulted in a weighted average price increase due to increased taxation on RTDs of 9.4 per cent. Treasury also assumed an own price elasticity for RTDs of -0.4.
- Are the assumptions made in the Treasury Minute consistent with the results published in the *Final Budget Outcome 2007-08*? If not, what are the changes?
 - Has Treasury reviewed its modelling of own price elasticities for RTDs since the 2008-09 Budget?
16. In the 2008-09 Budget Paper No.2, Treasury estimates that increasing the rates on 'Other excisable beverages' would provide an on-going gain to revenue estimated to be \$3.1 billion from 27 April and over the forward estimates period. I note that net of GST this figure is around \$2.8 billion:
- Has Treasury projected the actual decline in RTD sales since the RTD tax change over the forward estimates period? What is the revenue impact of the greater than estimated sales decline?
17. Table 2 of the *Final Budget Outcome 2007-08* includes a line-item under the heading 'Customs duty' headed 'Excise-like goods'. This item covers Customs duties paid on what goods?
18. Given that the majority of Potable spirits sold in Australia are imported, and therefore pay Customs duty rather than Excise duty, what proportion of the \$2.4 billion in Customs duty collected on 'Excise-like goods' is attributable to imported Potable spirits?
19. Table 2 of the *Final Budget Outcome 2007-08* lists for the 'Excise-like goods' a change on the 2008-09 Budget of +\$41 million. What proportion of this figure is attributable to the underestimation of sales of Potable Spirits by Treasury when completing the 2008-09 Budget estimates?
20. Noting a +\$5 million change on the 2008-09 Budget estimate for Excise duty on Potable Spirits. What proportion of the positive change on the 2008-09 Budget - for both Excise and Customs duty on Potable Spirits - is attributable to the two months May and June 2008?
21. Referring again to the Treasury Minute of 14 May, Treasury writes, 'On balance, the cross-price elasticity estimates [of RTDs] are assumed to be zero.'

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- Does the increased sales of Potable Spirits since the tax change suggest that this assumption was correct or incorrect?
22. Has Treasury reviewed its modelling of cross price elasticities for RTDs since the 2008-09 Budget?
 23. Given that the changes from the revenue estimates in the 2008-09 Budget Papers would suggest substitution from RTDs to Full-strength Potable Spirits, will the Treasury be changing its assumption of cross price elasticities for RTDs to account for substitution to other alcohol beverages, including beer and wine?
 24. Has Treasury projected the growth in Full-strength Spirits sales experienced since the RTD tax change over the forward estimates period? What is the revenue impact of consumer substitution from RTDs to Full-strength Spirits?

Answer:

1. This information is not publicly available.
2. The 2008-09 MYEFO shows that revenue from excise on alcohol has decreased with reduced excise collections from 'other excisable beverages' offset partially by increased revenue from other alcoholic beverages. The revenue estimates included in the MYEFO indicate that excise collections from 'other excisable spirits' have been revised downwards by around \$440 million, while collections from excise on beer, potable spirits and 'excise like goods' have been revised upwards by \$190 million. It is noted that wine is subject to the wine equalisation tax (an *ad valorem* tax based on the price, rather than the quantity, of wine sold) so it is not possible to determine from the revenue data the extent of wine consumption.
3. See the response to question 2.
4. See the response to question 2.
5. See the response to question 2..
6. Treasury is aware of the product known as Bolt.
7. Noting there is no publicly available aggregated data in relation to consumption of RTD substitutes, the Australian Taxation Office (ATO) and the Australian Customs Service (Customs) have been monitoring and informing Treasury in relation to substitute alcopop products coming onto the market.
8. The ATO and Customs are responsible for administering the tax and excise laws and determining the tax treatment of products within those laws. On 4 December 2008, the Minister for Health and Ageing informed the House of Representatives of action that has been taken by Customs officials. The ATO is liaising closely with Customs.
9. See responses to Question 7 and Question 8.
10. On policy issues, Treasury's role is to provide policy advice to the Government.
11. Treasury cannot answer hypothetical questions regarding what would happen following events that may or may not occur. However, more generally, refunds of excise by the Australian Taxation Office or customs duty by the Australian Customs Service are provided to the entity legally responsible for paying the

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- duty and are made in accordance with relevant legal and legislative requirements and those agencies' policies and procedures.
12. Treasury is not aware of any instance where the collection of excise duty under a tariff proposal has not been validated for the period of time of revenue collection up to the time where the amending bills have been validated by the Parliament.
 13. See answer to Question 12.
 14. - No
 - The \$106 million reflected the difference for the last three months of the year. A further breakdown is not publicly available..
 - Production clearances are used for forecasting excise and customs duty revenues. The difference in production volumes between the *2008-09 Budget* and the *Final Budget Outcome* is not available.
 15. The two relate to different concepts. The Treasury Executive Minute dated 14 May 2008 notes the assumptions used in relation to the estimated revenue impact from a specific tax measure. The *Final Budget Outcome 2007-08* publication is based on actual data.
 16. The revenue from the measure reported in the 2008-09 Budget will be revised when the legislation is introduced, consistent with the updated forecasts of excise receipts in the MYEFO.
 17. Excise-like goods includes petroleum products, beer, potable spirits and tobacco.
 18. This information is not publicly available.
 19. This information is not publicly available.
 20. This information is not publicly available.
 21. The assumption regarding the cross price elasticity of 'other excisable beverages' and other alcohols was made for costing purposes. The main evidence of substitution since the Budget is from 'other excisable beverages' to spirits. Under the budget measure, substitution from 'other excisable beverages' to spirits has no impact on the estimates of revenue gain.
 22. Since the Budget, the revenue estimates for excise from alcoholic beverages have been revised in line with actual data and the revised revenue projections are shown in the 2008-09 MYEFO.
 23. See answer to Question 22.
 24. Adjusted estimates were published in the 2008-09 MYEFO.