



Submission to The Senate Economics Legislation Committee

Review of the

Excise Tariff Amendment Bill (No. 1) 2002

and the

Customs Tariff Amendment Bill (No. 2) 2002

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TABLE OF CONTENTS

1. Executive Summary	1
Amendments required	1
Taxation of RTDs and beer (see sections 4 and 5)	1
Taxation of wine and cider (see section 6)	2
Other recommendations (see section 3)	2
2. Recent changes in the alcohol market in Australia	3
2.1 Key insights	3
2.2 Some key facts about the alcohol market	3
2.3 Some key facts about the beer market	3
2.3 Some key RTD market facts	4
3 The need for alcohol tax reform	5
3.1 Standard drinks	5
3.2 Non-GST tax per standard drink	5
3.3 Effective taxation rates for alcohol	6
3.4 “Equal measures for equal measures”	7
3.5 Current anomalies	8
3.6 Need for an alcohol tax inquiry	9
Recommendation	9
4. Taxation of beer under the <i>Excise Tariff Amendment Bill (No. 1) 2002</i>	10
4.1 Background to beer taxation in Australia under tax reform	10
4.2 Changes made by the Bill	10
4.3 The mid-strength packaged beer problem in the Bill (needing ANTS <i>Version 5</i>)	11
Recommendation	13
5. Taxation of ready to drink (RTD) beverages	14
5.1 Background	14
5.2 The need for complete taxation equivalence with beer	14
5.3 Why RTD growth does not lead to increased alcohol consumption	15
Recommendations:	16
6. Taxation of wine and cider	17
6.1 Current taxation of wine	17
6.2 Wide support for a volumetric wine tax	17
6.3 DSICA’s support for a volumetric wine tax	18
6.4 DSICA’s proposal for a revenue neutral volumetric wine tax (as an excise duty)	18
6.5 Myths and old arguments against a volumetric wine tax	18
6.6 Low alcohol (reduced alcohol) wine	20
6.7 Option to switch to volumetric wine tax	21
6.8 Taxation of cider	21
Recommendations	22
7. Conclusion	23

1. Executive Summary

DSICA is the peak industry body representing the interests of distilled spirit manufacturers and importers in Australia (see details of the membership and goals of DSICA at *Attachment 1*). DSICA appreciates the opportunity to make this submission to the Senate Economics Legislation Committee review of the *Excise Tariff Amendment Bill (No. 1) 2002* (the Bill) and the *Customs Tariff Amendment Bill (No. 2) 2002*¹.

Amendments required

There are a number of key problems with the beer excise duty rates affected by the Bill, which require amendment, including:

- low alcohol packaged ready to drink products (RTDs) are taxed at 200% of the effective rate of tax on low alcohol packaged beer (see *Graph 4 of Attachment 7*);
- mid-strength RTDs are taxed at 150% of the effective tax rate on mid-strength packaged beer (see *Graph 4 of Attachment 7*);
- mid-strength packaged beer is taxed at exactly the same rate as full strength packaged beer (see *Slide 1 of Attachment 10*). This means that there is no authentic incentive to produce mid-strength packaged beer.

Other problems with the current beer and RTD taxation regimes include:

- full strength RTDs are taxed at 130% of the effective tax rate on full strength packaged beer (see *Graph 4 of Attachment 7*); and
- draught RTDs are not taxed at the same rates as draught beer of similar alcohol content.

DSICA believes that these anomalies should be rectified, as set out below.

Taxation of RTDs and beer (see sections 4 and 5)

DSICA recommends:

- **Packaged RTDs:** That packaged RTD products below 10% alcohol by volume (abv) be subject to excise duty at exactly the same three tiered rates as packaged beer with effect from 1 January 2003. [Estimated revenue cost: \$42m in the second 6 months of 2002/03 (FY03). \$100m in 2003/04 (FY04)]
- **Draught RTDs:** That draught RTD products below 10% abv be subject to excise duty at exactly the same three tiered rates as draught beer. [Estimated revenue cost: Negligible]
- **Full strength beer rate increase:** That a small increase in the dollar rate payable on full strength packaged beer of \$1.40* per Lal (Option 3) be made to offset the revenue cost of complete taxation equivalence for full strength packaged RTDs and to provide an authentic incentive to produce mid-strength packaged beer.

¹ All references to 'the Bill' will be references to the *Excise Tariff Amendment Bill (No. 1) 2002*, unless stated otherwise.

Taxation of wine and cider (see section 6)

DSICA recommends:

- **Wine:** That a revenue neutral volumetric wine excise replace the existing value-based Wine Equalisation Tax (WET), structured as follows:
 - *Fortified wine rate:* for fortified wine, WET and spirits products of alcohol content >15% abv to 22% abv: a rate of \$15.00 per Lal;
 - *Table wine rate:* for wine and WET products of alcohol content >6.5% abv to 15% abv (other than cider): a rate of \$13.80 per Lal;
 - *Low alcohol wine rate:* for all WET products up to 6.5% abv (other than cider): a lower rate to encourage the production of low alcohol wine (eg \$5.00 per Lal);
 - *Excise duty election:* That as a flexible alternative to the WET, winemakers be eligible to elect to be subject to excise duty at the volumetric excise duty rates set out above; and
 - *Indexation:* that these rates be subject to 6 monthly indexation similar to beer and spirits excise rates.
- **Cider:** That cider be taxed at the relevant excise duty rate applicable to beer/RTDs under DSICA's tax equivalence proposal for RTDs and beer [Estimated additional revenue: \$19m]².
- **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: to be subject to the same \$15.00 per Lal rate as fortified wine; and
 - >22% abv would continue to be subject to duty at the current spirits rate.

Other recommendations (see section 3)

DSICA also recommends:

- **Alcohol taxation inquiry:** That a comprehensive inquiry into Australia's alcohol taxation system be undertaken to ensure that the appropriate level of Commonwealth taxation is being applied to each of the major categories of alcohol and to remove existing anomalies;
- **Brandy:** removal of the concessional excise rate for brandy (37% abv to 40% abv), and taxation of brandy at the same rate as spirits [Estimated additional revenue: +\$4m to +\$5m];
- **Protective tariff:** removal of the 5% ad valorem protective tariff for imported spirits and imported RTDs [Estimated revenue cost: -\$18m].

² All revenue estimate calculations as set out in DSICA's 2002-03 Pre-budget submission (copy available upon request).

2. Recent changes in the alcohol market in Australia

DSICA has undertaken a detailed analysis of the changes that have taken place in the alcohol market in Australia in recent years, particularly since the commencement of the New Tax System on 1 July 2000³. This analysis is set out in *Attachments 3, 8 and 9*.

2.1 Key insights

The key insights, relevant to the issues covered by the Bill, include:

- per capita⁴ consumption of alcohol has not increased under the New Tax System (see *Graph 1* in *Attachment 8*). This is consistent with the findings of the Australian Institute of Health and Welfare (AIHW) that annual per capita consumption of alcohol is less than it was 10 years ago⁵;
- alcohol consumption has been growing at a similar rate to the population of over 18 year olds since 1992/93 (see *Graph 2* in *Attachment 8*);
- changes in total alcohol consumption levels over recent years have tended to reflect economic conditions (see *Graph 3* in *Attachment 8*);
- on a per capita basis, beer consumption is relatively higher than for other forms of alcohol (Australia was ranked 19th in the world for per capita consumption of total alcohol in 1998, but was ranked 9th on per capita consumption of beer).⁶

2.2 Some key facts about the alcohol market

The following facts in relation to FY02 are derived from the market data set out in *Table 5.2* in *Attachment 8*:

- About 50% of all alcohol consumed in Australia is beer;
- About 40% of the alcohol consumed in Australia is full strength beer;
- About 12% of the alcohol consumed in Australia is cask wine;
- About 40% of the wine consumed in Australia is cask wine;
- RTDs comprise only 7% of the total alcohol market.

2.3 Some key facts about the beer market

The following facts in relation to FY02 are derived from the market data set out in *Table 5.2* in *Attachment 8*:

- the total beer market is 10 times the size of the total RTD market;
- premium beer⁷ sales (15m cases in FY02) have been growing strongly and are now equivalent to 70% of all sales of RTDs (21.6m cases in FY02);
- the higher alcohol beers (premium and full strength) make up over 80% of all beer sales;

³ DSICA measures the alcohol market in litres of pure alcohol (Lals) as this enables an accurate comparison of market share on an alcohol content basis.

⁴ The per capita calculation is based on the number of Australians over 18 years of age (ie approximately 75% of the total population).

⁵ See *Statistics on Drug Use in Australia 2000*, Australian Institute of Health and Welfare.

⁶ *ibid.*

⁷ Premium beer includes the higher value boutique and imported beers, which are generally higher alcohol content.

- low alcohol beer sales fell 4.9% in FY02;
- mid-strength beer (26m cases) and low alcohol beer (26m cases) now comprise 20% of all beer sales.

2.3 Some key RTD market facts

Several relevant facts regarding the RTD market include:

- there is no tax incentive to produce mid-strength and low alcohol RTDs and these only represent 1% of the RTD market (compared with mid-strength and low alcohol beer, which represent 20% of the total beer market) (see *Table 5.1 in Attachment 8*);
- RTD growth has been two thirds at the expense of full strength beer and one third at the expense of full strength bottled spirits (see *Graph 1 in Attachment 9*). This graph compares the growth in RTDs, on a Lals per capita basis, with the fall in beer and spirits on a similar basis. The negative falls in beer and spirits are placed beside the positive increases in RTD so that the offsetting effect of these changes can be more clearly depicted. The net result is no change in alcohol consumption on a per capita basis. As overall domestic wine consumption per capita has been static, this has not been shown in the graph. Consequently, it can be seen there is no evidence that RTD growth has resulted in growth of the overall alcohol market;
- On a per capita basis, full strength beer sales have been falling (about -4.0%); premium beer sales have been increasing (about +25%); RTD sales have been growing (about 34% in FY02); and total wine sales have been static (see *Table 6.2 in Attachment 8*);
- About two thirds of RTDs are dark spirits (ie bourbon, dark rum and scotch). These products are preferred by males over 25 years of age (see *Table 9.1 in Attachment 8*);
- Bourbon-based RTDs are the largest single RTD category;
- Bourbon-based RTDs have grown 28% (1m Lals in FY02) and the full strength bottled bourbon market has fallen -9.5% (443,000 Lals in FY02) (see *Tables 9.2 and 10 in Attachment 8*). This is clear evidence that almost half of the growth in bourbon RTDs (in Lals) has come at the expense of the full strength bottled product. This is a positive development from a health perspective, as sales of bourbon as RTDs ensures that consumers are getting a measured amount of alcohol (ie about the same alcohol content as a premium or full strength beer);
- Dark rum-based RTDs have grown 38% (487,000 Lals in FY02) and the full strength bottled dark rum market has fallen -6.4% (135,000 Lals) in the same period. This is clear evidence that about one third of the growth in dark rum-based RTDs (in Lals) has come at the expense of the full strength bottled product;
- Only one third of RTDs are light spirits (ie vodka, white rum). Much of the growth in this segment has been at the expense of full strength bottled spirits and possibly at the expense of cask wine and cheaper bottled wines. A significant proportion of this growth has also come from fermented alcohol based designer drinks (eg Stoli lemon ruski and Sub Zero), which have now switched the alcohol source to vodka as a result of the removal on 1 July 2000 of the tax incentive to use fermented alcohol (see *Tables 9.1 and 9.2 in Attachment 8*).

3 The need for alcohol tax reform

DSICA believes that Australia's alcohol tax system is outdated and desperately in need of comprehensive reform. Some of the anomalies with the current system are set out below.

3.1 Standard drinks

In Australia, a standard drink is 12.5mls of pure alcohol by quantity, or 10 grams of alcohol by weight. The standard drink is now a widely accepted concept. Standard drink labelling is a legal requirement for all alcohol products.

The National Health and Medical Research Council (NH&MRC) has produced the *National Alcohol Guidelines*, which contain recommendations of standard drink consumption levels. These Guidelines include a *Number of Standard Drinks Reference Chart*. The Chart provides a useful comparison of the number of standard drinks in a range of alcohol products (see copy at *Attachment 5*). For example:

- a can of full strength beer contains the same number of standard drinks (ie 1.5 standard drinks) as a can of pre-mixed spirits (ie a spirit based RTD);
- a can of mid-strength beer contains 1 standard drink (and a mid-strength RTD of the same alcohol content would also contain 1 standard drink);
- a can of low alcohol beer contains 0.8 standard drinks (and a can of low alcohol RTD of the same alcohol content would also contain 0.8 standard drinks);
- a 6 pack of full strength beer (9 standard drinks) retails for a similar price as a 4 pack of RTDs (6 standard drinks);
- a bottle of full strength spirits (which retails for approximately \$30) contains the same number of standard drinks (24) as 16 cans of pre-mixed spirit based RTDs (which retail for between \$40 and \$50);
- a cask of wine (which retails for between \$10 and \$15) contains between 36 to 38 standard drinks (depending upon alcohol content).

3.2 Non-GST tax per standard drink

DSICA has undertaken an analysis of the amount of non-GST taxation levied on one standard drink of various alcohol products. This analysis (see *Graphs 1 and 2 in Attachment 7*) shows that:

- with the exception of low alcohol draught beer, cask wine pays the lowest amount of tax – only 6 cents per standard drink;
- port (at 18% abv) pays less tax (11 cents) than full strength packaged beer (32 cents);
- bottled wine which retails over \$30 pays a similar amount of tax (69 cents) as spirits (71 cents).

Excise duty rates are payable per litre of pure alcohol. It is worth noting that a litre of alcohol = 80 standard drinks (ie at 12.5mls for each standard drink).

The following *League Table of Non-GST Tax Per Standard Drink* summarises these findings. For comparison purposes, DSICA's proposal for a revenue neutral volumetric wine excise is also included (but not numbered) in the *League Table*.

Table 1: *League table of non-GST tax per standard drink*
(prices where shown are retail prices for a container)

No.	Alcohol product	Non-GST tax per standard drink
1	Draught beer low alcohol	4 cents
2	Cask Wine (4 litre, \$12.99)	6 cents
3	Port (\$10.95)	11 cents
4	Draught beer mid-strength	15 cents
5	Cask Wine (2 litre, \$10.95)	13 cents
6	Bottled wine (Popular, \$6.99)	15 cents
	<i>DSICA proposed wine excise rate</i>	<i>17 cents</i>
7	Packaged beer low strength	21 cents
8	Bottled Wine (Semi Premium, \$10.99)	22 cents
9	Draught beer full strength	23 cents
10	Bottled Wine (Premium \$14.99)	28 cents
11	Packaged beer mid-strength	28 cents
12	Packaged beer full strength	32 cents
13	RTDs (4 pack, \$10)	42 cents
14	Brandy	67 cents
15	Bottled Wine (Super Premium \$32.10)	69 cents
16	Spirits	71 cents

3.3 Effective taxation rates for alcohol

Care needs to be taken when referring to any dollar rate of beer excise taxation during the discussion on the Bill. This is because the dollar rates for beer taxation set out in the Schedule to the *Excise Tariff Act 1921* are not applied to all of the alcohol in the beer product. These rates are only applied to the alcohol remaining after the deduction of the 1.15% abv excise-free threshold. No other alcohol product currently enjoys an excise-free threshold similar to beer.

In order to ensure a fair comparison of taxation rates applying to the varying alcohol categories, the *Handy Guide* (and this submission) insert an asterisk [*] to show when a dollar rate is a nominal rate (ie NOT a true actual or effective taxation rate). For example:

- **\$33.75*** per Lal for full strength packaged beer: the asterisk indicates that there is an excise-free threshold that applies. That is, the dollar rate will only be applied to the amount of the alcohol remaining after the deduction of the excise-free threshold. This is NOT an actual or effective dollar rate of alcohol taxation;
- **\$33.75** per Lal for packaged RTDs: the lack of an asterisk indicates that this is the dollar rate which is applied to all of the alcohol in the product. This is an actual or an effective rate of taxation.

DSICA has undertaken a detailed analysis of the effective non-GST taxation rates (per litre of alcohol) that are currently applied to the various alcohol products. This analysis (see *Graphs 3* and *4* in *Attachment 7*) shows that, with rounding down of effective dollar rates to whole dollars:

- with the exception of low alcohol draught beer (\$3 per Lal), cask wine pays the lowest effective rate of tax at only \$5 per Lal;
- port (\$8 per Lal), which is 18% abv pays less per Lal than full strength packaged beer (\$25 per Lal) or RTDs (\$33 per Lal);

- low alcohol packaged RTDs (\$33 per Lal) are taxed at 200% the effective rate applied to low alcohol packaged beer (\$16 per Lal);
- mid-strength packaged RTDs (\$33 per Lal) are taxed at 150% the effective rate applied to mid-strength packaged beer (\$22 per Lal);
- full strength RTDs (\$33 per Lal) are taxed at 130% the effective rate applied to full strength packaged beer (\$25 per Lal).

The following table summarises these findings:

Table 2: League table of effective taxation rates per litre of pure alcohol (rounded down to nearest dollar⁸)

No.	Alcohol product	Effective tax rate per litre of alcohol (Lal)
1	Draught beer low alcohol	\$3
2	Cask Wine (4 litre, \$12.99)	\$5
3	Port (\$10.95)	\$8
4	Cask Wine (2 litre, \$10.95)	\$10
5	Draught beer mid-strength	\$12
6	Bottled wine (Popular, \$6.99)	\$12
	<i>DSICA proposed wine excise rate</i>	<i>\$13.80</i>
7	Packaged beer low alcohol	\$16
8	Bottled Wine (Semi Premium, \$10.99)	\$17
9	Draught beer full strength	\$18
10	Bottled Wine (Premium \$14.99)	\$22
11	Packaged beer mid-strength	\$22
12	Packaged beer full strength	\$25
13	RTDs (4 pack, \$10)	\$33
14	Brandy	\$53
15	Bottled Wine (Super Premium \$32.10)	\$55
16	Spirits	\$57

3.4 “Equal measures for equal measures”

DSICA believes that the fundamental underlying principle that should be applied in the development of all alcohol taxation regimes is that alcohol products of identical alcohol content should be taxed at identical rates. That is, “Equal measures for equal measures”.

Flat rate of duty: The simplest possible approach to taxing alcohol would be to apply a flat rate (per Lal) to all alcohol products. In a perfect world, DSICA could propose such an approach. It would reflect the scientific fact, demonstrated by the standard drink concept, that “Alcohol is alcohol”, regardless of its source.

Question: If all of the litres of alcohol consumed in Australia in a year (150m Lals in FY02) were subject to a flat rate of excise duty of \$25 per Lal (the effective taxation rate currently applying to full strength packaged beer, rounded down) how much revenue would the Commonwealth Government collect?

⁸ See Tables 5 and 6 in Attachment 7 for the detailed rates.

Answer: \$3.7 billion. That is, approximately the same amount of non-GST revenue that it currently collects from the complex and anomalous range of varying excise duty rates and the WET. (See DSICA's estimate of \$3.8 billion of non-GST revenue from alcohol taxation in FY03 set out below).

Table 3: *Estimated Commonwealth non-GST alcohol taxation revenue (FY03)*

	Customs Duty	Excise Duty	WET	TOTAL	%
Low alcohol Beer	-	\$166m	-	\$166m	4%
Mid-Strength Beer ⁹	-	\$68m	-	\$68m	2%
Full-Strength Beer	\$36m	\$1,513m	-	\$1,550m	40%
Sub-total Beer	\$36m	\$1,747m	-	\$1,784m	46%
Spirits	\$884m	\$168m	-	\$1,052m	28%
RTDs	-	\$303m	-	\$303m	8%
Wine	-	-	\$670m	\$670m	18%
Grand Total	\$920m	\$2,220m	\$670m	\$3,800m	100.0%

(Subtotals are rounded down. Columns may not add because of rounding)

Clearly a flat rate of duty approach is not practicable. It would result in a doubling in the tax take from the wine industry, and a significant reduction in the tax take from spirits.

DSICA does believe that a switch to a revenue neutral volumetric wine excise would be a desirable start in removing some of the anomalies and complexities from the current system. DSICA is aware that Senator Andrew Murray has proposed that individual winemaker entities be able to elect at their discretion to be subject to a volumetric wine excise and to opt out of the *ad valorem* WET (see further discussion in section 6.6 below).

3.5 Current anomalies

DSCIA has consistently called for the removal of a number of outdated anomalies in the current alcohol tax system. DSICA's highest priorities include:

- complete taxation equivalence for RTDs and beer (this is discussed in detail in section 5 of this submission);
- introduction of a revenue neutral volumetric excise for wine and wine products (see section 6 of this submission).

Other anomalies which DSICA has consistently sought to have removed include:

- Removal of the concessional excise rate for brandy (37% abv to 40% abv), and taxation of brandy at the same rate as spirits [Estimated additional revenue; +\$4m to +\$5m];
- Removal of the 5% ad valorem protective tariff for imported spirits and imported RTDs [Estimated revenue cost: -\$18m];
- Removal of the concessional WET tax treatment for cider, and taxation of cider at the appropriate beer/RTD rate [Estimated additional revenue: +\$19m]; and

⁹ These forecasts were prepared on the basis that two thirds of mid-strength packaged beer is technically full strength (because the alcohol content had been moved to 3.6% abv). Now that mid-strength packaged beers are coming back to 3.5% abv, the forecasts will have to be revised.

- Removal of the concessional WET treatment for wine-based imitation liqueurs.

3.6 Need for an alcohol tax inquiry

DSICA supports Senator Murray's motion for the Senate Economics References Committee to undertake a comprehensive alcohol taxation inquiry. In the absence of such an inquiry (conducted either by the Government or by the Senate), Australia will continue to have the Old Alcohol Tax System that has existed for decades, with the few (however worthy) modifications that were made on 1 July 2000.

Recommendation

That a comprehensive inquiry into Australia's alcohol taxation system be undertaken to ensure that the appropriate level of Commonwealth taxation is being applied to each of the major categories of alcohol and to remove existing anomalies.

4. Taxation of beer under the *Excise Tariff Amendment Bill (No. 1) 2002*

4.1 Background to beer taxation in Australia under tax reform

The operation of Australia's non-GST alcohol taxation system is complex and not well understood by many. DSICA wishes the debate on the alcohol taxation measures contained in the Bill to be as well informed as possible. To assist in the process, DSICA has produced a *Handy Guide to Alcohol Excise Duty Rates* (see copy at *Attachment 4*). The *Handy Guide* contains a summary of actual alcohol excise duty rates from 30 June 2000 to 1 August 2002.

The *Handy Guide* demonstrates that beer taxation rates have changed 4 times since the conception of the New Tax System in August 1998, as follows:

- 1 August 1998 (Pre-ANTS) - 1 dollar rate (with a 1.15% abv exemption threshold);
- August 1998 (**ANTS Version 1**¹⁰) - 1 dollar rate (with a 1.4% abv exemption threshold);
- 1 July 2000 (**ANTS Version 2**) - 3 dollar rates (with a 1.15% abv exemption threshold);
- 4 April 2001 (**ANTS Version 3**) - 6 dollar rates (with a 1.15% abv exemption threshold);
- 1 July 2002 (**ANTS Version 4**) - 5 dollar rates (with a 1.15% abv exemption threshold).

These multiple changes demonstrate the degree of difficulty which policy makers have experienced in adjusting the taxation policy settings for beer. A detailed summary of the reasons for each of these changes is set out in *Attachment 2*.

Attachment 2 also contains a detailed explanation of the mid-strength packaged beer anomaly (also referred to as the "sawtooth problem"). This is an anomaly, which has existed since 1 July 2000, under which (in certain States) a 3.6% abv full strength packaged beer paid less duty (net of State subsidies) than a 3.5% abv mid-strength packaged beer. There was also a low alcohol packaged beer anomaly which operated in a similar way (see *Attachment 2*). That is, the **ANTS Version 2** beer rates (implemented on 1 July 2000) unintentionally provided a taxation incentive for the production of higher alcohol content beers in certain alcohol content ranges.

4.2 Changes made by the Bill

The Bill makes 3 broad changes to the excise duty treatment of beer, following upon the agreement under which the States¹¹ have agreed to remove their low alcohol beer subsidies. Those changes are:

- **Change 1: Low alcohol packaged beer:** the Commonwealth has reduced the dollar rate for low alcohol packaged beer to compensate for the removal of the subsidies (the dollar rate has been reduced from \$45.46* per Lal to \$28.49* per Lal with effect from 1 July 2002, which is now \$28.95* per Lal after the 1 August 2002 indexation increase);
- **Change 2: Low alcohol draught beer:** the Commonwealth has reduced the dollar rate for low alcohol draught beer to compensate for the removal of the subsidies (the dollar rate has been reduced from \$16.46* per Lal to \$5.69* per Lal with effect from 1 July 2002, which is now \$5.78* per Lal after the 1 August 2002 indexation increase); and
- **Change 3: Mid-strength beer anomaly:** the Commonwealth has taken the opportunity to fix the mid-strength beer anomaly by removing the differential between full strength and mid-

¹⁰ This rate was proposed in ANTS in August 1998, but never implemented.

¹¹ References to the States include references to the Territories.

strength beer. It has done this by reducing the dollar rate for mid-strength packaged beer (the dollar rate has been reduced from \$38.59* per Lal to \$33.22* per Lal with effect from 1 July 2002, which is now \$33.75* per Lal after the 1 August 2002 indexation increase).

DSICA supports the main thrust of the Bill, which is the reduction in Commonwealth excise duty rates for low alcohol packaged and draught beer to offset the simultaneous removal of the State subsidies for those products. This is a long overdue reform. The Government is to be congratulated for its persistence in seeking to find a solution to a complex issue of Commonwealth-State relations. This solution results in the removal of the administrative burdens involved in retailers having to pay purchase prices that include higher Commonwealth excise than was necessary, and then having to claim State subsidies for the same products.

Removal of low alcohol packaged beer anomaly: A second benefit of the reduction in the dollar rate for low alcohol packaged beer is that it has removed the low alcohol packaged beer anomaly that existed under **ANTS Version 2**. That is, the new reduced dollar rate for low alcohol packaged beer (\$28.95* per Lal from 1 August 2002) is now lower than the new reduced dollar rate for mid-strength packaged beer (\$33.75* per Lal from 1 August). That is, there is no longer any taxation incentive to increase the alcohol content of 3.0% abv low alcohol beer in order to obtain a reduction in net excise duty liability (ie net of State subsidies).

4.3 The mid-strength packaged beer problem in the Bill (needing ANTS Version 5)

DSICA does not support the method which the Government has chosen to solve the mid-strength packaged beer anomaly. The Government's solution effectively results in mid-strength packaged beer being taxed at exactly the same rate as full strength packaged beer (ie \$33.22* per Lal from 1 July 2002, and \$33.75* per Lal with effect from 1 August 2002, with the indexation effect).

Setting the dollar rate for mid-strength packaged beer at exactly the same dollar rate as full strength packaged beer removes the sawtooth problem that existed under **ANTS Version 2**. A key reason for the sawtooth problem was that the dollar rate for mid-strength packaged beer was higher than the dollar rate for full strength packaged beer under **ANTS Version 2**.

However, in choosing this approach, DSICA believes that the Government has missed an opportunity to provide a significant incentive for the production of mid-strength packaged beer.

This is not consistent with the Government's own *National Alcohol Strategy*¹², which provides that Australia's alcohol taxation system should provide "incentives to choose lower strength alcohol products". The Strategy observes that:

"Pricing and taxation regimes that create incentives for consumption of lower alcohol beverages in preference to comparable high strength alcohol beverages can contribute to the reduction of alcohol related harm." (See *Attachment 6*).

DSICA believes that the Bill should be amended so that mid-strength packaged beer is taxed at a lower dollar rate compared with full strength packaged beer. The objective of this lower rate would be to encourage the consumption of mid-strength beer rather than full strength beer.

DSICA has identified a number of options for introducing an authentic incentive to produce mid-strength beer with effect from 1 January 2003 (ie half of the FY02 financial year), as follows:

- *Option 1:* Removal of the 1.15% abv excise free threshold for full strength packaged beer;
- *Option 2:* Reduction in the 1.15% abv excise free threshold for full strength packaged beer to 1.0% abv

¹² National Alcohol Strategy, A Plan for Action, 2001 to 2003-04 (AGPS). The Strategy was endorsed by the Ministerial Council on Drug Strategy in July 2001.

- *Option 3:* Small increase in the dollar rate payable on full strength packaged beer; or
- *Option 4:* Small reduction in the dollar rate payable on mid-strength packaged beer.

The possible features and implications of each of these options are discussed below.

Option 1: Removal of the 1.15% abv excise-free threshold for full strength packaged beer

Under Option 1, the removal of the 1.15% abv excise-free threshold for full strength packaged beer would result in:

- *Additional revenue:* an increase in revenue collections on full strength packaged beer. The estimated revenue collection would be \$174m in the second half of FY03 (\$348m in a full year), ie 23% of total revenue collection on full strength beer for FY03;
- *Price increase:* an increase in the retail price of a carton of full strength beer [estimated price increase is \$3.78 or 13%];
- *RTD equivalence:* this would more than offset the cost of complete taxation equivalence for RTDs (estimated revenue cost is \$42m in the second half of FY03 and \$100m in FY04).

Option 2: Reduction of the 1.15% abv excise-free threshold for full strength packaged beer to 1.0% abv

Under Option 2, the reduction of the 1.15% abv excise-free threshold for full strength packaged beer to 1.0% abv would result in:

- *Simplification:* This would be a major simplification of the excise free threshold. With the introduction of the tiering of beer rates, the choice of the specific number 1.15% abv as an excise free threshold at higher levels of alcohol content is no longer relevant under the New Tax System. A change of the threshold to 1.0% abv would provide greater clarity in the operation of the excise free threshold.
- *Additional revenue:* a reduction in the excise free threshold of .15% abv would result in an increase in revenue collections on full strength packaged beer. The estimated revenue collection would be \$22m in the second half of FY03 (\$45m in a full year), ie 3% of total revenue collection on full strength beer for FY03; and
- *Price increase:* a small increase in the retail price of a carton of full strength beer would result;
- *RTD equivalence:* this would offset 50% of the cost of complete taxation equivalence for full strength packaged RTDs (estimated revenue cost of \$42m in the second half of FY03 and \$85m in FY04).

Option 3: Small increase in the dollar rate payable on full strength packaged beer

Under Option 3, a small increase in the dollar rate payable on full strength packaged beer of \$1.40* per Lal could apply as follows:

- *Small tax increase:* this would approximate a 4% increase in the dollar rate applicable to full strength packaged beer;
- *Taxation incentive for mid-strength packaged beer:* this would create a meaningful taxation incentive to produce mid-strength beer;

- *RTD Equivalence*: this would offset 100% of the cost of complete taxation equivalence for full strength packaged RTDs (estimated revenue cost of \$42m in the second half of FY03 and \$100m in FY04).

Option 4: Small increase in the dollar rate payable on full strength packaged beer

Under Option 4, a small reduction in the dollar rate payable on mid-strength packaged beer could apply as follows:

- *Revenue cost*: a reduction in the dollar rate applying to mid-strength beer would result in an additional cost to revenue, depending upon the size of the reduction. For example, a reduction to the dollar rate by \$1.00* per Lal is estimated to cost \$4m in the second half of FY03 (\$9m in a full year).

Recommendation

DSICA supports a small increase in the dollar rate payable on full strength packaged beer of \$1.40* per Lal (Option 3) to offset the revenue cost of complete taxation equivalence for RTDs and to provide an authentic incentive to produce mid-strength packaged beer.

5. Taxation of ready to drink (RTD) beverages

5.1 Background

A key and commendable feature of the NTS was the Government's decision that all alcoholic beverages below 10% abv (other than products covered by the WET) would be subject to tax at a similar 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.”¹³

The products covered by this category at the time included:

- 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 (eg Stoli Lemon Ruski)¹⁴, utilising a combination of 1% abv distilled alcohol (vodka) and 4% abv fermented alcohol.

Within the *Excise Tariff Act 1921*, these products are defined as “other excisable beverages”. In this submission, these products are referred to as RTDs.

RTDs which are imported are generally subject to customs duty at the same volumetric rate as the excise duty rate, as well as an additional 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 RTD products. All RTD products (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 RTD beverages 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% abv excise free threshold that applies to beer.

Furthermore, when the new concessional duty rates for draught beer were introduced (with effect from 4 April 2001, ie **ANTS Version 3**), no similar provision was introduced for draught RTDs. This effectively means that draught RTDs pay a much higher duty rate than draught beer products of identical alcohol content.

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

5.2 The need for complete taxation equivalence with beer

DSICA believes that all alcohol beverages below 10% alcohol content (including cider) should be subject to exactly the same tiered excise regime as beer (ie “complete taxation equivalence”).

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 lower alcohol RTDs, such as the 3.5% abv premixed spirit products (eg *Bundaberg Gold*, which is a combination of Bundaberg rum and cola).

¹³ *Tax Reform: not a new tax, a new tax system. AGPS, 1998 at page 87.*

¹⁴ Note that Stoli Lemon Ruski has been produced using distilled alcohol exclusively since late 2000.

DSICA believes that there should be complete taxation equivalence between RTDs (whether packaged or draught) 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* (see *Attachment 6*).

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 effect from 1 January 2003 is \$40m in the second 6 months of FY03 and \$100m in FY04. As outlined above, this cost could be offset by a small increase in the dollar rate applying to full strength packaged beer (an increase of approximately \$1.40* per Lal). Alternatively, it could be offset by a reduction in the excise-free threshold of full strength packaged beer to 1.0% abv together with a move to tax cider at the beer/RTD rates.

5.3 Why RTD growth does not lead to increased alcohol consumption

Question: If RTD sales increased on a per capita basis at 50% in FY01 and at 35% in FY02, why is it that total per capita alcohol consumption did not increase in the same period?

Answer: The evidence is that two-thirds of RTD growth, on a per capita basis, has come from full strength beer, and one third of the growth has come from full strength bottled spirits.

People who purchase RTDs as substitutes for full strength beer or full strength bottled spirits are consuming less alcohol with a fixed level of expenditure.

With only \$10 expenditure they are consuming 30% less alcohol (see below).

With \$30 expenditure they are consuming 20% less alcohol (see below).

RTD costs of production will always be higher than for beer, because of the higher costs of the ingredients, and the lack of the same economies of scale that beer sales volumes permit. Complete taxation equivalence for RTDs with beer will not result in RTDs being sold at the same price as beer. There will always be a price differential in favour of beer (see *Slide 3 in Attachment 10* for the small price changes that will result under tax equivalence).

Spending \$10: RTD purchases instead of beer can result in a 30% reduction in alcohol consumed.

Every takeaway 4 pack of RTDs (retail \$10) which is purchased instead of a 6 pack of full strength beer¹⁵ (retail \$10) results in 30% less alcohol being consumed.

This is because the 4 pack of RTDs contains **6 standard drinks**, and the 6 pack of full strength beer contains **9 standard drinks**.

Spending \$30: RTD purchases instead of full strength spirits can result in a 20% reduction in alcohol consumed.

¹⁵ Assuming (a) the RTD is 5.0% abv, and effectively the same alcohol content as the beer (4.9% abv), and (b) the containers are all 375ml.

Every retail purchase of 12 cans of RTDs (retail \$15 x 2 six packs = \$30) instead of a bottle of full strength spirits (\$28 and a \$2 mixer, eg 2 litres of cola) results in a 20% reduction in alcohol consumed by the purchaser. The RTD purchase also ensures that the purchaser will be consuming their alcohol in a measured amount (ie they will have to drink 4.5 litres of liquid).

This is because the 12 cans of RTDs contain **18 standard drinks**, and the bottle of full strength spirits contains **22 standard drinks**.

Recommendations:

That packaged RTD products below 10% abv be subject to excise duty at exactly the same three tiered rates as packaged beer with effect from 1 January 2003. [Estimated revenue cost: \$42m in the second 6 months of FY03 and \$100m in FY04. However, this change could be made revenue neutral by a small increase of \$1.40* per Lal in the proposed full strength packaged beer rate 16.]

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

¹⁶ Calculations related to the cost of revenue for the Government resulting from the alignment of RTDs with packaged beer are located in *Attachment 11*.

6. Taxation of wine and cider

6.1 Current taxation of wine

Wine, wine products (ie products consisting of at least 70% wine) and cider 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 *Attachment 7*. This comparison highlights the fact that cask wine enjoys the greatest taxation concession, and pays only 6 cents non-GST tax per standard drink.

This represents an effective taxation rate of \$5 per Lal (all effective tax rates are rounded down). This can be compared with an effective taxation rate of \$25 per Lal for packaged full strength beer (5 times higher), and \$57 per Lal for spirits (10 times higher).

6.2 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”.¹⁷

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 wine¹⁸. 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 Communities¹⁹. These groups include:

- the Alcohol and Other Drugs Council of Australia;²⁰
- the National Drug and Alcohol Research Centre;²¹
- the National Drug Research Institute;²²
- the Australian Medical Association;²³ and
- the Public Health Association of Australia.²⁴

DSICA believes that there is an urgent need to review the wine taxation arrangements that will apply 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.

¹⁷ 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).

¹⁸ See Submission No. 158 to the Substance Abuse Inquiry at page 2417.

¹⁹ This inquiry was commenced by the House of Representatives Standing Committee on Family and Community Affairs under the previous Parliament.

²⁰ See Submission No. 61 at page 598.

²¹ See Submission No. 72 at page 835.

²² See Submission No. 110 at page 1381, and Submission No. 123 at page 1506.

²³ See Submission No. 121 at page 1463.

²⁴ See Submission No. 159 at page 2432.

6.3 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 (ie 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.

6.4 DSICA's proposal for a revenue neutral volumetric wine tax (as an excise duty)

DSICA has estimated that a likely revenue neutral volumetric wine tax (VWT) rate to replace the WET on wine would be \$13.80 per Lal. A copy of the detailed modelling of this rate is available on request.

DSICA has estimated the hypothetical VWT rate as the rate necessary to ensure a budget neutral change from the ad valorem WET to a volumetric excise.

DSICA proposes a three tier structure for a new revenue neutral volumetric wine excise as follows:

- *Fortified wine rate:* for all wine products and spirits products/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 (other than cider): a rate of \$13.80 per Lal; and
- *Low alcohol wine rate:* for all WET products up to 6.5% abv (other than cider): a lower rate to encourage the production of low alcohol wine (eg \$5.00 per Lal).

All products currently covered by the WET would become subject to excise duty. See the comments below regarding the excise duty treatment of cider.

6.5 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;
- difficulties dealing with Customs; and
- the Government can change excise duty rates without going to Parliament.

Each of these issues is dealt with below.

(a) Measuring the alcohol content of wine

The *Excise Amendment Bill (No. 1) 2002*, currently in the Parliament, will overcome 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% abv²⁵. 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).

(b) Alleged difficulties in Customs administration

It is continually alleged that there will be insurmountable difficulties in dealing with Customs and the related bonded warehouse requirements inherent in the administration of excise duty. This argument is continually raised when the issue of a volumetric wine tax is discussed. For example:

“Winemakers who had been operating in 1970 and 1971 when an excise was imposed on wine told the [ALP Wine Tax] Committee about the inconvenience, complexity and costs of volumetric taxation. Wineries had been required to construct bond stores, and to await the arrival of a Customs officer to take measurements, sometimes in the middle of the night, when they needed to fortify wine.”²⁶

These 30 year old memories are no longer relevant in 2002.

Excise duty is now administered by the ATO (which also administers the WET). 30 years ago, there were Customs officers (known colloquially as “lockers”) who either had the keys to the bonded store, or who had to supervise the movement of spirits out of the store. The lockers disappeared from Customs decades ago.

The transfer of the administration of the excise duty regime from Customs to the ATO was announced after the 1998 election, and has now been implemented. The ATO administers the excise duty system for beer and spirits on a self-assessment basis, as for other taxes.

No ATO officer would be required to attend at premises licensed for excise duty purposes in order to supervise the movement of excisable products such as fortifying spirit or wine subject to a volumetric excise duty.

Many wineries are actually licensed or approved excise premises through the wine fortification process. As such, these wineries already have relevant approvals, permissions, and compliant record keeping procedures and systems.

²⁵ See *Foods Standards Code* 2.7.1, see Clause 2, the Table to subclause 2(2). *Food Standards Australia and New Zealand (FSANZ)*.

²⁶ See page 18 of the Report of the ALP Wine Tax Committee, 19 September 2001.

(c) *Alleged power of Government to change excise rates without approval of Parliament*

It is continually alleged that the Commonwealth Government can change excise duty rates without obtaining the approval of Parliament. This is incorrect.

The Commonwealth Government can change excise duty rates by means of an Excise Tariff Proposal. These Proposals are either published in the Government Gazette (if Parliament is not sitting at the time) or tabled in the Parliament. The Government then has 12 months (from the date of the Proposal) in which to obtain the approval of the Parliament (ie the House of Representatives *and* the Senate) for the change. If the Senate does not agree with the excise duty changes included in the Proposal, then the changes are invalid, and the duty collected under the Notice has been illegally collected.

The power of the Senate to reject Government changes made by a Tariff Proposal was demonstrated as recently as 4 April 2001. That was when the Senate refused to pass excise duty changes which had been made to the rate of draught beer by a Tariff Proposal in mid-2000. The Government was forced by the Senate to agree to different excise duty rates for draught beer with effect from 4 April 2001 (these changes are referred to as **ANTS Version 3** in the *Handy Guide*).

The Government was also then forced to agree that the amount of excise duty improperly collected by the Government on draught beer from 1 July 2000 to 3 April 2001 (over \$100m) was to be paid into a new body, the Alcohol Education and Rehabilitation Foundation (AERF). It was clear, during the Parliamentary debates on the Tariff Proposal in question, that the Government was faced with the choice of refunding the excise duty improperly collected to thousands of individual drinkers, or alternatively, paying an equivalent amount of money to a Foundation which the Senate wished to have established.

In summary, any Government which changes excise duty rates by Tariff Proposal must obtain the agreement of the Parliament (and therefore the agreement of the Senate) within 12 months of the date of the Proposal, if those changes are to be legally valid.

6.6 Low alcohol (reduced alcohol) wine

DSICA believes that a volumetric wine tax is the most effective means of encouraging the production of low alcohol wine in Australia.

DSICA has selected 6.5% abv and below as the low alcohol wine tier for excise purposes. This is because a number of States pay a low alcohol wine subsidy for wines at 6.5% abv or below (see *Attachment 13* for a summary of State low alcohol subsidy entitlements).

A change to a volumetric wine tax could be expected to result in increasing amounts of low alcohol wine in Australia. There is no reason why the success of the taxation incentives for low alcohol beer cannot be replicated for low alcohol wine.

There is no legislative impediment to producing wines below 6.5% abv. For the purposes of the WET system, "grape wine products" have to be at least 8% abv. Grape wine products have at least 70% grape wine by volume. However, for WET purposes this 8% abv minimum does not apply to 100% grape wine.

The *Food Standards Code* provides that there are identified alcohol content ranges which must be accompanied by various descriptions of the wine²⁷.

²⁷ See Food Standard 2.7.4 clause 3(1), which incorporates Standards P4 and P6 from the Australian Food Standards Code.

Wine and sparkling wine must be at least 8% abv.²⁸

Wines can be made with lower alcohol content than 8% abv, and if so, the following labelling rules apply:

- 0% abv to 0.5% abv = may be labelled as *dealcoholised wine, low alcohol wine* or *reduced alcohol wine*;
- >0.5% to 1.15% abv = may be labelled *low alcohol wine* or *reduced alcohol wine*;
- >1.15% abv to 6.5% abv = may be labelled as *reduced alcohol wine*.

6.7 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).

6.8 Taxation of cider

DSICA believes that cider products of less than 10% abv (currently covered by the WET) should be subject to excise duty at the relevant beer/RTD rates, depending upon alcohol content. That is:

²⁸ See Standard P4, clause 4(1) of the Australian Food Standards Code.

- low alcohol cider (3.0% abv or less) would pay excise at the low alcohol beer/RTD rate (depending upon whether the cider is packaged or draught);
- mid-strength cider (>3.0% abv to 3.5% abv) would pay excise at the mid-strength beer/RTD rate (depending upon whether the cider is packaged or draught); and
- full strength cider (>3.5% abv to 10% abv) would pay excise at the full strength beer/RTD rate (depending upon whether the cider is packaged or draught).

There is no policy justification for the current concessional WET treatment of cider, which competes, in ready-to-drink form, with beer and RTDs. The Government proposed to tax cider at the RTD rate in **ANTS Version 1**, and successfully took that proposal to the electorate in October 1998. However, the Government was later persuaded by industry self-interest to reverse the decision prior to the commencement of the New Tax System on 1 July 2000.

Some of the higher alcohol content products competing in the beer, RTD and cider market are ciders. These include several 7.5% abv cider products. These products are effectively enjoying the benefit of the concessional WET rate. If they were subject to excise duty at the beer/RTD rate, as DSICA proposes, then there would be less taxation incentive to produce such high alcohol products in ready to drink form.

The additional revenue from this measure is estimated to be +\$19m in a full year, and could be used to partially offset the revenue cost of RTD equivalence with beer.

Recommendations

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

- *Fortified wine rate:* for all WET and spirits products 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); and
- *Low alcohol wine rate:* for all WET products up to 6.5% abv: a lower rate to encourage the production of low alcohol wine (eg \$5.00 per Lal).
- *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.

Cider: That cider be taxed at the relevant excise duty rate applicable to beer/RTDs under DSICA's tax equivalence proposal for RTDs and beer.

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.

7. Conclusion

Low alcohol beer changes: DSICA supports the main thrust of the Bill, which is the reduction in Commonwealth excise duty rates for low alcohol packaged and low alcohol draught beer to offset the simultaneous removal of the State subsidies for those products. This is a long overdue reform. The Government is to be congratulated for its persistence in seeking to find a solution to a complex issue of Commonwealth-State relations.

Mid-strength beer problem: DSICA does not support the method which the Government has chosen to solve the mid-strength packaged beer anomaly. The Government's solution effectively results in mid-strength packaged beer being taxed at exactly the same rate as full strength packaged beer (ie \$33.22* per Lal from 1 July 2002, and \$33.75* per Lal with effect from 1 August 2002, with the indexation effect).

RTDs: DSICA believes that the Bill should be amended to provide complete taxation equivalence between RTDs and beer, with the revenue cost being offset by a small increase in the dollar rate for full strength packaged beer.

Wine tax: DSICA recommends that the Bill be amended to introduce a revenue neutral volumetric wine excise, or at least to allow winemakers the flexibility to elect to be subject to a volumetric wine excise on a voluntary basis.

Alcohol tax inquiry: DSICA supports Senator Murray's motion for the Senate Economics References Committee to undertake a comprehensive alcohol taxation inquiry. In the absence of such an inquiry (conducted either by the Government or by the Senate), Australia will continue to have the Old Alcohol Tax System that has existed for decades, with the few (however worthy) modifications that were made on 1 July 2000.

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