

Tax Reform
not a new tax
a new tax system

The Howard Government's Plan
for a New Tax System

Circulated by
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Treasurer of the Commonwealth of Australia
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Separate rebate arrangements will continue to provide relief from excise for certain private, off-road use of diesel, such as remote power generation (including generators not currently eligible). The Government will take the opportunity to improve the non-business coverage of the former scheme.

The taxation of alcoholic beverages

The existing taxation treatment of alcoholic beverages reflects factors that range from government health and industry assistance policies, to the impact of historical circumstances (such as the 1997 High Court decision that certain State business franchise fees were prohibited by the Commonwealth Constitution).

The Government has decided that, from 1 July 2000:

- ◆ Wine, and beverages consisting primarily of wine, will become subject to a Wine Equalisation Tax to replace the difference between the current 41 per cent wholesale sales tax and the proposed GST. The Wine Equalisation Tax will be levied at such a rate that the price of a four-litre cask of wine need only increase by the estimated general price increase associated with indirect tax reform; ie 1.9 per cent. The concessional taxation treatment of the alcohol content of cask wine will therefore be preserved.
- ◆ The excise on beer, and other beverages with less than 10 per cent alcohol content, will be increased to make up for the removal of the present 37 per cent wholesale sale tax. An excise will be imposed on drinks such as alcoholic cider. However, the change in excise will be limited so that the retail price of a carton of full strength beer need only increase by the estimated general price increase associated with indirect tax reform.
- ◆ To continue support for the production of low alcohol beer, the Government will increase the excise-free threshold for beer, from the present level of 1.15 per cent, to 1.4 per cent. This will mean that the retail price of a carton of low alcohol beer should not increase and, in some cases, may fall slightly. This will increase the price differential between full strength and low alcohol beer.
- ◆ The excise on beverages other than wine, with more than 10 per cent alcohol content, such as spirits and liqueurs, will rise to offset the removal of the wholesale sales tax. The change in excise will be limited such that the retail price of whisky, which is currently heavily taxed, will not need to change. The brandy excise rate will increase but remain below the rate applying to other spirits.

The net effect of these changes will be that cask wine remains concessionally taxed, without allowing the taxation changes to further increase its price advantage compared with beer. However, the tax incentives to use wine based alcohol in mixer drinks will be substantially reduced.

Table 2.1:
Changes to alcoholic tax and prices

	Total tax		Price	
	Current	Proposed	Current	Proposed
Beer (carton)				
regular	\$11.92	\$12.85	\$26.93	\$27.43
low alcohol	\$5.45	\$5.84	\$22.00	\$21.96
Wine				
4 litre cask	\$2.65	\$3.05	\$10.94	\$11.15
medium priced bottle	\$3.07	\$3.75	\$14.89	\$15.35
expensively priced bottle	\$5.65	\$6.63	\$24.76	\$25.35
Other				
Whisky (700ml)	\$17.73	\$17.95	\$28.94	\$28.92
Brandy (700ml)	\$12.82	\$14.44	\$19.96	\$21.46

Note: The price changes incorporate both the direct and indirect impact of tax changes, including reductions in industry costs.

Improving tobacco excise arrangements

The Government will take the opportunity to improve the current arrangements for taxing tobacco. At present, tobacco excise is calculated under a complex formula involving a combination of a Commonwealth weight based charge, plus a hybrid State surcharge based on both the wholesale price of tobacco and the weight. These complex arrangements were introduced as a short term measure to shore up State revenue when their business franchise fees on tobacco products were held to be unconstitutional by the High Court.

Very few other countries in the world still collect tobacco excise based on weight, because such an arrangement encourages people to smoke more, lighter cigarettes. This creates greater health problems than smoking even the same amount of tobacco in fewer cigarettes.

The Government has therefore decided to adopt the form of tobacco excise recommended by health experts and favoured by most other countries, which is based on the number of cigarettes produced, not the overall weight of tobacco in them. This form of excise is known as a *per stick* excise and will apply from 1 July 1999. Cigars and other tobacco products will continue to be subject to excise according to their tobacco weight.

Health experts have also recommended that tobacco taxes should be increased by 15 per cent at the same time as moving to a per stick excise. The Government has decided not to do this, but has determined that the measure will be introduced in such a way that no cigarette brand will fall in price.

Revenue measures tables: indirect tax*

	1999-00 (\$bn)	2000-01 (\$bn)	2001-02 (\$bn)	2002-03 (\$bn)
GST				
GST revenue (a) (b)	0.00	27.20	31.96	32.81
WST				
WST abolition (b) (c)	-0.56	-15.32	-17.75	-18.75
Other indirect taxes abolished/reduced				
Reduced gambling taxes (b) (d)	0.00	-0.48	-0.56	-0.59
Abolition of FID/debits tax (b) (e)	0.00	-0.97	-2.39	-2.46
Abolition of business stamp duties (f)	0.00	0.00	-2.33	-2.41
Abolition of accommodation taxes (g)	0.00	-0.08	-0.06	-0.06
Abolition of business franchise fee replacement taxes (b)	0.00	-6.65	-7.04	-7.24
Total	0.00	-8.19	-12.38	-12.76
Changes to excise				
Petrol (b) (h)	0.00	0.44	0.48	0.50
Diesel (b) (i)	0.00	0.33	0.35	0.37
Alcohol (b) (h)	0.00	1.22	1.27	1.30
Tobacco (b) (h)	0.25	3.16	3.22	3.22
Total	0.25	5.16	5.32	5.40
Other indirect tax revenues				
Luxury car tax (b)	0.00	0.18	0.21	0.21
Wine Equalisation Tax (b)	0.00	0.60	0.70	0.72
Total revenue	-0.31	9.62	8.04	7.63
Outlays				
GST business startup package	-0.50	0.00	0.00	0.00
First Home Owners' Scheme	0.00	-0.81	-0.83	-0.85
State rebates for off road diesel (b) (j)	0.00	0.58	0.63	0.66
Replacement of Diesel Fuel Rebate Scheme (b)	0.00	1.59	1.70	1.79
Diesel credits administered through GST (b)	0.00	-3.58	-3.84	-4.05
Reduced costs to governments (k)	0.00	1.07	1.14	1.20
GST policy/administration costs	-0.35	-0.35	-0.30	-0.29
Total outlays	-0.85	-1.50	-1.51	-1.53
National fiscal impact	-1.16	8.12	6.54	6.10

* A positive revenue or outlays number implies a positive impact on the budget balance.

- (a) Includes GST revenue, the phased input credit on motor vehicles, credit for wholesale sales tax paid stock, and response effects associated with replacing the wholesale sales tax with a GST.
- (b) Estimates for 1999-00 and 2000-01 reflect transitional impacts arising from the lagged collection of tax paid in respect of those financial years.
- (c) Includes abolition of wholesale sales tax, collection of outstanding wholesale sales tax debt, the wholesale sales tax phase down in 1999-00 and response effects associated with replacing the wholesale sales tax with a GST.
- (d) The estimates reflect an assumption that the States will reduce tax on gambling by an amount equivalent to that raised by the GST.
- (e) Assuming abolition from 1 January 2001.
- (f) The estimate assumes these stamp duties are removed from 1 July 2001.
- (g) The estimate assumes these taxes are removed from 1 July 2000. The higher cost in 2000-01 reflects the Sydney Olympics.
- (h) Refer to reconciliation table below for more detail on this measure.
- (i) See also the impact on outlays of the removal of diesel fuel rebates. Refer to reconciliation tables below for more detail.
- (j) As a consequence of the extension of the Commonwealth scheme for diesel fuel credits, the States will no longer need to pay rebates for off road diesel use.
- (k) This reflects the removal of embedded wholesale sales tax and excises on purchases by Australian governments.