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Alcohol taxation in Australia

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Foreword

This report examines the structure of alcohol taxation in Australia.

The arrangements for taxing alcohol in Australia are complex and have evolved over many years. Alcohol is taxed on either a volume or a value basis, with a range of effective tax rates applying depending on the type of beverage and packaging, alcohol strength, place of manufacture and the method or scale of production.

Consistent with the PBO's mandate, the report presents a factual analysis and does not include policy recommendations. It is intended to help inform discussion of this important public policy issue.

I would like to thank the PBO staff involved in the preparation of this report. The report was prepared by Hanna Maslen and Andrew Watterson, with the benefit of comments from Colin Brown, Tim Pyne and Tony McDonald. The report was prepared for publication by Louise Milligan and Helen Moorhouse.

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Overview

Australia has a long history of imposing taxation on the consumption of alcohol.

From a revenue perspective, the relative importance of alcohol taxation has declined over time, although this long-run trend has been interrupted by several policy changes, most notably the abolition of the wholesale sales tax.

Nevertheless, Australian Government alcohol taxation receipts remain important, at around \$6.0 billion (0.4 per cent of GDP) in 2014–15.

The current structure of alcohol taxation is complex, involving two systems for taxing alcohol, one based on volumes (excise and excise-equivalent customs duty), which essentially taxes beer and spirits, and the other based on value (wine equalisation tax), which taxes wine.

The complexity has arisen from changes to the system that have been based on specific objectives at the time the changes were made, rather than having been designed from a set of consistent policy principles.

The different systems of alcohol taxation mean that it is difficult to compare the rate of alcohol taxation across products.

This report presents estimated effective rates of taxation for a range of alcoholic products. The effective rates vary significantly across product types. Estimates of the effective rates on excisable products in 2014–15 range from as low as \$1.71 per litre of alcohol for low-strength non-commercial beer to \$79.38 per litre of alcohol for spirits and ready-to-drink beverages. Estimates of the effective rates for wine range from \$2.99 per litre of alcohol for a \$15 four-litre cask through to \$45.52 per litre of alcohol for a \$40 bottle.

Based on these effective rates and consumption data, the PBO has mapped the structure of alcohol taxation and estimated a weighted-average effective excise rate of approximately \$36.50 per litre of alcohol across all alcoholic products (including wine). The weighted-average effective excise rate is very similar to the effective excise rate on full-strength packaged beer.

1 Introduction

Australia has a long history of imposing taxation on the consumption of alcohol.

This report provides a summary of alcohol taxation in Australia, along with a brief overview of how the system came about.¹

The report is intended to inform public policy debate on this issue, particularly in relation to issues raised in the Government's tax discussion paper (The Treasury 2015a).

Consistent with the PBO's mandate, the report is factual in nature and does not include policy recommendations or conclusions.

This report sets out the trends and components of alcohol taxation receipts, summarises the current structure of alcohol taxation in Australia and provides a brief overview of changes to the system in recent decades.

2 Alcohol taxation receipts

2.1 Trends in alcohol taxation

There has been a long-run trend decline in the relative importance of alcohol taxation receipts in Australia. This reflects a long-run shift in consumption away from alcoholic beverages and an increase in the share of alcohol consumption to items subject to relatively less taxation, such as wine (PBO 2014; Clark and Hollis 2013).

This long-run trend has been interrupted by several policy changes, most notably increases in alcohol excise rates and the introduction of the Wine Equalisation Tax (WET) on the abolition of the wholesale sales tax (PBO 2014).

2.2 Alcohol taxation receipts

While the relative importance of alcohol taxation has declined over time, total Australian Government alcohol taxation receipts remain important, at around \$6.0 billion (0.4 per cent of GDP) in 2014–15.

Excise and customs duty receipts on alcoholic beverages were \$5.2 billion in 2014–15, which represented 1.38 per cent of total Australian Government receipts. Beer contributed the most, with \$2.3 billion raised, spirits raised \$2.0 billion and 'other alcoholic beverages' (which primarily includes ready-to-drink beverages, or RTDs) raised \$0.9 billion.

1 Estimates of alcohol tax receipts used in this report are from the 2014–15 financial year, unless otherwise noted.

Net WET receipts were \$792 million in 2014–15.²

Table 2–1 below shows taxation receipts on alcohol in 2014–15 as a proportion of total receipts and GDP.

Table 2–1: Taxation receipts from alcohol in 2014–15

	Receipts (\$ billion)	Proportion of total receipts (%)	Proportion of GDP (%)
Beer	2.31	0.61	0.14
Spirits	2.00	0.53	0.12
Other alcoholic beverages	0.90	0.24	0.06
WET	0.79	0.21	0.05
Total alcohol	6.0	1.59	0.37

Source: PBO estimates based on Australian Government (2015) data.

3 Australia's system of alcohol taxation

The consumption of alcoholic beverages in Australia is currently taxed under two systems:³

- Excise (and excise-equivalent customs) duty
- Wine Equalisation Tax.

These systems are detailed below, followed by an analysis of the effective rates of alcohol taxation.

3.1 Current structure of the excise and excise-equivalent customs duty system

Excise duty is a form of volumetric taxation⁴ that is levied on the domestic production of alcohol. Imported alcohol products are subject to customs duty at a rate equivalent to the excise rate that would apply, had the products been produced domestically.

Alcohol excise (and excise-equivalent customs duty) is levied on most alcoholic beverages, excluding wine. It is levied on a per litre of alcohol (Lal) basis, at rates that vary according to the type of beverage, size of container and alcoholic strength.

2 WET as reported in the Budget actually represents the difference between gross WET and WET rebates and credits. PBO estimates that in 2014–15 gross WET was \$1,119 million and WET rebates and credits were \$327 million (based on data from ATO 2015a), giving Net WET receipts of \$792 million.

3 GST also applies to the final price of all alcoholic products sold.

4 Volumetric taxation is tax that is imposed at a fixed rate per unit of volume (for alcohol excise, this is dollars per litre of alcohol content).

3.1.1 Beer

Beer is taxed on a portion⁵ of its alcohol content and is split into the following categories:

- ‘Draught beer’ is beer that is packaged in an individual container exceeding 48 litres. It is often referred to as ‘keg beer’ and can be bought ‘on tap’ in pubs and clubs. Draught beer has three different excise rates that apply according to whether it is low-strength, mid-strength, or full-strength beer.⁶
- ‘Packaged beer’ is beer that is packaged in an individual container not exceeding 48 litres. Packaged beer can be bought in liquor stores often by the carton or six-pack. Packaged beer has two different excise rates that apply according to whether it is low-strength, or mid- to full-strength beer.
- ‘Non-commercial beer’ is beer that has been brewed using commercial facilities or equipment for non-commercial purposes. Non-commercial beer has two different excise rates that apply according to whether it is low-strength, or mid- to full-strength beer.

In addition, most breweries are eligible for the brewery refund scheme.⁷ The scheme allows eligible breweries to claim a refund of 60 per cent of the excise duty paid on beer, up to a maximum of \$30,000.

3.1.2 Spirits

Spirits are taxed on total alcohol content and are split into two categories:

- spirits, which are other excisable beverages exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine)
- brandy.

3.1.3 Ready-to-drink beverages

RTDs are taxed on total alcohol content at the same rate as spirits. RTDs are other excisable beverages not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

Some imported spirits and RTD products also have a value-based customs tariff applied, which is in addition to the excise-equivalent customs duty rate.

5 Beer is taxed on alcohol content in excess of 1.15 per cent by volume, which decreases the effective excise rate on beer. This means that, for example, a beer that has an alcohol content of 5 per cent effectively attracts excise based on an alcohol content of 3.85 per cent.

6 Low-strength beer has an alcohol content of less than 3 per cent, mid-strength beer has an alcohol content of between 3 and 3.5 per cent and full-strength beer has an alcohol content of greater than 3.5 per cent. These categories are the same for both draught and packaged beer.

7 To be eligible for an excise duty refund, your brewery must be independent of any other entity operating a brewery, and sell beer that is manufactured at the brewery, directly from the brewery.

3.1.4 Current excise rates

Table 3–1 below shows the statutory excise rates for beer and spirits as at 1 September 2015.⁸

Table 3–1: Statutory excise rates by beverage and alcohol content, as at 1 September 2015

Alcohol type	Excise rate (\$/Lal) ¹
Non-commercial beer, low-strength	2.86
Non-commercial beer, mid- to full-strength	3.31
Draught beer, low-strength	8.14
Draught beer, mid-strength	25.53
Draught beer, full-strength	33.43
Packaged beer, low-strength	40.75
Packaged beer, mid-strength	47.47
Packaged beer, full-strength	47.47
Brandy	75.10
Spirits	80.41
RTDs	80.41

Source: Schedule to the *Excise Tariff Act 1921* (ATO 2015b).

¹ The effective excise rates for all beer categories are lower than the statutory rates listed because the first 1.15 per cent of alcohol content is untaxed.

3.2 Current Wine Equalisation Tax system

WET is a form of *ad valorem* taxation (that is, it applies to the value rather than the volume of wine) that generally applies to the final wholesale price of both domestic and imported wine at a rate of 29 per cent. The definition of wine for the purposes of WET includes grape wine, grape wine products, fruit or vegetable wine, cider or perry, mead and sake.

Wine producers are eligible for a rebate of 29 per cent of the wholesale value of eligible sales, up to a maximum of \$500,000 per year, which effectively offsets up to \$500,000 of WET paid by each producer.

Since wine is taxed on its value, this means that wines with the same alcohol content may attract significantly different amounts of tax. The producer rebate means that many small wine producers pay no net WET.

⁸ Excise rates for alcohol are indexed in line with the Consumer Price Index generally in February and August each year.

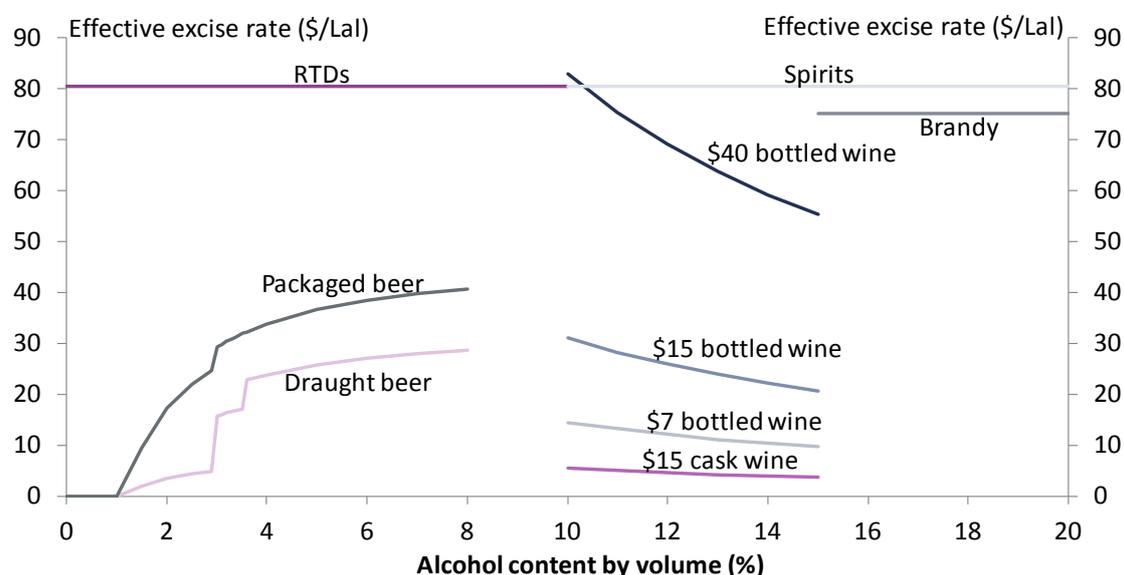
3.3 Comparison of effective rates of alcohol taxation

Tax rates and quantities of alcohol across different products are not easily compared due to the range of different systems and concessions that apply.

Australia’s Future Tax System review concluded that the “current system does not reflect the risks of consuming different products” (Henry et al 2009). This can be seen by comparing effective excise rates across products with different alcohol contents. As shown in Figure 3–1, the current system does not demonstrate a correlation between alcohol content and effective rates. Spirits, RTDs and expensive wine have the highest rates, but their alcohol content ranges from very low to very high.

Figure 3–1 below shows the current effective excise rates for all alcoholic products by alcohol content.

Figure 3–1: Current effective excise rates by beverage and alcohol content



Source: PBO estimates based on Henry et al (2009).

Another approach to comparing the tax treatment of alcohol across products is to calculate the average effective rate for each product.

Table 3–2 below provides the effective excise rates⁹, quantities and tax receipts that are included in Figure 3–2.

9 This calculation includes an effective excise rate for wine. The average effective excise rate in 2014-15 applying across all wine is approximately \$13.80. This average effective excise rate for wine is calculated by assuming that it is the same for all wine, regardless of value, and raises the same amount of revenue as the net WET raised in 2014–15 (that is, the effective rates have been reduced to take account of the WET producer rebate). All wine is assumed to have an alcohol content of 12.5 per cent for the purposes of this calculation.

Table 3–2: Effective excise rates, quantities and revenue by alcohol type in 2014–15

Alcohol type	Effective rate (\$/Lal) ^{1,2}	Quantity (ML) ²	Receipts (\$ million)
Non-commercial beer, low-strength ³	1.71
Non-commercial beer, mid- to full-strength	2.52	0.1	0.3
Draught beer, low-strength	4.85	0.4	1.9
Draught beer, mid-strength	16.93	2.0	33.9
Draught beer, full-strength	25.41	11.3	287.6
Packaged beer, low-strength	24.28	1.5	35.6
Packaged beer, mid-strength	31.47	9.3	291.9
Packaged beer, full-strength	36.08	46.0	1,658.8
Brandy	74.14	0.9	65.5
Spirits	79.38	24.3	1,930.5
RTDs	79.38	11.3	899.0
Wine, \$15 cask (4L) ⁴	2.99	12.7	37.8
Wine, \$7 bottle ⁴	7.97	12.1	96.2
Wine, \$15 bottle ⁴	17.07	29.3	500.8
Wine, \$40 bottle ⁴	45.52	3.5	157.1
Total alcohol⁵	36.50	164.5	5,997.0

Source: PBO estimates based on Australian Government (2015), ABS (2015), and ATO excise and Customs excise-equivalent data.

¹ The effective rates are averages across 2014–15, so they include the effect of indexation.

² Beer quantities include total quantities of alcohol, not just taxable quantities, based on ATO excise and Customs excise-equivalent data. The statutory excise rates for the eight beer categories have then been adjusted downwards to get an average rate across total alcohol volumes. The PBO has assumed beer has an alcohol content of 2.9, 3.5 and 5.0 per cent for low-strength, mid-strength and full-strength beer, respectively.

³ ‘..’ means not zero but rounded to zero.

⁴ Total wine consumption has been split according to four ‘price point’ categories, each of which is assumed to represent a typical price within a range of prices. The average effective excise rate for each category is calculated by assuming that the excise rates multiplied by the quantities raises the same amount of revenue as the net WET raised in 2014–15 (that is, the effective rates have been reduced to take account of the WET producer rebate). All wine is assumed to have an alcohol content of 12.5 per cent for the purposes of these calculations.

⁵ Totals may not add due to rounding.

Figure 3–2 below depicts the taxation treatment of alcohol in 2014–15, where the vertical axis represents the effective excise rate¹⁰ and the horizontal axis represents the quantity of alcohol for each beverage type¹¹ in megalitres (ML). The area of each bar in the chart represents the total tax revenue for each beverage.

Figure 3–2 shows that:

- the effective excise rates vary significantly across product types
- full-strength packaged beer, mid-priced wine and spirits are consumed most, accounting for around 60 per cent of all alcohol consumption
 - of these, full-strength packaged beer has the highest level of consumption and has an effective excise rate that is very similar to the ‘average effective excise rate’ which is defined below
- there is very low consumption of certain beverage types, for example, non-commercial beer and brandy, which are represented by very thin bars in the chart
- the most expensive wine category (assumed to be \$40 per bottle) has a relatively high effective excise rate compared to other wine, of around \$46 per litre of alcohol, due to this type of wine attracting a relatively larger amount of tax under the WET.

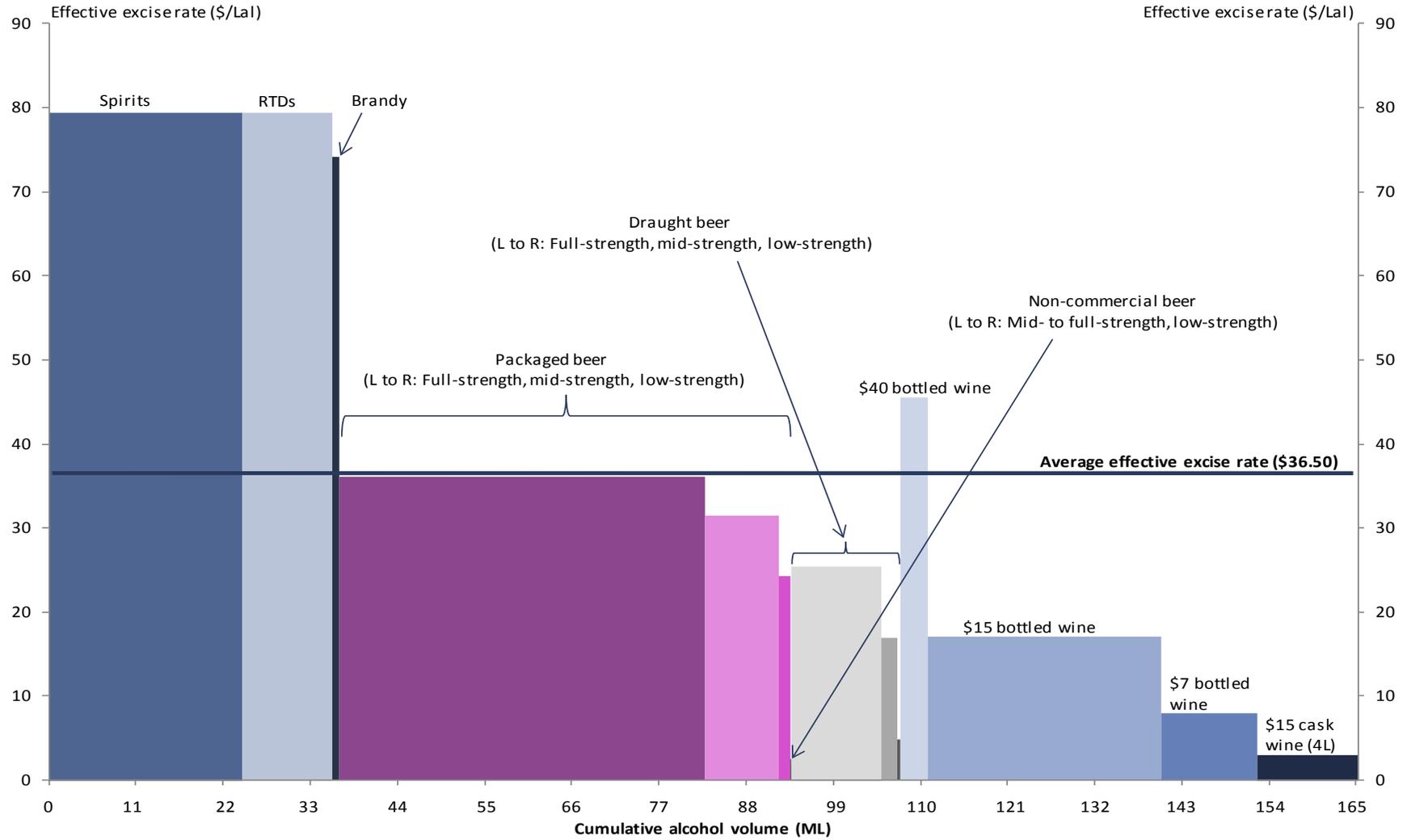
To provide a common point of comparison within the chart, a weighted-average effective excise rate (using quantities of alcohol as the weights) has been calculated across all product types (including wine). The PBO estimates that the average effective excise rate in 2014–15 would have been approximately \$36.50 per litre of alcohol.¹²

10 The equivalent excise rate for wine is calculated for certain types of wine, assumed to be \$7, \$15 and \$40 bottles, and \$15 cask wine.

11 The quantities for beer are total quantities, that is, they have been grossed up to include the 1.15 per cent of alcohol content that is currently untaxed.

12 This calculation assumes that beer is taxed on all alcohol content (that is, the 1.15 per cent of alcohol content that is currently untaxed has been included).

Figure 3–2: Effective excise rates by volume in 2014–15



Source: PBO estimates based on Australian Government (2015), ABS (2015), and ATO excise and Customs excise-equivalent data.

4 Recent history of alcohol taxation

Excise on alcohol was one of the first forms of taxation in Australia, having existed since Federation. Many 'ad hoc' discretionary changes to rates have been made since this time.

A significant change that was made to the entire excise system was the introduction of biannual indexation of all excise rates at the Consumer Price Index (CPI) in 1983. This was intended to ensure that growth in alcohol taxation kept pace with growth in inflation. Appendix A includes a table of discretionary rate changes after 1 January 2000.

4.1 Beer

Beer was originally taxed on a per litre of beverage basis regardless of alcohol content. In 1984, low-strength beer was given a discounted rate compared to full-strength beer.¹³

In 1988, a uniform excise rate for beer was reinstated, but it applied to the alcohol content above 1.15 per cent. The new excise rate was substantially lower to allow for a wholesale sales tax (WST) rate of 20 per cent that also applied to beer from this time.¹⁴

From 1 July 2000, the Goods and Services Tax (GST) was introduced and the WST was removed. At the same time, beer was split into low-strength, mid-strength and full-strength beverages and rates were increased to offset the removal of the WST, which was up until then levied at a rate of 37 per cent on beer.¹⁵

Beer was further split according to container size from 4 April 2001, with draught beer receiving discounted rates compared to packaged beer (Australian Government 2001).

Rates for low-strength draught beer, low-strength packaged beer and mid-strength packaged beer were reduced from 1 July 2002 as part of the implementation of the National Scheme for Low-Alcohol Beer (Australian Government 2002).

4.2 Spirits

Spirits had a variety of excise rates applying (depending on whether the beverage was brandy, rum, gin, whisky or other spirit) until 1978. From this time two rates applied, one for most common spirits and liqueurs (including but not limited to brandy, rum, gin and whisky) and one for other spirits and liqueurs.

Brandy had its excise rate lowered (compared to spirits) from \$18.75 to \$16.00 per litre of alcohol from 9 November 1979 (James 1996). This lower rate was introduced to support local grape production (Webb 2006). Brandy has continued to have a lower rate than other spirits from this time.

13 In 1984, low-strength beer was defined as having an alcohol content of between 1.15 and 3.8 per cent. Full-strength beer was defined as having an alcohol content of greater than 3.8 per cent.

14 The WST was applied to make the treatment consistent with that for spirits and wine (James 1996).

15 Explanatory memorandum, *Excise Tariff Amendment Act (No. 1) 2001* (Cth).

4.3 Ready-to-drink beverages

RTDs were brought into the excise system as a specific category with the introduction of the GST on 1 July 2000. The rate that applied from this time was the same as that which applied to full-strength beer.¹⁶ Prior to this date, there was no specific rate applying to RTDs.¹⁷

From 27 April 2008, the excise rate applying to RTDs was increased to be the same as the excise rate applying to spirits (Australian Government 2008).

4.4 Wine

WST was applied to the value of wine in 1974, with the rate changing over time to reach 41 per cent in 2000 (The Treasury 2015b). With the introduction of the GST on 1 July 2000, the WET was introduced and the WST was removed. The rate of 29 per cent on the final wholesale sale price of wine (in combination with the GST) was designed to offset the removal of the WST.

The WET rebate was introduced in 2004 which meant that a wine producer could be eligible for a WET rebate of 29 per cent of the wholesale value of eligible sales, up to a maximum of \$290,000 (Australian Government 2004). This maximum rebate was increased to \$500,000 in 2006 (Australian Government 2006).

5 Conclusion

Australia's current system of alcohol taxation is complex.

It has two different systems of taxation (volumetric and *ad valorem*) and a wide range of tax rates, with varying exemptions and concessions available to different products.

Australia's alcohol taxation system has evolved over time, and reflects a range of perspectives on what alcohol taxation is intended to achieve at the time different changes were made, rather having been designed from a set of consistent policy principles.

16 The same excise rate applied to both full-strength draught and full-strength packaged beer at the time of the introduction of the GST.

17 Explanatory memorandum, *Excise Tariff Amendment Act (No. 1) 2001* (Cth) and Bills Digest No. 155 (1999-00) Excise Amendment (Alcoholic Beverages) Bill 2000.

Appendix A—Discretionary changes in excise rates since 1 January 2000

Section 4 above provides an overview of the recent discretionary changes to alcohol taxation. The table below presents these discretionary changes since 1 January 2000.

Table A–1: Statutory excise rates after discretionary changes for major categories of alcohol¹

Alcohol type	1 January 2000	1 July 2000	4 April 2001	1 July 2002	27 April 2008	Current rates
Draught beer, low-strength	16.39	41.67	15.96	5.69	6.74	8.14
Draught beer, mid-strength	16.39	35.38	17.33	17.87	21.17	25.53
Draught beer, full-strength	16.39	30.46	22.68	23.39	27.70	33.43
Packaged beer, low-strength	16.39	41.67	44.08	28.49	33.77	40.75
Packaged beer, mid-strength	16.39	35.38	37.42	33.22	39.36	47.47
Packaged beer, full-strength	16.39	30.46	32.22	33.22	39.36	47.47
Brandy	32.58	48.17	50.95	52.54	62.25	75.10
Spirits	38.14	51.58	54.56	56.27	66.67	80.41
RTDs ²	*	30.46	32.22	33.22	66.67	80.41

¹ Discretionary changes from the previous period are indicated in bold type. Changes in rates that are not in bold type are due to indexation adjustments.

² '*' indicates that there was no specific rate for RTDs prior to 1 July 2000.

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