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**Community Affairs Committee
Australian Senate
Australian Parliament House
Canberra ACT 2600
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27th February 2009

Dear Sir/Madam,

The Australian Taxpayers' Union welcomes the opportunity to comment on the *Excise Tariff Amendment (2009 Measures No. 1) Bill 2009 and Customs Tariff Amendment (2009 Measures No. 1) Bill 2009*.

The Australian Taxpayers' Union is a non-profit, non-partisan organisation that represents the rights and interests of Australian taxpayers. Our Board and members come from across the political spectrum and from numerous political Parties. We believe that Australians should not be burdened with taxes that are unfair, inefficient, or too high. On that basis we make our submission below, with the following key conclusions:

- The Australian Government should not use 'sin taxes' such as the Alcopops tax increase in an attempt to control and modify the behaviour of Australian individuals.
- The Alcopops tax increase has not decreased alcohol consumption or binge drinking. In fact it has had a perverse substitution effect possibly leading people to engage in more dangerous consumption behaviour.
- The Alcopops tax has not led to a decrease in alcohol related hospitalisations.
- The Government should not use retrospective legislation powers to collect tax revenue before assent from the Parliament is given.

If you require any further information, please contact the Australian Taxpayers' Union using the contact details given above.

Yours sincerely,

Jacob Zanoni
President
Australian Taxpayers' Union

Submission to the Standing Senate Committee on Community Affairs

Excise Tariff Amendment (2009 Measures No. 1) Bill 2009 and Customs Tariff Amendment (2009 Measures No. 1) Bill 2009

The Australian Taxpayers' Union believes that the Senate should not pass this bill. We philosophically oppose this tax increase and furthermore we believe that it has not achieved its stated aims.

The Use of 'Sin Taxes'

Firstly and fundamentally, the ATU rejects attempts by Government to use its powers of taxation to financially coerce Australian individuals into a Government approved consumption behaviour. The ATU views 'sin taxes' as taxes by the Government specifically designed to engender a specific behavioural shift in consumer choices, for the purposes of negating or minimising a certain lifestyle or behaviour deemed unwanted by the Government. Furthermore, these sin taxes are regressive and inequitable in nature, often heavily penalising the poor.

The ATU recognises a difference between sin taxes and Pigovian taxes; taxes specifically designed to internalise an externality (eg, Carbon Tax). The ATU does not accept that this Alcopop tax increase internalises any supposed external cost from the consumption of RTD alcoholic beverages for a number of reasons. Firstly, it is impossible to suggest that the specific act of consuming an RTD has any unavoidable external cost. Consumption behaviour differs amongst different individuals. While some people may binge drink while consuming RTDs, it cannot be said that this is unavoidably the case, or even that it is the likely case. Furthermore, the Alcopop tax has always been marketed by the Government as a sin tax. It has not been designed to cover any purported health costs of RTD consumption or even binge drinking. It has been designed solely to reduce the consumption of RTDs.

The use of sin taxes may not seem as odious as outright bans, however the Australian Taxpayers' Union believes that they are no less an affront to a consenting adults right to make their own choices, so long as that choice does not harm another.

The Alcopops Tax has led to Consumers Substituting Hard Spirits

Since the introduction of the Alcopops tax increase, empirical and anecdotal evidence has been presented in the media showing that consumers have comparatively increased their straight spirit purchases as a substitution for RTD purchases. In economic terms, we have seen a high elasticity of cross price substitution within consumer alcohol purchases.

For example, the Liquor Merchants Associations sales data showed that between April and June 2008, while sales of RTDs decreased by 30 Percent, sales of full strength spirit bottles increased by 46 percent representing a total increase in sales of 21 million standard drinks.¹

This did not come as a shock to the ATU as it was widely predicted that the Government's targeting of Alcopops would lead to the substitution effect that we have thus seen.

The Australian Taxpayers' Union has no doubt that in recent months; total sales of alcoholic products would most likely have decreased. It would be quite disingenuous however, to use this downturn as evidence of the efficacy of the Alcopops tax.

Changes in consumption of alcohol in recent months must be understood within the context of the economy wide downturn in consumer confidence and total consumption in the Australian economy. The Australian Taxpayers' Union believes that even within this economic environment, the large substitution effect within alcoholic beverages remains and in fact would be increased as consumers seek the best 'alcoholic bang' for their buck.

The particular substitution effect that can be seen in consumer behaviour, namely the switching from RTDs to straight spirit sales, has an associated deleterious health impact. While RTDs have a standard and empirical alcoholic content that is printed on the label, the practise of consumers mixing their own drinks is not nearly as certain. The lessened ability of consumers to gauge their alcohol consumption represents a likely increase in the danger of binge drinking and highlights the perverse unintended consequences of this tax increase.

It is the position of the Australian Taxpayers' Union that far from curbing binge drinking, this tax increase will if anything, increase consumer risk and uncertainty.

Alcopops tax increase has not decreased hospitalisation

In February 2009, Access Economics released its report into the effects of the Alcopops tax increase on alcohol related hospitalisations.

¹ <http://www.abc.net.au/news/stories/2008/07/28/2315822.htm>

Titled ‘*Trends in alcohol related hospital use by young people*’², the key findings of the document were that:

- *Data for six states show that for males and females aged 12-24 years, hospital separations per 100,000 population for alcohol related diagnoses for May and June 2008 were either higher than the same month in previous years and, for females, a standard deviation higher than for April 2008.*
- *Data for QLD, SA, TAS, VIC and WA show that for males and females aged 12-24, ED presentations per 100,000 population for alcohol related diagnosis were higher in May to August 2008 than for the same month in previous years. Importantly, the series is longer than for hospital separations and shows higher rates in every month for every age group, except 18-24 females for the month of July. There is also an overall increase for the months after the RTD increase relative to those before.*
- *Combining hospital separation and ED presentation rates for the six states show higher rates in May and June 2008 compared to previous years. For females, the rates are not only substantially higher than previous years but also higher than earlier months in 2008. This is conservative since TAS separation data were unavailable in June 2008.*

Furthermore, Access Economics came to the conclusion that:

“changes in relative tax rates have distortionary effects which are costly to consumers and impose efficiency losses on society. If the aim is to reduce risky drinking by young people, there is likely to be a package of alternatives including education and other policies that would have a more broad based and direct impact on the drinking behaviours and consequent health of young Australians, and which may be much less costly than the efficiency losses on society resulting from the RTD tax.”

The ATU believes that the findings of Access Economics represent a significant blow to the Governments rationale for this tax increase.

While the ATU understands that the Government is taking a wide ranging policy approach to the perceived social and health issue of binge drinking, and that many of these policies are ‘long term investments’, the Alcopops tax increase is the one policy proposal that should have an immediate impact as consumers respond to the price increase. The Australian Taxpayers’ Union can find no evidence that this tax increase has in any way achieved its desired goal of curbing dangerous binge drinking. Furthermore, the Australian Taxpayers’ Union can see no trend that indicates that the Alcopops tax increase will achieve its proposed purpose in the long run.

Is the Alcopops Tax just a revenue grab?

Considering the above evidence, the ATU feels that this Alcopops tax increase is little more than a thinly disguised revenue grab.

²<http://www.accesseconomics.com.au/publicationsreports/getreport.php?report=186&id=239>

We note that when Senator Steve Fielding publicised his (now semi-retracted) support for the tax increase, his reasons were based more on shoring up revenue for the Government rather than to curb binge drinking. In his recent press release outlining his newfound opposition to the tax increase, he stated:

*“Last year I indicated I would support this tax because the economic crisis was starting to bite and I wanted to help shore up our economy.”*³

Although we disagree with Senator Fielding’s economic reasoning, we applaud his honesty.

The ATU does not believe that certain consumer choices should be unfairly targeted as the basis of raising revenue. This type of taxation only destroys the equity of our taxation system, distorts the market, and places an unfair burden on those who exercise a particular consumer choice. As stated earlier in this submission, these people are often the poorer Australians who should not be forced to bear an inordinate share of Australia’s tax burden. As a method of general revenue raising, this Alcopops tax increase is an unfair and regressive form of taxation.

The use of retrospective tax legislation

The ATU has noted in media reports that Senator Fielding has seemingly withdrawn his support for this tax increase, leading to the likely conclusion that this legislation will not pass the Senate.⁴

This has led to further speculation over the legal status of the revenue so far raised, and its ultimate fate. For example, the federal Coalition and the Distilled Spirits Industry Council believes that this money should be spent on health education campaigns.⁵ Others have suggested that the Alcopops manufacturers should be refunded the revenue.

The ATU believes that the possibility of this legislation not passing the senate highlights the absolute danger of Governments using retrospective taxation legislation. The ATU believes that Governments should not attempt to collect revenue in such a fashion until the people’s representatives in the Legislature have passed the associated legislation. To do otherwise is to undermine the democratic nature of our Government.

Conclusion

It is the conclusion of the ATU that for the reasons stated above, the Senate should not pass this legislation. Furthermore, the ATU believes that this committee should recommend that the Government does not use its taxation powers to achieve its social or

³ http://www.stevefielding.com.au/press_room/details/alcopops_tax_a_fizzer/

⁴ <http://www.news.com.au/story/0,,25104058-2,00.html>

⁵ <http://www.theaustralian.news.com.au/story/0,,25104349-2702,00.html>

moral desires, and that it should not rely on retrospective taxation legislation particularly in an environment where the payers of the tax can not be properly refunded.