



Australian Government

The Treasury

COSTING MINUTE

Date: 10/11/2009
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File:

To: Katherine Tuck, Australia's Future Tax System

Cc: Scott Bartley, Australia's Future Tax System

TITLE AFTS proposal - alcohol tax reform

SUMMARY OF PROPOSAL

Intent of the proposal

Replace current excises on beer and spirits, and wine equalization tax, with a common alcohol tax based on alcohol content, set by reference to the net social costs of alcohol consumption and taxation, with a low-alcohol threshold for all products.

This is assumed to be the current full strength packaged beer rate, including the 1.15 per cent alcohol excise exemption threshold.

Current taxation treatment/problem

The taxation of alcoholic beverages in Australia is characterised by many differing tax bases and rates.

Beer is currently taxed at 5 different rates and has a low alcoholic strength threshold of 1.15%, spirits and RTDs are taxed at \$69.16 per litre of alcohol and no low alcohol threshold. Beer and spirits are taxed by alcoholic content.

Wine is subject to the wine equalisation tax (WET) based on the wholesale value of wine of 29 per cent. No excise applies to wine and similar products (meade, sake etc). The WET producer rebate provides for a refund of the first \$500,000 of WET paid by a producer.

The different excise rates can be obtained from the ATO website at:
<http://law.ato.gov.au/atolaw/view.htm?docid=PAC/BL030002/1>

Proposed taxation treatment

All alcohol would be subject to a uniform rate of excise (assumed to be the full strength beer rate) with the first 1.15 per cent of pure alcohol exempt from excise.

TRANSITIONAL ARRANGEMENTS

WINE: Wine would initially be subject to a single volumetric excise (and excise equivalent customs duty for imported wine) with the first 1.15 per cent of pure alcohol exempt from the excise (see 'options' for rates).

SPIRITS: The concessional brandy excise rate would be increased to the general spirits rate. For all spirits, the first 1.15 per cent of pure alcohol would be exempt from excise. The additional 5 per cent tariff on some imported spirits would no longer apply.

ALL ALCOHOLIC BEVERAGES: The first 1.15 per cent of pure alcohol would be exempt from excise.

INDEXATION:

(a) Continue bi-annual indexation increases of full strength packaged beer excise in line with movements in the consumer price index.

(b) Accelerate bi-annual indexation increases of all excise rates below the full strength packaged beer excise rate so that they converge with the full strength packaged beer excise rate with a certain number of years (see options). This includes the new wine excise.

(c) Suspend indexation increases of spirits excise until such time as the full strength packaged beer excise is equivalent to the spirits excise.

ELEMENTS AND OPTIONS

Elements

Element ID	Description
A	Lower bound – initial volumetric wine tax at \$7.03 per litre of alcohol (light draught beer rate – price of 2L cask remains stable)
B	Upper range – initial volumetric wine tax at \$22.09 per litre of alcohol (mid strength draught beer rate — price of \$12 wine bottle remains stable)
C	Short transition — rates below full strength packaged beer rate converge to the full strength packaged beer rate in 5 years
D	Long transition — rates below full strength packaged beer rate converge to the full strength packaged beer rate in 15 years

Options examined

Option ID	Option	Assumed start date	Was a Departmental Impact Assessment sought?	Was a Tax Regulation Impact (preliminary assessment) sought?
1	A & D	01/07/2010	No	No
2	B & C	01/07/2010	No	No

FINANCIAL IMPLICATIONS

IMPACT ON FISCAL BALANCE - ACCRUAL-BUDGET (\$m)

Option ID	Year of Maturity	2008-09	2009-10	2010-11	2011-12	2012-13
1	2025-26	-	-	-400	-200	-50
2	2015-16	-	-	400	600	700

- Nil

IMPACT ON UNDERLYING CASH BALANCE (\$m)

Option ID	Year of Maturity	2008-09	2009-10	2010-11	2011-12	2012-13
1	2025-26	-	-	-400	-200	-50
2	2015-16	-	-	400	600	700

- Nil

The costing of each option has been undertaken independently from those of other options, meaning that the costs are not necessarily additive.

RELIABILITY

Reliability is Medium. Estimates are based on incomplete data and are dependant on the assumptions noted in the Assumptions section of this Costing Minute.

COSTING DETAILS

Methodology

Excise, Customs and GST revenue are calculated under the options requested. The corresponding amounts that are expected to be collected in the forward estimates are subtracted to give the revenue impact.

Data

Expected quantity and tax rates currently reflected in the forward estimates form the base for this costing. These values are adjusted to give the quantities and tax rates under the proposed options.

Assumptions

- Costing Option 1 (A&D) is expected to mature (end phasing to the full-strength packaged beer rate) in 2025-26. The first year of maturity is expected to have a revenue gain of around \$900m in 2010-11 dollars. Discounting at 2.5%, which is the average rate that alcohol is growing at in the model.

- Costing Option 2 (B&C) is expected to mature (end phasing to the full-strength packaged beer rate) in 2015-16. The first year of maturity is expected to have a revenue gain of around \$950m in 2010-11 dollars. Discounting at 2.5%, which is the average rate that alcohol is growing at in the model.

- Quantities under the proposed options are calculated using assumed elasticities.
- Quantities are grown out using DED/RAU forecast levels of growth to give a Budget revenue impact profile.
- Assumed start date 1 July 2010.
- The attached table has detailed break down of revenue impact for each beverage. These should not be quoted directly in briefing and need to be rounded.

ADDITIONAL INFORMATION

Departmental impacts

An assessment of the Departmental Impact has not been requested.

Tax Regulation Impact (preliminary assessment)

A preliminary assessment of the Tax Regulation Impact has not been requested.

Further Analysis

Please refer to attachments

All material provided in this minute must be cleared by the Tax Analysis Division incorporated into Executive Minutes, Cabinet Submissions, any other briefing material, or when used for external purposes.

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PLEASE NOTE that the following estimates should not be used directly in briefing without first checking with TAD - These numbers need to be rounded.

Option 1 (A & D): Wine rate \$7/Lal, 15 year transition, spirits not indexed Change in...		Year																				
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Excise on Wine\$7Bottle	Sum	99	134	167	197	225	249	271	289	305	318	328	335	339	340	338	335	333	329	329	329	328
Excise on Wine\$15Bottle	Sum	206	291	375	459	542	623	704	783	860	935	1,009	1,080	1,149	1,216	1,280	1,330	1,366	1,402	1,446	1,497	1,549
Excise on Wine\$40Bottle	Sum	22	31	41	51	62	72	83	94	106	117	128	140	152	164	176	185	192	199	207	216	225
Excise on Wine\$13Cask	Sum	135	170	193	206	209	202	186	159	123	76	49	53	58	63	68	73	76	79	82	86	89
Excise on BeerLowDft	Sum	1	2	3	4	6	7	9	10	11	13	14	16	17	19	21	22	23	23	24	26	27
Excise on BeerMediumDft	Sum	1	4	8	11	14	18	21	25	28	31	34	38	41	43	46	49	50	52	55	60	64
Excise on BeerFullDrft	Sum	6	25	42	60	78	96	114	130	147	162	177	190	203	214	224	232	240	249	269	296	325
Excise on BeerLowPack	Sum	0	2	4	6	8	9	11	12	13	15	16	16	17	17	18	18	18	19	21	23	26
Excise on BeerMediumPack	Sum	-0	6	11	16	21	25	29	32	35	37	39	41	41	42	41	41	42	43	49	59	69
Excise on BeerFullPack	Sum	-1	32	62	91	117	141	162	181	198	211	222	230	234	234	231	230	236	242	279	333	390
Excise on BRANDY	Sum	-0	0	0	1	1	1	1	2	2	3	3	4	5	5	6	7	8	9	10	10	11
Excise on RTD(1.15)	Sum	-212	-226	-242	-249	-255	-262	-269	-276	-284	-291	-299	-306	-314	-322	-329	-341	-357	-372	-372	-363	-353
Excise on SPIRITS	Sum	6	8	11	13	16	20	23	27	30	35	39	44	49	55	61	66	72	78	83	87	92
Total Excise	Sum	261	480	677	868	1,043	1,202	1,344	1,468	1,574	1,662	1,760	1,881	1,991	2,091	2,179	2,247	2,299	2,351	2,482	2,660	2,843
Total Customs	Sum	31	29	23	15	6	-4	-16	-28	-42	-57	-73	-91	-110	-130	-151	-169	-182	-195	-195	-188	-180
Total GST	Sum	28	49	68	86	103	118	130	141	150	157	165	175	184	191	198	202	206	209	221	239	258
Net WET (remove WET and Producer rebate)	Sum	-730	-770	-830	-830	-850	-850	-850	-850	-850	-850	-875	-875	-875	-900	-900	-900	-900	-950	-950	-950	-
Tariff Duty	Sum	-14	-16	-17	-19	-21	-23	-25	-27	-30	-32	-35	-39	-42	-46	-51	-56	-61	-67	-73	-80	-87
Costing Total	Sum	-423	-226	-77	123	284	445	586	707	806	883	945	1,055	1,152	1,211	1,280	1,330	1,367	1,355	1,493	1,689	1,842

Option 2 (B & C):Wine rate \$22/Lal, 5 year phase, spirits not indexed. Change in...		Year																				
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Excise on Wine - \$7Bottle	Sum	218	248	272	290	303	311	316	321	325	328	331	333	335	335	335	333	331	327	326	326	325
Excise on Wine - \$15Bottle	Sum	535	642	743	839	928	990	1,024	1,059	1,094	1,129	1,164	1,199	1,235	1,271	1,307	1,343	1,379	1,414	1,460	1,511	1,563
Excise on Wine - \$40Bottle	Sum	61	76	90	104	118	128	133	139	144	150	156	162	168	174	181	188	194	201	210	219	229
Excise on Wine - \$13Cask	Sum	192	175	141	91	46	47	49	52	54	57	59	62	65	67	70	73	77	80	83	87	90
Excise on BeerLowDft	Sum	2	5	7	10	13	15	16	16	17	18	18	19	20	21	21	22	23	24	25	26	27
Excise on BeerMediumDft	Sum	4	11	17	24	30	34	35	37	38	40	42	43	45	46	48	50	52	54	57	61	66
Excise on BeerFullDrft	Sum	28	61	90	120	148	166	172	179	187	194	202	209	217	225	234	242	251	259	280	308	337
Excise on BeerLowPack	Sum	4	7	9	12	13	15	15	16	16	16	17	17	18	18	19	19	20	20	22	25	27
Excise on BeerMediumPack	Sum	13	20	25	29	31	32	33	35	36	37	39	40	41	42	44	45	46	47	54	64	74
Excise on BeerFullPack	Sum	76	114	143	164	176	181	189	196	203	210	217	225	232	239	246	253	260	266	303	358	415
Excise on BRANDY	Sum	1	2	2	2	3	3	3	4	4	4	4	5	5	6	7	7	8	9	10	11	11
Excise on RTD	Sum	-158	-161	-167	-166	-166	-173	-188	-204	-220	-236	-253	-269	-286	-302	-319	-335	-350	-365	-365	-355	-345
Excise on SPIRITS	Sum	17	21	24	29	33	36	38	40	42	45	48	51	54	58	63	68	73	79	84	89	93
Total Excise(sum of above)	Sum	994	1,219	1,398	1,549	1,678	1,786	1,837	1,889	1,940	1,992	2,044	2,096	2,149	2,202	2,255	2,308	2,362	2,416	2,549	2,728	2,913
Total Customs	Sum	30	25	16	1	-16	-33	-45	-59	-72	-85	-98	-112	-125	-138	-151	-164	-177	-190	-190	-183	-175
Total GST	Sum	101	123	140	153	164	173	177	180	184	187	191	195	198	202	205	209	212	216	229	247	265
Cost of removing WET and Producer Rebate	Sum	-730	-770	-830	-830	-850	-850	-850	-850	-850	-850	-875	-875	-875	-900	-900	-900	-900	-950	-950	-950	-1,000
Tariff Duty	Sum	-14	-16	-17	-19	-21	-23	-25	-27	-30	-32	-35	-39	-42	-46	-51	-56	-61	-67	-73	-80	-87
Costing Total	Sum	382	583	708	856	957	1,057	1,096	1,136	1,176	1,215	1,230	1,270	1,309	1,324	1,363	1,403	1,442	1,432	1,571	1,770	1,924