Foundation for Alcohol Research & Education

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Mr Robert Jeremenko
Chief of Staff
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Parliament House
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Dear Mr Jeremenko

TAX REVIEW - SUPPLEMENTARY SUBMISSION

I am pleased to provide you with copies of further independent research commissioned by FARE, which we present to you as supplementary to our main submission to the *Re:think Tax discussion paper*.

The enclosed modelling and research highlights three key areas for consideration. First, the top ten per cent of drinkers account for the majority of alcohol consumed in Australia. Second, the benefits accrued to WET-qualifying producers constitute a significant economic loss for the Australian Government. Third, changes to the WET could raise up to $2.5 billion in revenue for addressing the cost of alcohol harms whilst also lowering the burden of harms by reducing alcohol consumption. A brief summary of each of the reports is below.

Understanding recent trends in Australian alcohol consumption: Centre for Alcohol Policy Research

This report examines recent trends in alcohol consumption in Australia across five National Drug Strategy Household Surveys conducted between 2001 and 2013. The study found that despite declines in Australia's overall level of drinking, there are increasing rates of heavy episodic drinking. The report finds that the top ten per cent of drinkers are now responsible for most of total alcohol consumed (53.2 per cent in 2013), this increased from 48.9 per cent in 2001. The proportion of alcohol consumed by the top five per cent of heavy drinkers has also increased to 35.3 per cent in 2013 (up from 32.3 per cent in 2001).

The goon show: How the tax system works to subsidise cheap wine and alcohol consumption: The Australia Institute

The Australia Institute report found that while Australia has around 3,800 wine producers, 3,500 of them pay almost nothing under the WET and many in fact receive a net benefit through the associated WET rebate. Just 23 wine producers paid nearly 90 per cent of the $800 million raised by the WET. The report also shows that if wine were taxed in the same way as beer, an extra $1.4 billion in tax revenue would be raised.

The Australia Institute report modelled three alternative approaches to assess the impact of alcohol taxation reform. The modelling found that:

- Taxing wine at the same rate as full strength bottled beer, as recommended by the Henry Review, would see a litre of wine containing 12.7 per cent alcohol attract an excise of $5.44.
- The second approach would see wine taxed at a rate midway between beer and spirits, with a litre of wine attracting excise of $7.31.

- The third model would impose a tax of $3 per litre of wine, bringing Australia's taxation of wine into line with the OECD average.

Under all three proposed models, the cheapest wine would still remain the cheapest alcohol available from off-licence premises, however net tax revenue would increase significantly.

Alcohol tax reform: Economic modelling 3 alcohol tax reform options: ACIL Allen Consulting

Modelling by ACIL Allen Consulting sought to assess the impacts of changes to alcohol taxation policy in Australia. The impact was assessed in terms of tax revenues collected, alcohol consumption, alcohol prices, value of alcohol production, and employment. This modelling tested the impact of three alcohol taxation reform scenarios:

- Scenario 1 – change the existing wine tax to a volumetric tax at a rate that is revenue neutral (excluding the consideration of the WET rebate).
- Scenario 2 – change the existing wine tax to a volumetric tax at a higher tax rate of $56.46 (half way between full strength draught beer rate and spirits rate)
- Scenario 3 – change the existing wine tax to a volumetric tax at a higher tax rate of $56.46 (half way between full strength draught beer rate and spirits rate), increasing the tax paid on draught beer to the existing packaged beer rate, and increasing the tax paid on cider (currently taxed under the WET) at the existing regular beer rate.

The ACIL Allen modelling found that these scenarios could:

- Raise up to $2.5 billion in additional taxation revenues (Scenario 3)
- Reduce total alcohol consumption by up to 12.31 million litres for pure alcohol, or 7.1% of all alcohol consumption (Scenario 2)
- Lead to a small but meaningful increase in consumers substituting higher alcohol volume beverage types (e.g. wine and spirits) for lower alcohol volume beverage types (e.g. beer) (Scenarios 2 and 3)

The enclosed modelling and research supports the case for reforming the alcohol taxation system. Such reforms should include immediate action to move the WET to a differentiated volumetric tax rate.

FARE has also commissioned Marsden Jacob Associates to undertake modelling to investigate the percentage change in excise rates that would maximise net benefits to the community. This is currently being finalised and a copy will be sent to you over the coming week.

There has never been a clearer case of reforming the alcohol taxation system. The support for reform is strong, with nine separate government reviews recommending overhauling the wine taxation system, including the Henry Review which determined that reforming the WET was a matter of urgency for the Australian Government.[1] The public health sector, leading Australian economists and the majority of the alcohol industry are also supportive of reform.

I welcome the opportunity to meet with you to discuss this additional evidence and supplementary work if you would like.

Yours sincerely

MICHAEL THORN
CHIEF EXECUTIVE

[1] Attorney General's Department. (2010). Australia's future tax system. Report to the Treasurer, Part Two, Detailed Analysis December 2009. Commonwealth of Australia.