



# Design and Practical Implementation of Excise Taxes

Mr Scott Cass-Dunbar  
Economic Counsel,  
Distilled Spirits Industry Council of Australia (DSICA)





## Design principles for the tax system



- The Henry Review identifies five key design principles of an ideal tax system:
  - equity;
  - efficiency;
  - simplicity;
  - **sustainability;** and
  - policy consistency



## Revenue sustainability: Government revenue collections



5 actions have been developed to ensure and monitor sustainable revenue flows

**Sustainability 1:** *Specific taxes apply to approximately 70% of the market*

**Sustainability 2:** *Transparency and market certainty*

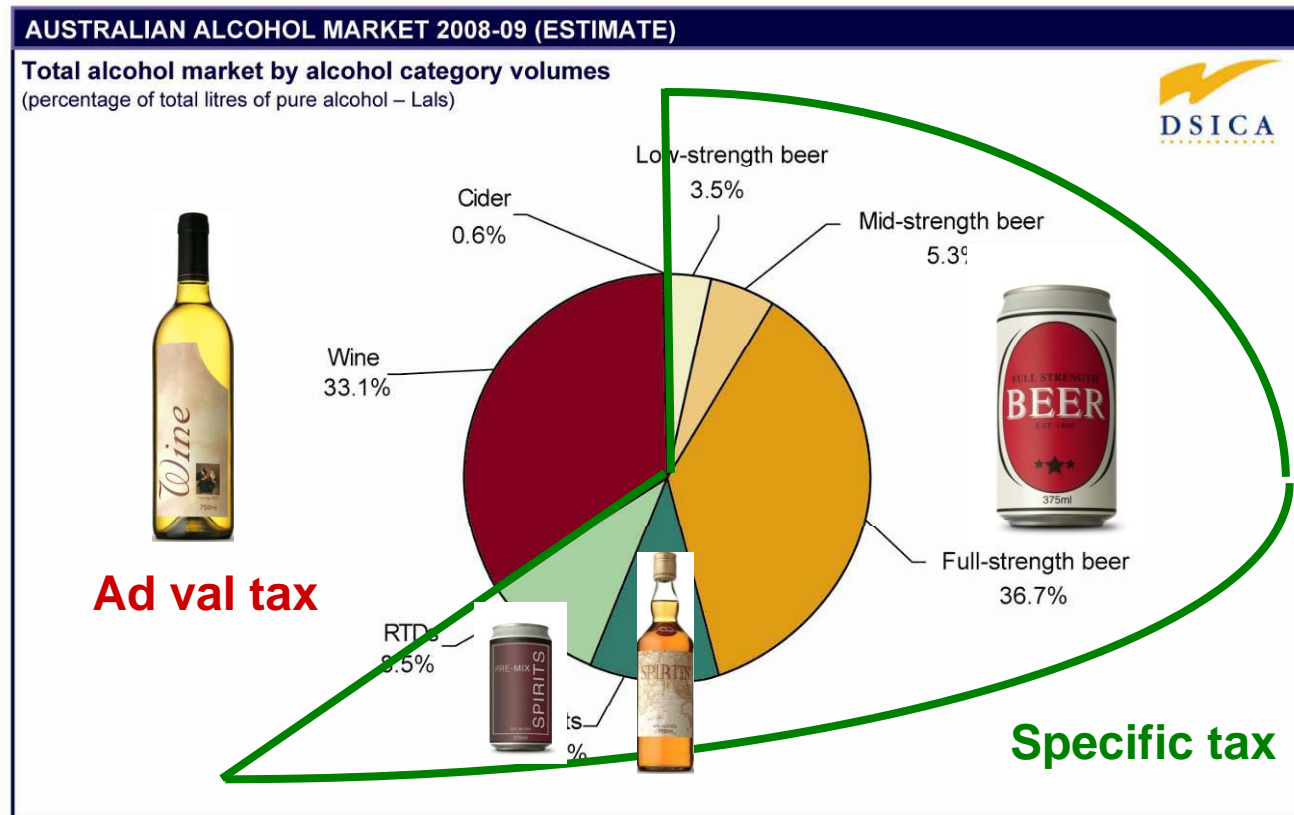
**Sustainability 3:** *Specific excise rates are indexed with CPI*



# Sustainability 1: *Specific taxes on 66% of market*



Specific taxes apply to all beer, spirits and RTDs (imported and local)



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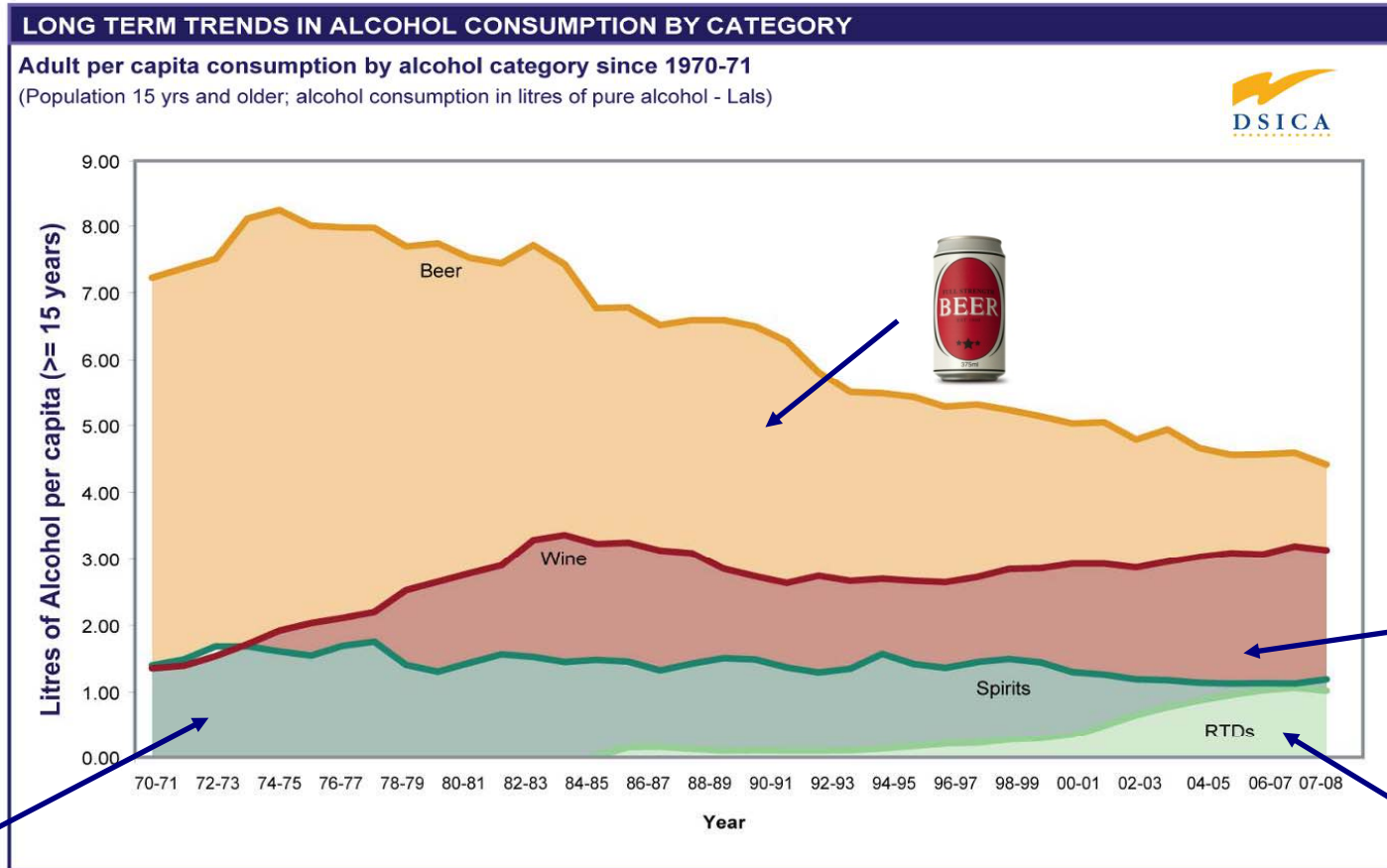
Source: ABS, DSICA Pre-Budget Submission 2009-10



# Beer consumption is in long term decline



Wine consumption is growing. Spirits consumption is static. RTD consumption is growing off a very low base.



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Source: DSICA Submission to Australia's Future Tax System Review Panel

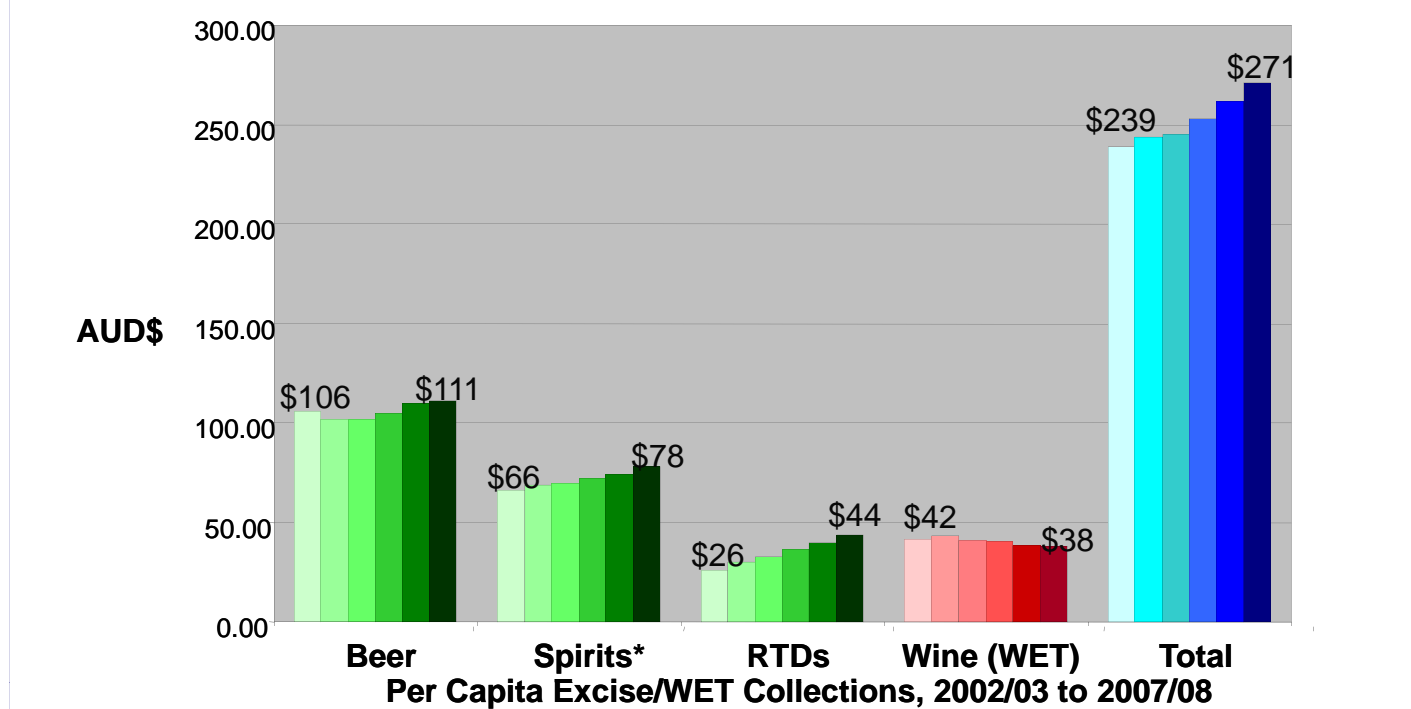


# Alcohol tax revenues are sustainable



Total per capita revenues are increasing. 3 key categories of the market are subject to specific taxes (beer, spirits, RTDs).

**AUSTRALIAN PER CAPITA EXCISE/WET COLLECTIONS, 2002/03 TO 2007/08**



Sources: Australian Bureau of Statistics, Australian Tax Office



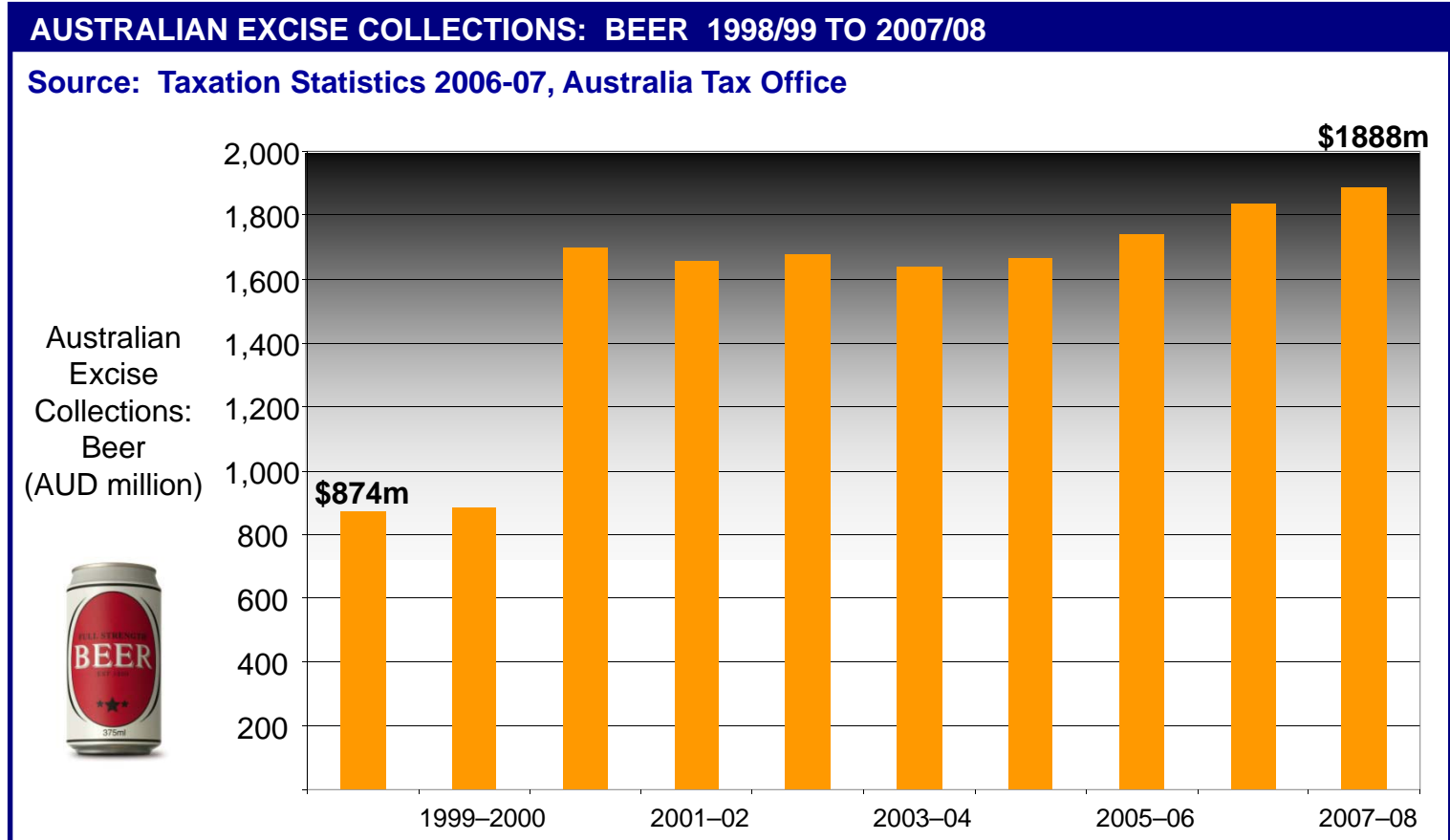


## Beer revenues under specific tax are sustainable



**SPECIFIC TAX** has ensured that beer alcohol tax revenues have continued to grow.

Over the last ten years excise collections from beer have increased by +116%



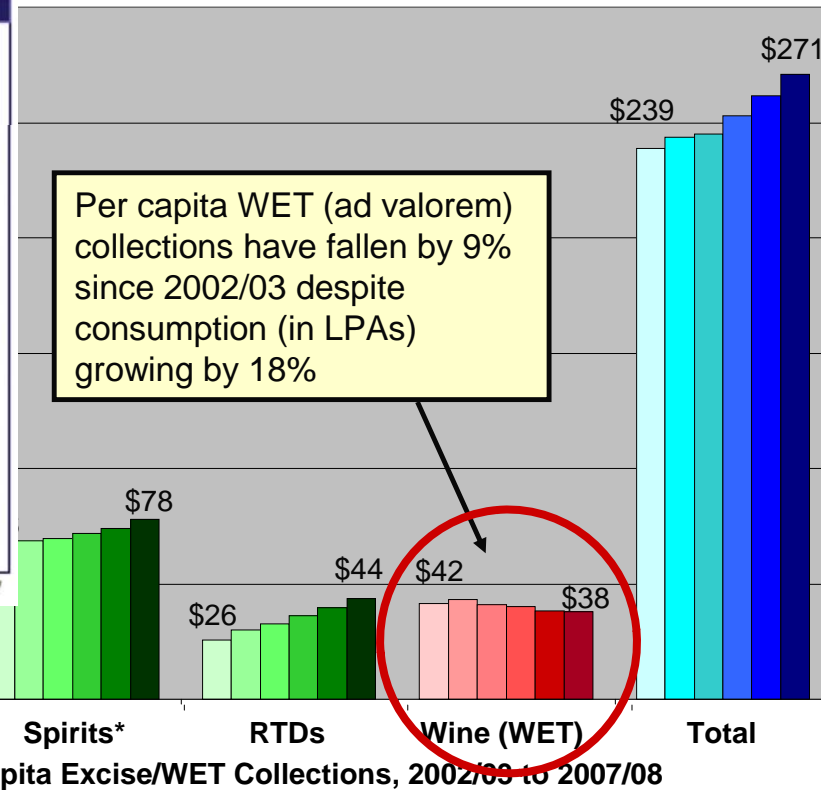
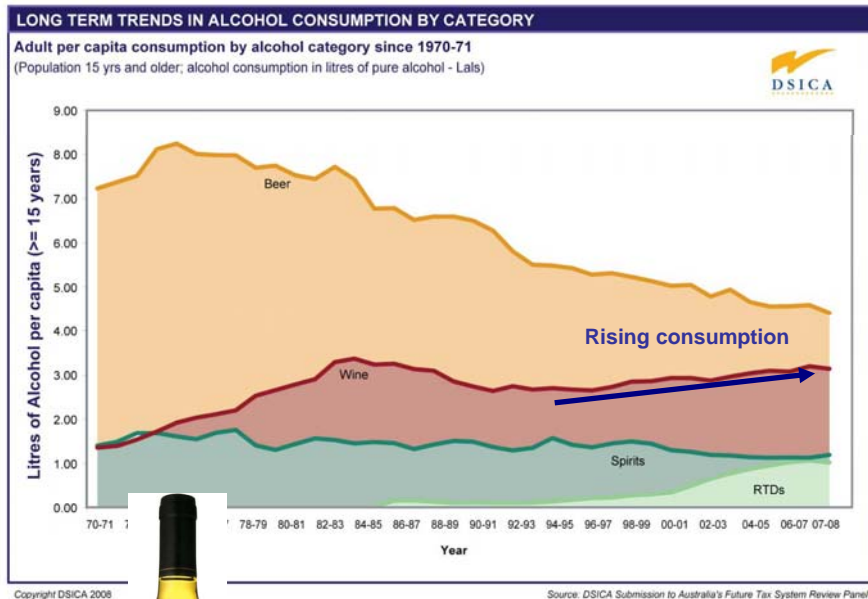


# Wine consumption rising: BUT tax revenue falling



**AD VALOREM TAX DISADVANTAGES:** Wine consumption is growing but wine tax revenues are falling (per capita). Due to switching to low priced wines (pay less tax under ad valorem system).

## AUSTRALIAN PER CAPITA EXCISE/WET COLLECTIONS, 2002/03 TO 2007/08



\*Include customs duties on imported spirits

Sources: Australian Bureau of Statistics, Australian Tax Office and DSICA Estimates (RTDs)





## Spirits consumption flat: BUT tax revenue growing

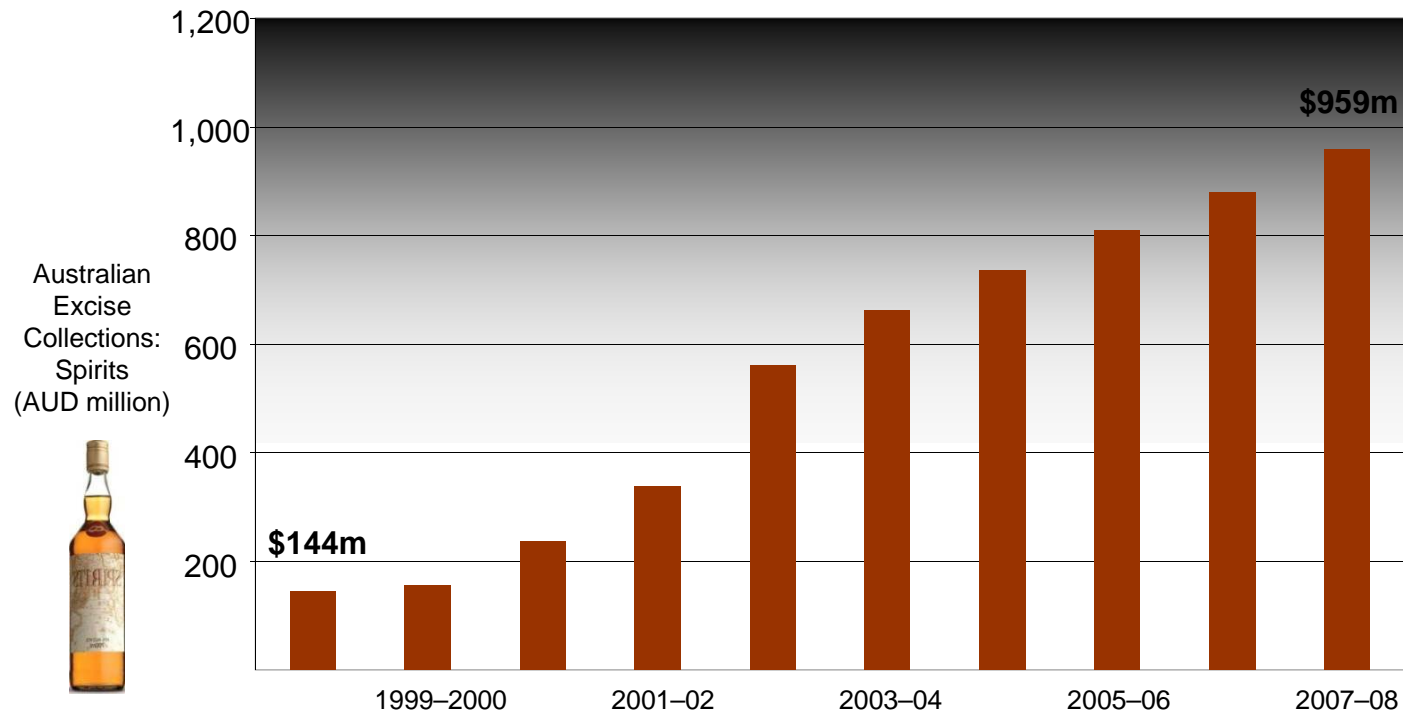


**BENEFITS OF SPECIFIC TAX:** Spirits consumption is flat, but revenues continue to grow in a sustainable manner

Over the last ten years excise collections from spirits have increased by +566%

### AUSTRALIAN EXCISE COLLECTIONS: SPIRITS 1998/99 TO 2007/08

Source: Taxation Statistics 2006-07, Australia Tax Office





## Sustainability 2: Annual budget forecasts



The annual budget sets out actual revenue collections (last year) and forecasts for 5 years in a transparent manner

Source: 2009-10 Budget Paper No. 1, Australian Government

Table 10: Excise and customs duty revenue

	Actual	Estimates		Projections		
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m
Excise duty						
Petrol	6,959	6,610	6,340	6,200	5,803	5,008
Diesel	6,674	6,660	6,490	6,570	6,325	5,516
Beer	1,862	2,010	2,050	2,100	2,170	2,240
Tobacco	5,631	5,620	5,510	5,460	5,550	5,710
Other excisable products	2,400	3,620	3,460	3,680	3,885	3,803
Of which: Other excisable beverages(a)	744	870	970	1,060	1,150	1,240
Total excise duty	23,526	24,520	23,850	24,010	23,733	22,277
Customs duty						
Textiles, clothing and footwear	960	1,140	830	580	620	660
Passenger motor vehicles	1,400	1,180	870	630	660	690
Excise-like goods	2,451	2,760	2,780	2,850	2,987	3,101
Other imports	1,497	1,600	1,530	1,670	1,780	1,900
less: Refunds and drawbacks	237	240	240	240	240	240
Total customs duty	6,070	6,440	5,770	5,490	5,807	6,111
<b>Total excise and customs</b>	<b>29,596</b>	<b>30,960</b>	<b>29,620</b>	<b>29,500</b>	<b>29,540</b>	<b>28,388</b>

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.



## Sustainability 2: *Transparency and market certainty*



The Mid-Year Economic and Fiscal Outlook (MYEFO) reports on mid-year progress against Budget estimates.

Source: 2009-10 Mid-Year Economic and Fiscal Outlook, Australia Government

Table D8: Australian Government general government sector revenue

	Actual	Estimates		Projections	
	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m
<b>Sales taxes</b>					
Goods and services tax	42,626	44,260	47,250	50,430	53,600
Wine equalisation tax	707	730	770	810	860
Luxury car tax	384	390	370	410	440
Other sales taxes	-1	0	0	0	0
<b>Total sales taxes</b>	<b>43,716</b>	<b>45,380</b>	<b>48,390</b>	<b>51,650</b>	<b>54,900</b>
<b>Excise duty</b>					
Petrol	6,461	6,390	6,270	5,910	5,110
Diesel	6,687	6,720	6,900	6,680	5,970
Beer	1,974	2,050	2,110	2,190	2,260
Tobacco	5,654	5,630	5,600	5,710	5,890
Other excisable products	3,543	3,620	3,950	4,190	4,210
Of which: Other excisable beverages(a)	862	940	1,040	1,130	1,220
<b>Total excise duty revenue</b>	<b>24,319</b>	<b>24,410</b>	<b>24,830</b>	<b>24,680</b>	<b>23,440</b>
<b>Customs duty</b>					
Textiles, clothing and footwear	1,120	790	630	670	710
Passenger motor vehicles	1,135	930	650	670	700
Excise-like goods	2,775	2,890	2,970	3,130	3,270
Other imports	1,517	1,460	1,600	1,710	1,820
less: Refunds and drawbacks	272	240	240	240	240
<b>Total customs duty revenue</b>	<b>6,276</b>	<b>5,830</b>	<b>5,610</b>	<b>5,940</b>	<b>6,260</b>



## Sustainability 2: *Transparency and market certainty (2)*



The Australian Tax Office publishes annual tax collections on all categories

### AUSTRALIAN TAX OFFICE REPORTING OF VOLUMES AND DUTY COLLECTIONS

Source: Taxation Statistics 2006-07, Australia Tax Office

Table 13.5: Quantities of alcohol products subject to excise, 2006-07 and 2007-08 financial years

Alcohol	2006-07 <sup>1</sup>		2007-08 <sup>1</sup>	
	Megalitres <sup>2</sup>	Duty (\$m)	Megalitres <sup>2</sup>	Duty (\$m)
<b>Beer</b>				
Bottled beer – low strength	2.4	79	2.2	72
Bottled beer – mid strength	5.1	194	5.3	205
Bottled beer – full strength	33.1	1,254	33.4	1,298
Keg beer – low strength	0.7	4	0.6	4
Keg beer – mid strength	1.1	23	1.1	24
Keg beer – full strength	10.5	281	10.4	284
Non-commercial purposes <sup>3</sup>	0.1	..	0.1	..
<b>Spirits</b>				
Other spirits	2.8	178	2.7	176
Brandy	0.5	31	0.5	31
Ready-to-drink beverages	17.7	671	18.0	752
<b>Total<sup>4</sup></b>	<b>75.0</b>	<b>2,716</b>	<b>74.2</b>	<b>2,847</b>

1 Data for the 2006-07 and 2007-08 income years includes data processed up to 31 October 2007 and 31 October 2008 respectively.

2 One mega litre equals one million litres.

3 '..' means rounded to zero but not zero.

4 Totals may not add to sum of the components due to rounding.



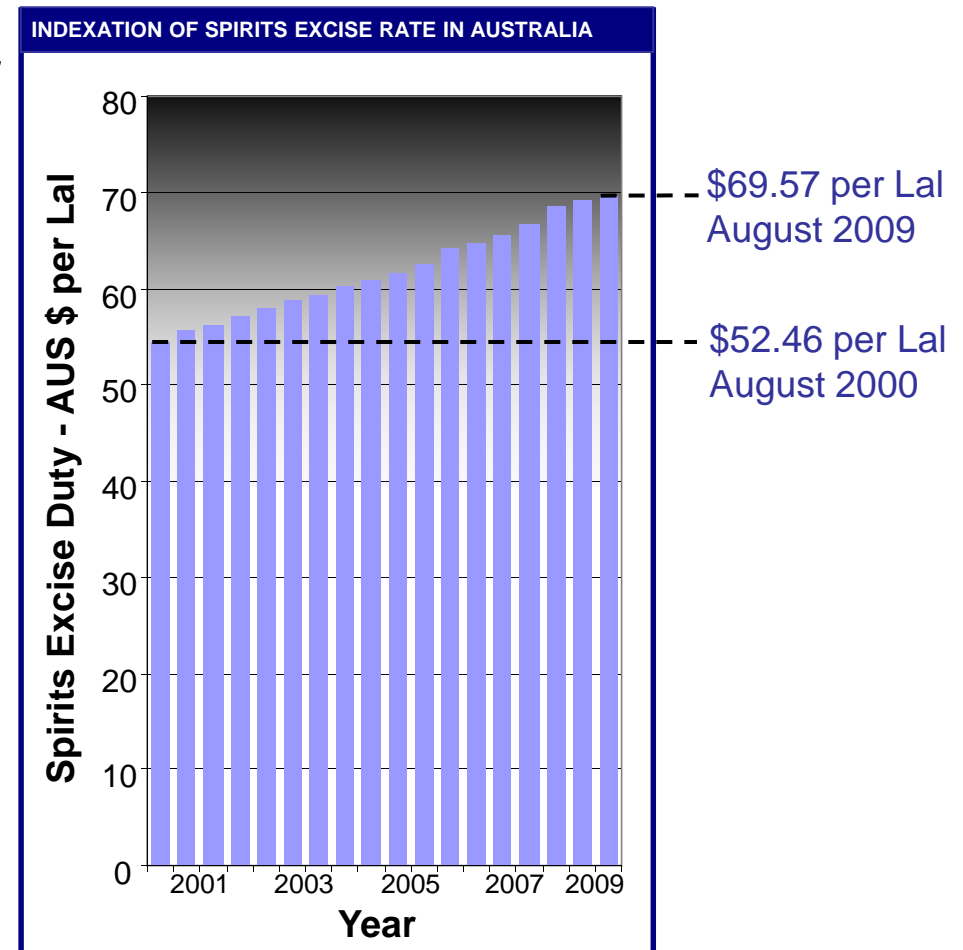
## Sustainability 3: *Indexation of rates*



Specific taxes are indexed automatically twice yearly and linked to movements in the Consumer Price Index (CPI)

### *Indexation of specific rates is good tax policy*

- 26 years of indexation in Australia
- Consumer price index (CPI) based
- Removes “sticky” fixed rates during inflationary times
- Removes need for ad hoc rate increases
- Provides certainty to industry
- Provides sound revenue collections for government

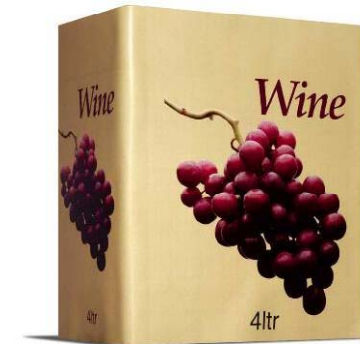




# Reform of Australia's alcohol tax system



Watch this space. A work in progress!





**Thank you**

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## **Presenter Details**

**Mr Scott Cass-Dunbar**

**Economic Counsel,  
Distilled Spirits Industry Council of Australia  
(DSICA)**

**+61 2 6248 1232**