**Ideascale – Idea No.35 wine tax**Can Government Fix it

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**To Tax Board Sounding Board**

**Re: Wine tax submission: Ideas for better tax regulation to "cut red tape" and "reduce compliance burdens"**[[1]](#footnote-1)

**Summary**

Whilst the Commonwealth Government has proposed to address integrity concerns with the wine equalisation tax (WET) rebate (by reducing rebate caps and tightening eligibility criteria)[[2]](#footnote-2), these reforms do not address the underlying problems caused by the WET to the competitiveness Australian wine industry from the needlessly high compliance costs and distortionary economic impacts. Australian industry leaders have identified the WET policy as stymying the industry. The WET is very different to the policies of “old world” wine countries and emerging competitors who (apart from the standard value added tax) impose zero or low amounts of extra indirect taxes on wine. Also, the WET provides a significant competitive advantage to the New Zealand wine industry. The externality costs associated with wine are over stated, and in any event, a WET (or excise) do not target the problem drinkers.

If there is a political need to impose an additional indirect tax on the struggling wine industry, a higher rate of GST on wine would be the simplest and better option.

**Analysis**

Numerous government reviews have sought to repeal the WET.[[3]](#footnote-3) Commentators who have reviewed the WET from the perspective of four well accepted tax policy criteria: fiscal adequacy, economic efficiency, equity and simplicity, have been unable to justify this tax.[[4]](#footnote-4)

The four tax policy criteria have been used by optimal tax theorists who seek to maximise social welfare and have become prominent in recent tax reform processes, as seen by the 1999 *Ralph Review* and the 2010-11 *Henry Review*. The four criteria are evaluated below.

**Compliance costs and red tape - Simplicity**

The many small wine makers and the larger wine makers have to comply with the GST. Imposing more levels of indirect tax and red tape on wine, (such as WET or excises) results in not only high compliance costs for the wine industry (particularly for the many small wine makers) but also administration costs for government. Australia’s WET provides a vivid example of the complexity involved. WET provides a complex second regime for alcohol taxation that sits uneasily with the excise system that applies to beer and spirits. The WET is very regressive for the thousands of small wine producers that need to claim the WET rebate. The Australian Taxation Office lacks jurisdiction to police the increasing WET rebate claims of the New Zealand wine industry.

High complexity would also arise under an excise from costly bonded warehouses, inspections and permissions to move wine. It would also be very regressive for the thousands of small wine producers affected.

From a simplicity point of view, a wine tax should be part of a comprehensive indirect tax base with a common tax rate, that is the GST.

**Economic efficiency**

As industry leaders[[5]](#footnote-5) acknowledge, the WET damages economic efficiency. Ad valorem taxation (WET) raises consumption and tax revenue but induces firms to reduce prices, down grade product quality, reduce advertising and marketing costs. Wine should be taxed at the same rate as other goods (ie a comprehensive GST set at a uniform rate) to minimise economic distortions that impedes the competitiveness of an important industry. In 2016 the Senate Rural and Regional Affairs and Transport References Committee[[6]](#footnote-6) found that the WET worked against the profitability of the wine industry and is subject to unlawful claims or rorting.

The principal economic arguments are advanced by health bodies who argue that that higher taxes on wine are justified since they focus on the high external costs associated with alcohol consumption. There are a number of reasons why wine taxes such as a WET (or an excise) fail to target externalities (the wine abusers).

The WET is not based on alcohol content so it is not an appropriate indirect tax. Even a uniform excise tax based on alcohol content or volume consumed for the taxation of externalities constitutes a very imperfect proxy Pigouvian tax since most people drink wine in moderation. The excise should be targeted at abusive drinkers since the external costs for moderate or low wine consumption may be zero or negligible, but this is impractical. There may be benefits from low or moderate consumption of wine.[[7]](#footnote-7) Also, the above normal drinkers of alcohol are not all abusive.

Changing from a WET to an excise would have a harsh impact on the industry. Anderson et al modelled a change to a volumetric tax on domestic wine sales. Domestic wine sales would fall significantly.[[8]](#footnote-8) The burden falls on non-premium wine where production will fall by about one third. Commercial premium wines fall between 8 to 13 per cent. Super premium wines significantly gain with increases of about 15%.

Overall there is a strong case on economic grounds for a zero wine tax given the importance of the wine industry. Corrective taxation is most efficient where the external costs are taxed directly. People who abuse alcohol should be targeted. The problems can be better managed through intervention and regulation.

**Fiscal adequacy**

The WET (or an excise alternative) raises small amounts of tax revenue, only representing 0.2 per cent of total Commonwealth government tax revenue. A broadly based tax, such as a comprehensive GST set at a uniform rate, provides a more continual revenue source and hence preferable for indirect taxation.

**Equity**

Indirect taxes such as wine taxes (WET or excises) have a regressive impact since such taxes are not based on one’s ability to pay.

1. This analysis was extracted from our FWSA tax research paper ‘Wine options of Australian tax reform’ currently being reviewed by a leading tax journal. [↑](#footnote-ref-1)
2. The Government said the associated producer provisions will be amended to help deter artificial business structuring and multiple rebate claims. The WET rebate cap will be reduced from $500,000 to $350,000 on 1 July 2017 and to $290,000 on 1 July 2018. Tightened eligibility criteria will be introduced to apply from 1 July 2019. [↑](#footnote-ref-2)
3. Foundation for Alcohol Research and Education Submission to the Tax White Paper Taskforce, June 2015, 14 <http://bettertax.gov.au/publications/discussion-paper/submissions/> accessed 16 February 2016,“*Reviews that have recommended a volumetric tax be applied to wine include: the 1995 Committee of Inquiry into the Wine Grape and Wine Industry; 2003 House of Representatives Standing Committee on Family and Community Affairs Inquiry into Substance Abuse; the 2006 Victorian Inquiry Into Strategies to Reduce Harmful Alcohol Consumption; the 2009 Australia's future tax system (Henry Review); the 2009 National Preventative Health Taskforce report on Preventing Alcohol Related Harms; the 2010 Victorian Inquiry into Strategies to Reduce Assaults in Public Places; the 2011 WA Education and Health Standing Committee Inquiry Into Alcohol; the 2012 Australian National Preventive Health Agency Exploring the public interest case for a minimum (floor) price for alcohol, draft report and the 2012 Australian National Preventive Health Agency Exploring the public interest case for a minimum (floor) price for alcohol, final report.*” [↑](#footnote-ref-3)
4. Glen Barton and Dale Pinto, ‘the WET: is it a good drop?’ (2014) 18(2) *The Tax Specialist* 54; Paul Kenny ‘The United Kingdom, an Emerging Leader in Wine Taxation? ’ (2012) 3 *British Tax Review* 334. [↑](#footnote-ref-4)
5. See submissions to the Tax White Paper Taskforce May 2015, <http://bettertax.gov.au/publications/discussion-paper/submissions/> accessed 16 June 2016. [↑](#footnote-ref-5)
6. Senate Rural and Regional Affairs and Transport References Committee ‘Australian grape and wine industry’ February 2016, Commonwealth of Australia

   <<http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Australian_wine_industry>> [↑](#footnote-ref-6)
7. Serge Renaud and Michel De Lorgeril ‘Wine, alcohol, platelets and the French paradox for coronary heart disease’ (1992) 339 *Lancett* 1523; J E Kinsella, Edwin Franknell, Bruce German & Joseph Kanner, ‘Possible mechanisms for the protective role of antioxidants in wine and plant foods : physiological mechanisms by which flavonoids, phenolics, and other phytochemicals in wine and plant foods’ (1993) 47 *Journal of Agricultural and Food Chemistry* 85. [↑](#footnote-ref-7)
8. Kym Anderson, Ernesto Valenzuela and Glyn Wittner, ‘Wine export shocks and wine tax reform in Australia: Regional consequences using an economy wide approach’ (2011) 30(3) Economic Papers 386. [↑](#footnote-ref-8)