E5. Alcohol taxation

Key points

Taxes on alcohol should be set to address the spillover costs imposed on the community of alcohol abuse, when this delivers a net gain to the community's wellbeing and is more effective than alternative policies. Raising revenue is a by-product, not the goal, of taxing alcohol. The tax rate should be based on evidence of spillover costs, and levied on a common volumetric basis across all forms of alcohol, regardless of place, method or scale of production.

While the abuse of alcohol imposes significant costs on society, these are not effectively targeted by current tax and subsidy arrangements for alcohol, which are complex and have conflicting policy rationales. In particular, the wine equalisation tax, as a value-based revenue-raising tax, is not well suited to reducing social harm.

A common volumetric tax on alcohol would better address social harm through closer targeting of social costs. A rate based on evidence of net social costs would help balance the benefits from alcohol consumption with its social costs. Moreover, by removing the distinction between different manufacturing processes, the compliance and administration cost of the existing excise system would be reduced.

In the short term, several specific changes should be made to address the more pressing social costs of alcohol consumption, and to remove structural anomalies in the system of alcohol taxes. The transition to a common alcohol tax should be phased in over a longer term, to ensure that producers and consumers have time to adjust to the changes.

E5–1 The rationale for taxing alcohol

Since Governor Hunter first taxed beer, wine and spirits in the colony of New South Wales, alcohol taxation has provided governments in Australia with an administratively simple tax base. This revenue was once a vital share of government finances. However, government today can raise much larger sums of money from broad-based taxes on income, resources and consumption. These provide a fairer and more efficient way to raise revenue than specific commodity taxes. Narrow-based taxes should be designed primarily to correct particular market failures, not for general revenue-raising (see Section E Enhancing social and market outcomes).

While alcohol excise is administratively simpler than other taxes, its simplicity has eroded over time. Today, commercially produced beer is taxed at eight different rates — depending on alcohol volume, the type of packaging, and whether it is produced for commercial or non-commercial purposes. Brandy is taxed at a lower rate than the domestic spirits rate (which is based on alcohol content), and some imported spirits are subject to an additional duty based on value, on top of the domestic excise rate. Wine is taxed through a separate wholesale tax, based on its value, not its alcohol content.

To enforce the distinction between beer, wine and spirits, a sophisticated system of licensing and bonded warehouses has been devised. This ensures that alcohol produced using one process is not passed off as a lower-tax product. In addition, technological advances mean that alcohol produced using one process can be altered to mimic other beverage types. This has introduced additional complexity — for example, the definition of beer now requires a minimum threshold of 'international bitterness units' and a maximum threshold for sugar. Just to determine the appropriate rate of excise, the Australian Taxation Office (ATO) needs to provide advice on recipes.

While taxes on alcohol should not be used for general revenue-raising, they may have a role in addressing the significant spillover costs on the community associated with alcohol abuse, by changing the price of alcohol faced by consumers. This is a blunt instrument for controlling the spillover costs of abusive consumption, and must be weighed against the wellbeing loss of taxing non-abusive consumers. However, in the absence of more cost effective or better targeted instruments to address abusive alcohol consumption, a tax on the consumption of alcohol can still improve welfare.

Alcohol tax reduces overall consumption, but is not targeted

Economic studies of alcohol consumption around the world consistently find that higher prices do reduce overall consumption of alcohol products. However, in most cases a 1 per cent price rise in the price of alcohol results in less than a 1 per cent decline in consumption (Fogarty 2008). Moreover, not all individuals reduce consumption to the same degree — evidence suggests that heavier drinkers may be less responsive to the price of alcohol than the general population (Ayyagari 2009).

In theory, if alcohol tax could be targeted at an individual's abusive consumption, it would be imposed on a per-drink basis, at a rate set according to the risk of harm for individual consumers. Drinks more likely to give rise to high spillover costs would be taxed prohibitively, while consumption with no risk of spillover costs would not be taxed. In this ideal world, the price of every glass of alcohol would include the risk of harm associated with its consumption.

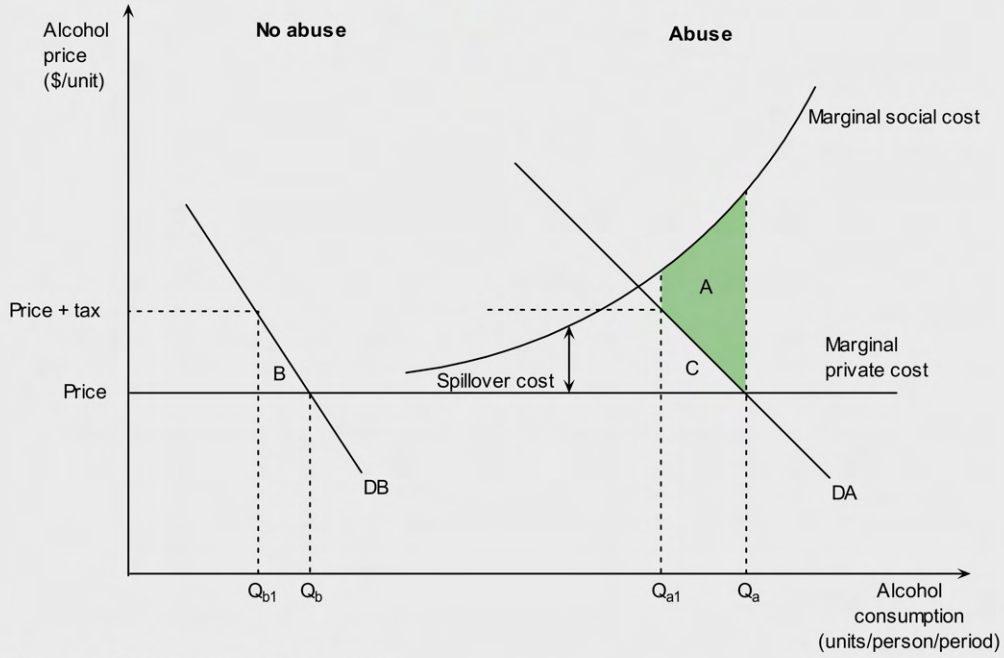
In the real world, however, such a tax is technologically and administratively infeasible, and would be unnecessarily intrusive. Accordingly, alcohol taxes are levied equally on all products of a particular class or type. The effect of this is to raise the cost of drinking, but with the cost averaged across all drinkers, not targeted only at those most likely to cause social harm.

This makes excise a blunt instrument for reducing the spillover costs of alcohol use. It means that consumers who enjoy alcohol responsibly face an unnecessarily high price (and pay too much tax). In other words, even though alcohol tax raises revenue for the government, it is not a costless way of addressing alcohol abuse. As with all policy interventions, the benefits of taxation should be weighed against the costs (see Box E5–1).

Box E5–1: Costs and benefits of taxation

Taxes to reduce social harm can be costly when not all units of consumption give rise to the same spillover cost. Chart E5–1 presents a stylised welfare-economics framework, which splits consumers into two groups — one whose consumption has 'no abuse' (left) and one whose consumption has risks of 'abuse' (right). Consumption with no abuse gives rise to no spillover costs, while consumption with abuse gives rise to spillover costs that increase with the quantity of alcohol consumed in a single period.

Chart E5–1: Taxing to control social costs



Source: Adapted from Pogue and Sgontz (1989).

A tax — levied across both groups — reduces the consumption of both groups. An increase in price reduces consumption by the abuse group (from Qa to Qa1). While this may result in a loss of immediate satisfaction (area C) to the individual, on balance society as a whole benefits from a reduction in spillover costs (area A).

However, this gain needs to be balanced from the wellbeing loss of consumers with no abuse. They too reduce their consumption (from Qb to Qb1), resulting in a welfare loss (area B) that is not offset by any reduction in spillover cost.

Taxes on alcohol should not be increased beyond the point where the marginal reduction in spillover cost exceeds the marginal reduction in the wellbeing of responsible drinkers. One corollary of this is that while a tax on alcohol might be used to reduce social harm, it is not an appropriate tool to eliminate it.

Tax compared to targeted policy intervention

Collins and Lapsley (2008) evaluate a number of policy interventions for reducing the spillover costs of alcohol abuse. They find that higher alcohol taxes would reduce overall spillover costs, but also that individual-based interventions (usually by doctors) are an

effective way to reduce hazardous alcohol consumption. Stricter enforcement of random breath testing, and reducing the allowed blood alcohol concentration level for drivers would be effective ways of reducing the costs of drink driving. Complete or partial controls on the advertising and marketing of alcohol would also reduce costs.

As with the use of tax to control the spillover costs of alcohol, the costs and benefits of non-tax programs need to be considered. The advantage of these interventions is that they could be closely targeted at actual spillover costs, unlike an excise that is necessarily averaged over all units of production.

The point of production or importation is not the only point at which it is possible to introduce prices that reflect spillover costs. For example, data on police attendance at alcohol-related incidents in New South Wales suggests that more than half of incidents are related to only 10 per cent of licensed premises (Moore 2009).

To improve the targeting of the price signal, State governments might relate the licence fee for an establishment to the number and severity of violent incidents connected with it. In this way, licence fees would act as a more targeted tax than excise. They would provide operators with a stronger incentive to refuse service to high-risk patrons. Establishments that are sustained sources of violence would pass these costs on to their patrons in higher prices — while consumers who drink in a low-risk setting would not pay the additional cost.

Principle

Taxes on alcohol should be set to address the spillover costs of consumption, when this delivers a net gain to wellbeing and is more effective than alternative policies.

Taxes to reduce spillover costs should target alcohol content

A World Health Organisation (WHO 2007) expert committee concluded that policies that increase alcohol prices have been shown to 'reduce the proportion of young people who are heavy drinkers, to reduce underage drinking, and to reduce per occasion 'binge' drinking'. In addition, the WHO found that '[h]igher prices also delay intentions among younger teenagers to start drinking and slow progression towards drinking larger amounts'.

To the extent that people want to be inebriated — and that this is associated with social harm — it is the alcohol rather than the form in which it is delivered that drives demand. For this reason, it is the alcohol consumed by an individual in a set period, not its value, packaging or the method or place of production, that is most closely related to social harm. Any tax on alcohol designed to address spillover costs should therefore be levied on a volumetric basis.

Principle

Alcohol tax should be levied on a common volumetric basis across all forms of alcohol, regardless of place, method or scale of production.

Rates of alcohol tax should be based on evidence

Spillover costs of alcohol abuse include foetal damage and child abuse, domestic violence, road accidents, crime and violence, increased mortality and a range of diseases and medical conditions.[18] These costs can arise directly (for example, in the form of costs on victims of alcohol-related violence) and indirectly (for example, in the form of the cost to the community of additional demand on a publicly-funded health care system).

There are additional characteristics that may be related to social harm in specific cases. Policy intervention to reduce social harm might also consider the alcohol strength, the environment in which the alcohol is consumed, who is drinking (those more prone to violence) and how (binge drinking). Whether these factors can be taken into account in designing a tax on alcohol production depends on the extent to which particular identifiable classes of beverage can be causally associated with greater or less risk of social harm.

For example, many submissions have argued that 'alcopops' have higher spillover costs than other forms of alcohol, at least for certain groups. Similarly, an expensive single malt Scotch whisky may be associated with lower spillover costs than cheap vodka. Relating classes of drink to risks of harm requires detailed information about the relationship between alcohol products and spillover costs. This relationship may also change over time as producers and consumers adjust their behaviour in response to taxation.

In some cases, the welfare gains from taxing products differently may outweigh the complexity costs, provided that a product can be clearly defined and the net gains identified. However, in the absence of specific information, a uniform rate of tax across all beverages is the least complex and most efficient way of imposing an alcohol tax.

Having different tax rates on beer, wine and spirits is a common feature of alcohol taxes around the world. However, these often reflect the pattern of domestic production, rather than spillover costs. For example, major wine producing countries tend to charge little or no tax on alcohol in wine. Over time, this influences consumer preferences and reinforces demand for particular products.

Departure from uniform taxation also encourages producers to innovate simply to avoid tax. Some Australian firms produce grape-based alcohol products (such as Father O'Leary's) that are very similar to spirit-based products (such as Bailey's Irish Cream). Different tax rates also encourage consumers to change from their preferred drink, without necessarily reducing the risks associated with their drinking.

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18 These costs are more limited in scope than those used in the cost of illness methodologies that have been developed in the public health literature (for example, Collins & Lapsley 2008), which also include many of the costs that individuals bear themselves. To estimate spillover costs relevant for setting rates of tax, it is necessary to exclude private intangible costs (such as pain and suffering), and the loss of household production from premature death or sickness. That said, the distinction between private costs and spillover costs is not always clear. For example, if a family utility and decision making model is used, alcohol-related violence against family members and the loss of family disposable income are private costs; but, if an individual utility and decision making model is used, costs borne by other family members are spillovers.

Low-alcohol beverages

While there should be no discrimination between different types of production, submissions from both public health advocates and producers have generally supported lower rates of tax on lower strength products. This can be justified on the basis that alcohol concentration can be readily measured and is correlated with the level of social harm (see Box E5–2).

Indeed, low-alcohol products can be considered as having a social benefit to the extent that they substitute for higher strength alcohol products that impose greater spillover costs on the community.

Box E5–2: Extremely low-alcohol products are mostly harmless

The body can process about one litre of water an hour (more and life is at risk) and about one standard drink (12.7 mL of alcohol) an hour (more and alcohol starts to accumulate). This implies that consuming a product at 1.27 per cent alcohol content or less should have negligible social harm from alcohol as the water would kill the drinker first.

Principle

The rate of tax on alcohol should be based on evidence of marginal social cost.

E5–2 Current taxes on beer, wine and spirits are incoherent

Many Australians enjoy drinking alcohol — around five in six adults drink alcohol each year, though not all drink on a regular basis. In 2007–08, Australians consumed around $12.6 billion worth of alcohol products (ABS 2009b), containing 170 million litres of alcohol (ABS 2009c). Of this, alcohol in beer accounted for 46 per cent of consumption, followed by wine (31 per cent), spirits (12 per cent) and ready-to-drink beverages (11 per cent) (ABS 2009c).

Cnossen (2009) estimated that the costs relevant for calculating alcohol tax rates amounted to around $46 per litre of alcohol when averaged across all alcohol consumed.[19] However, effective rates of tax per litre payable on beer and less-expensive wine are significantly lower than this. Premium wines and spirits-based products are taxed more heavily than this benchmark rate.

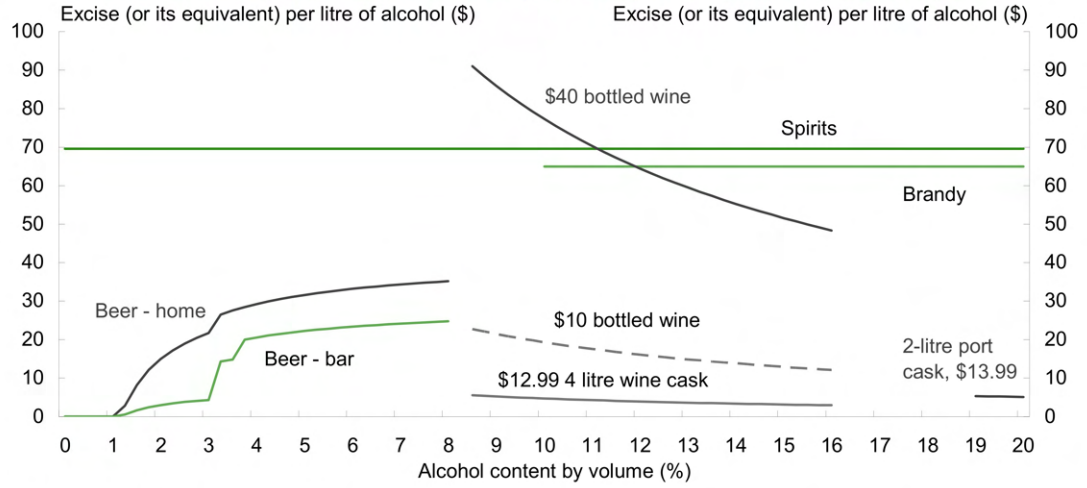
The current system does not reflect the risks of consuming different products. Chart E5–2 illustrates the variation in taxation for different products, at different levels of alcohol content. Some products are not taxed at all. The wine producer rebate means that wine produced by a small winery pays no net tax. Similarly, inbound duty-free concessions allow adults to bring 2.25 litres of alcoholic beverage into Australia duty free.

Taken together, current alcohol taxes reflect contradictory policies. They encourage people to drink cheap wine over expensive wine, wine from small rather than large producers, beer in pubs rather than at home, and brandy rather than spirits, and to purchase alcohol at airport

19 These calculations are based on data from 1998–99, and represent a lower-bound estimate of average external costs per adult.

duty-free stores (see Box E5–3). As a consequence, consumers tend to be worse off to the extent that these types of decisions to purchase and consume, which may have no spillover cost implications, are partly determined by tax.

Chart E5–2: Current effective (specific) alcohol tax by beverage



Note: WET calculated using half-retail method.
Source: Adapted from Ryan (2009), Treasury Estimates.

Current wine tax arrangements distort production

Wine is taxed on its wholesale value through the wine equalisation tax (WET). This tax was introduced, in conjunction with the GST, to maintain a tax treatment for wine roughly consistent with the previous wholesale sales tax regime.

Because wine is taxed on a value basis, wines with the same alcohol content are subject to different levels of taxation. The cheaper the wine, the less it is taxed. As such, current tax arrangements are inconsistent with targeting spillover costs.

Box E5–3: Wine, beer and spirits in the Northern Territory

In Alice Springs, a 2-litre wine cask costs $10.99, which includes roughly $1.59 of wine equalisation tax. An equivalent volume of alcohol in full-strength beer would attract $7.48 in excise, and in spirits $16.45.

Source: Alice Springs supermarket, as at 17–18 August 2009. WET calculated at 29% using half-retail price method, assumes 240 ml of pure alcohol from 12% a.b.v. wine. Equivalent excise rates calculated at 5% alcohol by volume for beer, at $41.06 per litre of alcohol (including 1.15% low alcohol threshold); 40% alcohol by volume for spirits at $68.54 per litre of alcohol.

Moreover, the WET affects the type of products being sold into domestic and export markets. A value-based tax favours cheaper wines that tend to have lower profit margins and are often made by large producers.

The wine producer rebate introduced on 1 October 2004 sought to address this bias in favour of larger producers by shielding the first $1.7 million (approximately) of domestic wholesale wine sales per producer (or group) from WET. The rebate is up to $500,000 per year.

The rebate has created risks for tax avoidance, through 'double dipping' and attempts by small producers to transfer the value of the rebate to larger operators in the supply chain.

The rebate also creates biases between smaller and larger producers. Small producers effectively pay no net WET, but the rebate reduces only a proportion of the WET paid by larger producers. Consequently, an expensive wine made by large producers is subject to higher tax per standard drink than a similar wine made by a small producer. While this provides assistance to small producers, it is inconsistent with targeting spillover costs.

The assistance provided by the WET rebate is poorly targeted. It benefits wine produced outside rural and regional Australia, including wine produced overseas. For example, from 1 July 2005 the rebate was extended to New Zealand wine producers, at an expected annual cost of $9 million for 2008–09 (Australian Government 2005, p. 37). Spending targeted at rural assistance is likely to deliver significantly better value for money to the community.

The wine producer rebate fosters small-scale production and supports some small, otherwise uneconomic wineries. The industry currently reports a widespread grape oversupply and that around half of all wine producers are currently unprofitable. This suggests that resources such as land, water and capital are not being used efficiently. Moreover, the rebate may be acting to prevent an appropriate market response to these circumstances by discouraging mergers within the industry. By supporting uneconomic wineries, the current arrangements are likely to increase the costs of inputs to other wineries that would otherwise be more successful.

Findings

Alcohol is widely enjoyed in Australian society, but some alcohol consumption imposes significant spillover costs. Current tax and subsidy arrangements for alcohol are complex, and distort production and consumption decisions with no coherent policy justification. In particular, the wine equalisation tax, currently designed as a value-based revenue-raising tax, is not well suited to reducing social harm.

Effective rates of tax per litre of alcohol on beer and cheap wine are significantly lower than estimates of average spillover costs, while effective tax rates on premium wines and spirits are significantly higher than these estimates.

E5–3 A common alcohol tax would better address social harm

If alcohol taxes are to be effective in reducing social harm, the taxation of beer, wine and spirits needs to be reformed. The ideal tax structure would be a volumetric tax on all alcoholic beverages, set to balance the reduction in spillover costs[20] of alcohol abuse with the cost of taxation on non-abusive consumers, and recognise social benefits of lower-strength products (see Box E5–4).

Policies that are unrelated to social harm, including industry assistance, regional development, and the promotion of small business, undermine the capacity of alcohol tax to

20 The weighted average marginal cost, not average total cost.

target social harm, and should not be delivered through alcohol taxes. To the extent that these programs are desirable, direct government funding or concessions should be delivered in a manner unrelated to the method or quantity of production.

Urgent structural reforms are needed to remove specific exemptions or concessions for certain forms of alcohol most open to severe abuse, including cheap wine. However, convergence to a common volumetric rate of alcohol tax might occur over a longer period, to ensure that the gains from reform are not overwhelmed by immediate shocks to producers and consumers.

Box E5–4: Social benefits from taxing wine on a volumetric basis

Even a low rate of tax on alcohol can significantly reduce spillover costs.

Experience with the Northern Territory Living With Alcohol Program and its associated levy provides evidence of the link between alcohol price and social harm. Beginning in 1992, the levy raised the cost of a standard drink by around five cents. It was wound down following a High Court case that clarified the limits of state power to impose excise duties.

An evaluation of the program found many benefits, including a reduction in alcohol-caused road deaths and Northern Territory government savings in excess of $124 million over the first four years due to the reductions in alcohol-attributable deaths, hospitalisations and road injures (d'Abbs 2001).

As part of a more wide ranging alcohol management plan implemented in Alice Springs in 2007, restrictions on the sale of cask wine were introduced. This resulted in a dramatic fall in the amount of alcohol sold in wine casks, accompanied by an increase in sales of full-strength beer, with a fall in the level of overall alcohol sales. Police said they believed that the restrictions had led to a reduction in violent assaults. Although people had switched from wine to beer, they were not as drunk as before (Senior et al. 2009).

A common alcohol tax would better satisfy consumer preferences

Even before taking into account the spillover costs of alcohol, moving to a single volumetric would minimise the biases introduced by the tax system as to the form in which people choose to consume alcohol.

Removing tax distinctions between different production processes and beverage types would allow for better satisfaction of consumer preferences at the same time as targeting social harm. The range of products available would be less influenced by disparities in tax rates. Moreover, tax treatment based only on alcohol content would reduce complexity, and improve the long-term sustainability of the tax system in the face of technological innovation.

A common alcohol tax base would introduce a 'floor price'

A uniform rate of tax on the alcohol content of all beverages — whether produced as beer, wine or spirits — would relate the alcohol tax base more closely to social harm. It would improve the price signal faced by consumers, currently distorted by a range of tax rates

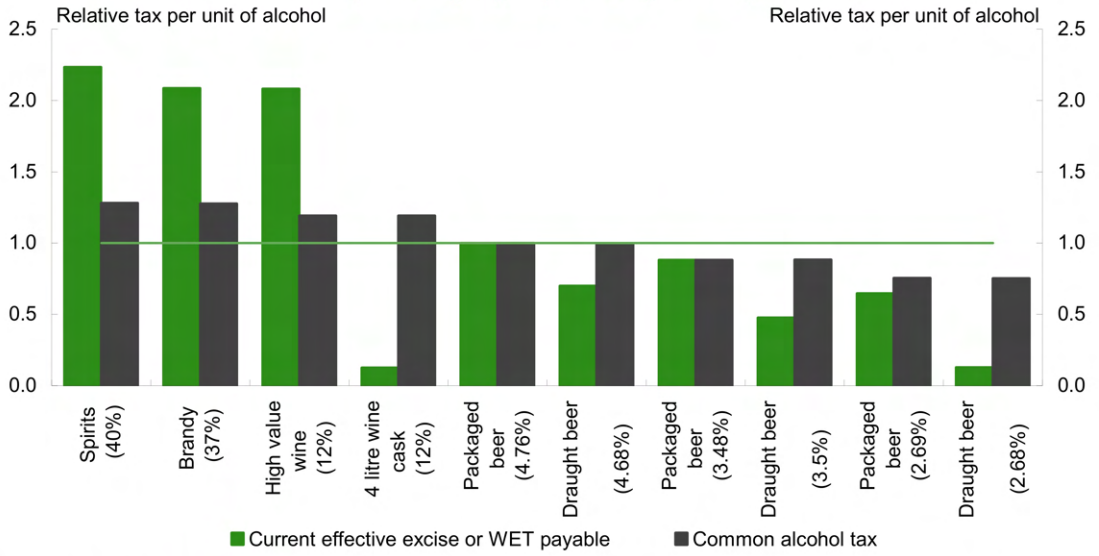
applying to different types of drink. A common alcohol tax would provide a floor price for alcohol (although alcohol could still sometimes be sold below cost or given away).

The maximum amount of alcohol that could be purchased with a fixed amount of money would fall, because forms of alcohol that are currently the cheapest would become more heavily taxed. Products that currently face high effective rates of tax per unit of alcohol, such as high-value wine and spirits-based products, would be taxed less heavily under a common alcohol tax.

For all beverages, the first 1.15 per cent alcohol by volume in any beverage would be exempt from taxation. This recognises that consumption of very low-alcohol products is unlikely to lead to social harm. It also provides a further incentive for producers to reduce alcohol concentration in all products, as less concentrated alcohol products would be taxed proportionately less. For example, Chart E5–3 shows that spirits currently face effective tax rates that are 2.2 times that of full-strength packaged beer. Under a common alcohol tax, full-strength spirits would be taxed around 1.3 times that of full-strength beer.

Chart E5–3: Relative taxation of alcohol under a common alcohol tax[(a)]

By beverage type (alcohol by volume)



(a) The tax per unit of alcohol is measured relative to full strength packaged beer.
Note: The 1.15 per cent low-alcohol threshold reduces the effective tax payable on beer below the statutory rate. For example, the effective excise payable on full-strength packaged beer is 1–(1.15/4.9) = 76% of the statutory excise rate. This treatment would be extended to all beverages under a common alcohol tax. The effective WET liability is calculated based on a 750ml bottle of high-value wine retailing at $40 and a 4 litre wine cask retailing at $12.99.
Source: Treasury estimates, ABS (2009c).

Transition to such a system would need to be managed carefully, to avoid potentially harmful shocks to consumers, and to reduce the impact on existing industry arrangements. For this reason, transitional arrangements might be designed to stabilise the nominal price of some products, and to limit the rate of price change (both upward and downward) for others, while monitoring the effect of these changes on spillover costs.

Setting the rate of alcohol tax

The current wide variation in rates of tax on different types of alcohol makes it difficult to calculate an efficient alcohol tax rate. This is because the distribution of abusive and

non-abusive consumption is partly determined by these tax arrangements. In order to estimate the weighted average marginal spillover cost of alcohol, it would be necessary to first reform the structure of alcohol taxation, by removing the current biases to consume alcohol in one form rather than another.

Until reliable estimates are available, the average spillover cost per litre might be used as a proxy. As the current full-strength packaged beer excise rate is closest to the estimates of the average spillover cost of alcohol in Australia, it would be appropriate for rates of tax on other products to converge at this rate over time.

During the transition, data on spillover costs and consumer behaviour should be systematically collected to inform the process of setting the optimal tax rate. The final rate of tax would be intended solely to optimise price signals facing consumers. It should be set without regard to the government's fiscal position, and irrespective of any specific spending commitments related to alcohol abuse. The rate of tax should be indexed to ensure that the real rate of the tax only falls in the event of an adjustment to social cost estimates.

To ensure it is credible and sustainable, the process of determining the tax rate should be based on the best available information and an agreed and transparent methodology (see Section G5 Monitoring and reporting on the system). Consistent with Action 4.1 of the National Preventative Health Taskforce (2009), this process should incorporate independent modelling, in consultation with the departments of Health and Ageing and Treasury and an industry panel.

Estimates and models should be periodically re-assessed to take into account the effectiveness of alternative policies for reducing social harm, as well as changes in culture that affect consumption. If more targeted non-tax measures to reduce social harm are successful, the alcohol tax rate could be lowered.

Taxing alcohol consumed in Australia

Alcohol produced for export should continue to be exempt from tax, as alcohol consumption should be regulated in the jurisdiction in which the spillover costs are borne (that is, in the destination country). Imported alcohol products (including by travellers) should be taxed at the same rate as domestically produced products, as the spillover costs of alcohol in Australia relate to alcohol consumed here, regardless of where it is produced.

Alcohol used for industrial, manufacturing, scientific, medical, veterinary and other purposes that poses no risk of social harm from human consumption would continue not to be taxed.

In principle, the home production of alcohol (for example, home brew or wine-making) would be subject to tax. In practice, this is unlikely to be feasible.

Reducing compliance and administration costs

The excise system has evolved over the past century. In 2008–09, almost three hundred entities in the alcohol industry paid excise duty. This system is administered by the ATO. Excise-equivalent customs duty on imported goods is currently collected through a separate system by the Australian Customs and Border Protection Service.

Much of the existing apparatus for licensing the manufacturing, importing, storing or dealing in excisable products is due to differential (and sometimes high) rates of tax on many different classes of alcohol. Further, the additional value-based tariff on some imported spirits increases compliance costs associated with tracking goods in warehouses.

Treating all alcohol products on the same basis, regardless of how or where they are produced, would make much of this additional regulation redundant. The taxation of alcohol could be brought into a single regime, to ensure consistent compliance obligations between industries and to remove the administrative costs of running multiple systems for taxing alcohol. Such an approach would need to be developed over time in consultation with industry, and could also be extended to include other excisable goods. Businesses that produce a range of alcohol products would not need to deal with multiple tax systems.

The current excise system is particularly costly for smaller producers. However, wine producers, 80 per cent of whom have a turnover of less than $2 million per year, are not currently in the excise system. There are also concessions for microbreweries and 'brew-on-premise' beer.

These small entities need not be immediately included in the current excise system, but should ultimately be brought under a common alcohol tax. The Australian government should explore streamlined arrangements for small taxpayers based on their volume of production. Small alcohol producers might be subject to less stringent licensing conditions, relaxed rules around calibration and testing of equipment, and be allowed to report their liability through the business activity statement. This would help ensure that compliance and audit resources are targeted on a cost-effective basis.

Finding

A common alcohol tax that does not discriminate between beverage types would remove production and consumption biases from the alcohol taxation system, reduce compliance and administration costs, and better target the spillover costs of alcohol consumption.

Recommendation 71:

All alcoholic beverages should be taxed on a volumetric basis, which, over time, should converge to a single rate, with a low-alcohol threshold introduced for all products. The rate of alcohol tax should be based on evidence of the net marginal spillover cost of alcohol.

Recommendation 72:

The introduction of a common alcohol tax should be accompanied by a review of the administration of alcohol tax, to ensure that alcohol taxpayers do not face redundant compliance obligations.

E5–4 Transition

Imposing a common alcohol tax would result in significant absolute price changes, both upwards and downwards, on a wide range of alcoholic beverages. To ensure that producers and consumers have sufficient time to adjust to new arrangements, the Australian government should develop and announce a long-term transition path to a common alcohol tax.

The long-term transition path would depend on the target volumetric rate of tax, the length of time over which the transition is to occur, and the size of the absolute and relative price impacts on various alcoholic products. This could be done by suspending indexation for the highest taxed-products, while increasing the rate of indexation of the lowest rates of tax.

However, some immediate changes to the current rate and structure of alcohol taxes are justified by the spillover costs associated with particular products, or to remove structural complexity from the existing system. For example, a volumetric tax on wine products should be introduced as a matter of urgency to raise the tax paid on cheap wine — effectively introducing a 'floor price' on alcohol. The system could also be simplified immediately by removing the additional 5 per cent tariff on imported spirits, and removing excise categories that provide concessional treatment for specific products.