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Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Members of the Task Force

The Gilbert + Tobin Centre of Public Law and the Indigenous Law Centre are pleased to have the opportunity to contribute a response to the *Tax Discussion Paper* published by the Australian Government in March 2015. This submission is focused on the issue of Alcohol Taxes raised in section 9.3 of the Discussion Paper. It is premised on the acknowledgment in section 9.1 that some indirect taxes aim not just to raise revenue, but also influence behaviour. This submission supports the case for reform to the Wine Equalisation Tax (WET) and WET rebate, as part of a supply-side strategy to reduce alcohol-related harms.

While excise in Australia is levied on beer, spirits and liqueurs by reference to alcohol content (with particularly favourable tax treatment for low strength beer) – a volumetric approach – the WET uses the wholesale price of wine as the basis for calculation. This anomaly, which ignores the public health arguments for linking tax treatment to alcohol content and favours cheaper wines, should be brought to an end.

The argument put in this submission is as follows:

- There is an established relationship between heavy alcohol consumption and various social harms including family and community violence.
- Pricing and taxation are supply-side measures that can affect alcohol consumption and reduce alcohol-related harm.
- Frontline organisations, public health researchers and other expert bodies have consistently sought replacement of the WET with a volumetric approach to taxation and/or an equivalent policy measure to influence price, based on practical experience and empirical evidence.

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There is an established relationship between alcohol consumption and a variety of social harms

Whatever its benefits, alcohol consumption has costs. Heavy alcohol consumption can adversely affect the health and well-being of individual consumers, with both acute and chronic effects. The impacts occur disproportionately amongst the Aboriginal and Torres Strait Islander population, where the burden of alcohol-related disease has been reported as twice that of other Australians.¹ It can also result in serious harms for people other than the individual drinker. Alcohol consumption, especially at high levels, is strongly associated with assaults and other forms of violence in family and public settings, as well as child abuse and neglect.² These and the associated costs from harmful alcohol consumption, such as increased demands on the health, criminal justice and child protection systems, also amount to a substantial adverse impact on the Australian community in economic terms, conservatively estimated to exceed \$15 billion a year.³

Pricing and taxation are supply side measures that can affect alcohol consumption and reduce alcohol-related harm

There is a well-established link between alcohol pricing and levels of consumption, and in turn to levels of alcohol-related harm. Indeed the European Office of the World Health Organization said in 2009 that of 'all alcohol policy measures, the evidence is perhaps strongest for the impact of alcohol prices on alcohol consumption and alcohol-related harm'.⁴ Two meta-analyses published in 2010 in the *American Journal of Public Health* and the *American Journal of Preventive Medicine* also found strong evidence for the effectiveness of pricing and taxation in curbing alcohol consumption and alcohol-related harms, as noted by Australian researchers Carragher and Chalmers.⁵ Similarly, a meta-analysis from the UK also identified 'a large number of studies that consistently reported evidence for a direct association between increases in taxation or pricing of alcohol and reductions in acute and chronic ill health, accidents, crime, and violent incidents'.⁶

Likewise, a recent Australian study reported that pricing policies using taxation or minimum pricing 'are supported cost-effective approaches to reducing consumption'.⁷ This corresponds

¹ Australian National Preventive Health Agency, *Exploring the Public Interest Case for a Minimum (Floor) Price For Alcohol: Final Report*, May 2013, 25-27.

² Morgan and McAtamney, *Key issues in alcohol-related violence*, Research in practice no. 4, Australian Institute of Criminology, December 2009.

³ Marsden Jacob Associates, *Bingeing, collateral damage and the benefits and costs of taxing alcohol rationally*, Report to the Foundation for Alcohol Research and Education, October 2012, v and Marsden Jacob Associates, *A note on the role of value judgements in public interest tests on alcohol policy*, 2013, Appendix 7 in Australian National Preventive Health Agency, *Exploring the Public Interest Case for a Minimum (Floor) Price For Alcohol: Final Report*, May 2013. See also Manning, Smith and Mazerolle, 'The societal costs of alcohol misuse in Australia', *Trends and Issues in Crime and Criminal Justice*, Australian Institute of Criminology, April 2013, 3.

⁴ World Health Organization, *Handbook for action to reduce alcohol-related harm* 2009, World Health Organization Regional Office for Europe, 18.

⁵ Carragher and Chalmers, *What are the options? Pricing and taxation policy reforms to redress excessive alcohol consumption and related harms in Australia*, NSW Bureau of Crime Statistics and Research, 2011, 9-10, citing Wagenaar, Tobler, and Komro, 'Effects of alcohol tax and price policies on morbidity and mortality: a systematic review', *American Journal of Public Health*, 100, 2010, 2270-2278 and Elder, Lawrence, Ferguson, Naimi, Brewer, Chattopadhyay, Toomey, Fielding, 'The effectiveness of tax policy interventions for reducing excessive alcohol consumption and related harms', *American Journal of Preventive Medicine*, 38(2), 2010, 217-229.

⁶ Purshouse, Meier, Brennan, Taylor and Rafia, 'Estimated effect of alcohol pricing policies on health and health economic outcomes in England: an epidemiological model', *Lancet*, Vol 375, 2010, 1355 citing Booth, Meier, Stockwell et al, *Independent review of the effects of alcohol pricing and promotion: part A*, Systematic Reviews, University of Sheffield, 2008.

⁷ Fogarty and Chapman, *What should be done about policy on alcohol pricing and promotions? Australian experts' views of policy priorities: a qualitative interview study*, BMC Public Health, 2013, 13:610, 2.

with the findings of a longitudinal study of the effect of price and other influences on alcohol consumption and harm in Central Australia which was published in October 2012.⁸

The imposition of additional alcohol control measures has made a significant contribution to the reduction of estimated per capita consumption in Central Australia. The evidence demonstrates that the most effective of these measures have been those which indirectly increased the average price per litre of alcoholic beverages (i.e. the removal of lower priced cask table and fortified wines from the market) and which directly increased the average price (i.e. the so-called 'alcopops tax'). This finding with regard to the impact of price is consistent with the international evidence, and with evidence from the Greater Darwin region over the same time period.

Another Australian study reported in 2010 that the volumetric tax scenarios it tested 'would provide greater health benefits and cost savings to the health sector than the existing taxation system, based on current understandings of alcohol-related health effects'.⁹ In the UK, a study in *The Lancet* that modelled 18 pricing policies found that increasing price would reduce consumption, leading to reductions in mortality, disease prevalence and admissions, together with savings in health-care costs. Notably, it predicted that harmful drinking subgroups 'would have the largest health gains' from pricing policies.¹⁰

Frontline organisations, public health researchers and other expert bodies have made it very clear that the WET should be replaced with a volumetric approach to taxation and/or an equivalent policy measure to influence price

Since it pays no attention to public health considerations, the WET is an anomaly in our taxation system that contributes to social harm. Community organisations see that, from their frontline work in areas like health and justice. Public health researchers also recognise that, from the empirical evidence and mathematical modelling published over recent years in Australia and many places overseas. And economic experts point out that the WET produces market distortion, because the public health rationale that otherwise informs alcohol taxation is missing when it comes to wine. Whatever else may be achieved over time in the area of alcohol policy, these different bodies are united around the urgency of reforming the WET, as the following examples illustrate.

The National Alliance for Action on Alcohol is a national coalition of over 70 health, research and community organisations that includes entities such as Aboriginal Medical Services Alliance Northern Territory, Australian Medical Association, Cancer Council Australia, Foundation for Alcohol Research and Education, National Drug and Alcohol Research Centre, People's Alcohol Action Coalition (Alice Springs), Royal Australasian College of Surgeons and Telethon Institute for Child Health. As part of a broad-based health strategy, the NAAA's principles for reform include a volumetric taxation regime and regulating the minimum price of alcohol.¹¹

⁸ Symons, Gray, Chikritzhs, Skov, Siggers, Boffa and Low, A longitudinal study of influences on alcohol consumption and related harm in Central Australia: with a particular emphasis on the role of price, National Drug Research Institute, October 2012, xii.

⁹ Byrnes, Cobiac, Doran, Vos and Shakeshaft, 'Cost-effectiveness of volumetric alcohol taxation in Australia', *Medical Journal of Australia*, 192(8), 2010, 439.

¹⁰ Purshouse, Meier, Brennan, Taylor and Rafia, 'Estimated effect of alcohol pricing policies on health and health economic outcomes in England: an epidemiological model', *Lancet*, Vol 375, 2010, 1362.

¹¹ National Alliance for Action on Alcohol, *Position Statement - Alcohol Pricing and Taxation* <www.actiononalcohol.org.au/our-work/position-statements/alcohol-pricing-and-taxation>.

The Australian National Preventive Health Agency was careful in its choice of wording regarding alcohol taxation reform, recognising that consumption across sub-groups is influenced by many factors and that any price-related measure should be part of a comprehensive strategy to reduce harmful alcohol consumption. But it was clearly critical of the WET and its failure to take account of public health considerations:¹²

The effective preferential treatment of wine under the WET results in price distortions in the alcohol market in particular in favour of cheap wine. Therefore, from a public health perspective, the current WET as an *ad valorem* tax does not target alcohol content effectively. Preferential treatment of wine, particularly at the lower value end, is likely to be contributing to social and health harms.

This echoed the finding of the Henry Tax Review which recommended long term convergence towards a common rate of volumetric taxation on alcohol content but, significantly, said that immediate action should be taken on the WET:¹³

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.

Conclusion

Reducing the damage caused by excessive alcohol consumption involves a range of complementary policies addressing both demand and supply. Price is certainly not the only determinant of whether alcohol consumption causes individual and social harm. But like other supply-side measures, price can influence consumer behaviour. And tax can affect price. The Australian government recognised these relationships more than 30 years ago when it decided to apply lower excise rates for low-alcohol beer compared with the full-strength product.

The evidence strongly supports reform to the WET to achieve tangible public health benefits for the Australian community, with the hope of particular benefits, for example, amongst Aboriginal populations experiencing high levels of alcohol-related harm.¹⁴ Those health improvements are likely to have knock-on benefits in social and economic terms, enhancing the capacity and well-being of individuals and communities.

There are uncertainties, such as the degree to which indirect taxes on alcohol will be passed onto consumers.¹⁵ There are risks, for example of consumers choosing alternatives that are also harmful, which underpins the importance of an holistic approach. And not everyone would benefit from a tax change that might, for example, increase the price of wine available at the lower end of the market. But these are associated challenges that can be met by reasonable and well-thought out policy responses. The Treasury should also obtain expert public health and economic advice to evaluate whether a ‘tiered volumetric tax’, which avoids steep price falls for some stronger drinks such as spirits and price rises for low-strength beer, is preferable to a

¹² Australian National Preventive Health Agency, *Exploring the Public Interest Case for a Minimum (Floor) Price For Alcohol: Final Report*, May 2013, 66.

¹³ *Australia's Future Tax System. Report to the Treasurer*, Part Two, Volume Two, December 2009, 443.

¹⁴ Aboriginal Peak Organisations Northern Territory, *Grog in the Territory: Central Australian summit on alcohol policy and its impact on Aboriginal people and communities*, July 2013, 9, 12.

¹⁵ Carragher and Chalmers, *What are the options? Pricing and taxation policy reforms to redress excessive alcohol consumption and related harms in Australia*, NSW Bureau of Crime Statistics and Research, 2011, 9; World Health Organization, *Handbook for action to reduce alcohol-related harm* 2009, World Health Organization Regional Office for Europe, 18.

common volumetric tax across all alcoholic beverages.¹⁶ There also appears to be a strong case for minimum pricing to complement and preserve the effectiveness of a volumetric taxation regime, an issue that requires close examination.¹⁷

The time has come for the Australian government to respond positively to the compelling case put forward by a remarkable coalition of community organisations, expert researchers and economic analysts, based on practical experience and empirical evidence. Amongst the changes to result from the Tax White Paper, the government should replace the WET with an extension of the volumetric approach to alcohol to strengthen the public health achievements of the indirect tax system.

Yours sincerely



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¹⁶ Doran, Byrnes, Cobiac, Vandenberg, Vos, 'Estimated impacts of alternative Australian alcohol taxation structures on consumption, public health and government revenues', *Medical Journal of Australia*, 199(9), 2013, 620.

¹⁷ Carragher and Chalmers, *What are the options? Pricing and taxation policy reforms to redress excessive alcohol consumption and related harms in Australia*, NSW Bureau of Crime Statistics and Research, 2011, 13-14, 27; Fogarty and Chapman, *What should be done about policy on alcohol pricing and promotions? Australian experts' views of policy priorities: a qualitative interview study*, *BMC Public Health*, 2013, 13:610, 4.