

**Submission to**  
**Tax White Paper Task Force**  
***Better Tax System***

**Prepared by**  
**The Australian Liquor Stores Association Inc.**  
**(ALSA)**

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The Australian Liquor Stores Association Inc. (ALSA) welcomes the opportunity to make the following submission to The Tax White Paper Task Force on *Better Tax System*.

### **Executive Summary**

ALSA welcomes the inclusion of alcohol tax for review in the Tax Whitepaper process. ALSA believes that Australian alcohol taxes are too high by global standards and political attention is required to discourage further growth in the regressive alcohol tax base. The high rate of alcohol taxes has also led to changes in purchase behavior, including into illicit, that demonstrates the need for a freeze on indexation similar to the decision taken by the UK exchequer.

Against a backdrop of declining harmful alcohol consumption and falling overall consumption, ALSA submits that there is no justification for further increase in alcohol tax for any health reason. Further, there is a policy case that can be made which suggests Australia should reduce alcohol taxes so as to remain competitive with other alcohol producing nations and OECD contemporaries.

### **Contribution of the Australian retail packaged liquor sector**

The Australian retail packaged liquor sector turns over \$17.5 billion<sup>1</sup>, generates employment of 165,000 Australians, generates indirect taxes of \$5 billion<sup>2</sup> and caters for 13.7 million current adult Australian drinkers<sup>3</sup>.

The Australian retail packaged sector contributes to the fabric of the Australian life style by encouraging the responsible and safe consumption of alcohol whilst celebrating special events and life's milestones. There are many different occasions for people to enjoy alcohol away from licensed premises including in social gatherings primarily in the safety of their own home, at meals or BBQs with family and friends or at a BYO restaurant.

### **Alcohol taxes do not align to guiding principles for the tax system**

The total alcohol beverage sector generates an estimated \$8.4 billion in taxes. This is comprised from indirect taxes of \$5.7 billion<sup>4</sup> from Excise, Customs Duty and WET plus a further \$2.7 billion<sup>5</sup> in GST.

The packaged alcohol beverage sector accounts for an estimated 60% of value and nearly 80% of volume, so overall it generates conservatively \$5.0 billion in indirect taxes from \$3.4 billion alcohol taxation with a further \$1.6 billion in GST. This is before State payroll taxes and State liquor licensing fees or any company taxes and income tax levied on the 165,000<sup>7</sup> direct and indirect workers supported by the retail packaged alcohol beverage sector.

The introduction of the GST in 2000 saw the removal of a large number of indirect taxes including Wholesale Sales Tax (WST) which was offset by increases in excise on beer and spirits plus the introduction of the Wine Equalisation Tax (WET). The ongoing bi-annual CPI increases to beer and spirits excise taxes and a 29% ad valorem Wine Equalisation Tax (WET) now place Australia as one of the highest alcohol taxing countries in the OECD.

The guiding principles for the tax system are economic efficiency, equity, simplicity and compliance costs. As such, revenue raising should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter- generational) and minimise complexity for taxpayers and the community. The present high rate of alcohol taxation in Australia against other goods and services is inhibiting the highest value use through

<sup>1</sup> Euromonitor International, *Alcoholic Drinks in Australia*, June 2014

<sup>2</sup> DSICA and ALSA estimates

<sup>3</sup> AIHW 2014, NDSHS 2013, Table 4.3

<sup>4</sup> Distilled Spirits Council of Australia Inc. (DSICA) and derived ALSA estimates

<sup>5</sup> Euromonitor International, *Alcoholic Drinks in Australia*, June 2014

<sup>6</sup> ALSA estimates \$5 billion based on Packaged liquor retailers having 60% of value and nearly 80% of volume of total alcohol sector which generated \$8.4 billion in taxes.

<sup>7</sup> Total of direct employment plus indirect employment as per Deloitte Access Economics, *Australian alcohol industry – economic contribution and employment* (2013) and ALSA estimates

the production decisions of businesses and purchase decisions of consumers, meaning the whole economy is made worse off.

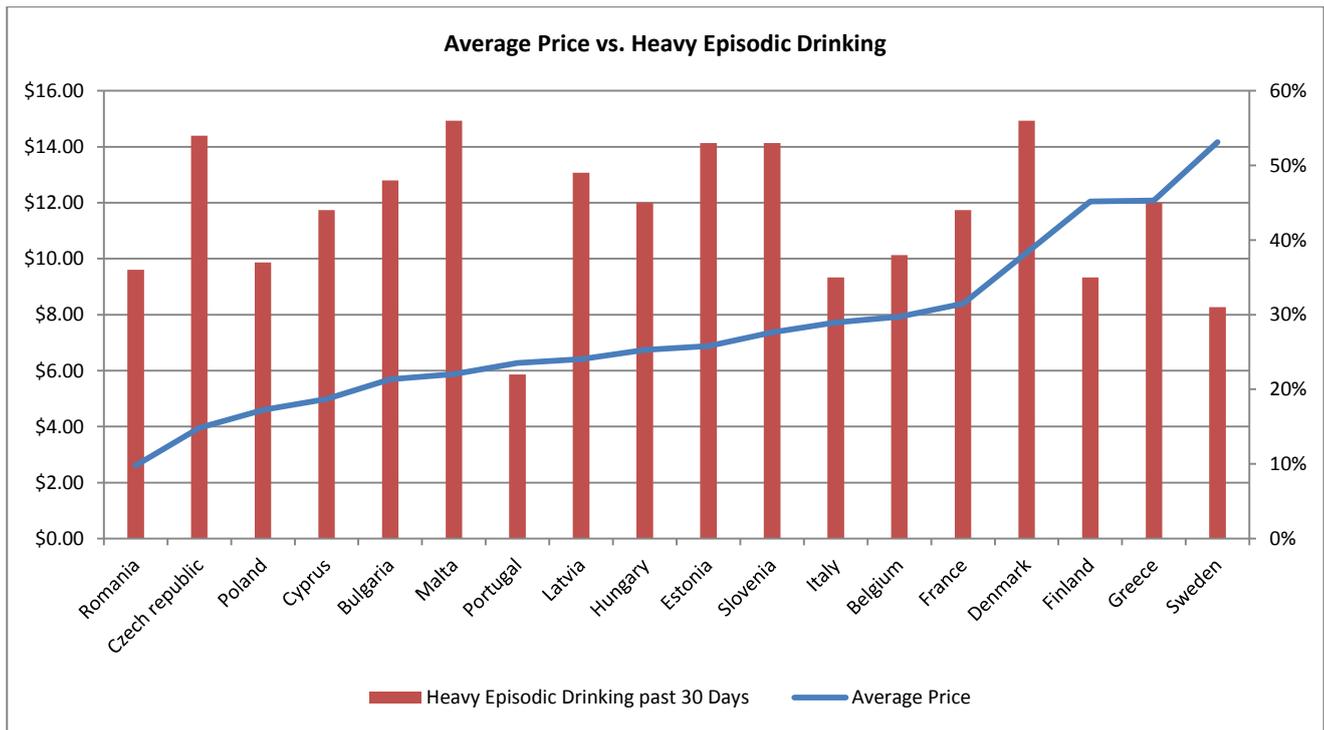
This excessive tax regime discourages craft and boutique producers from entering the market and growing their business above the threshold where any tax concessions presently exist. Other countries with wine, beer, cider, and spirit producers choose not to tax these industries at all (or very lightly).

The need for complex “bonded warehouses”, WET Rebates, and other administrative complexities result inhibit many business plans with more time spent being an government paper pusher than a producer or seller of alcohol beverages. A former ALSA Board member<sup>8</sup> recently commented that “Many of our members feel they are in the business of compliance and do a little bit of retailing on the side. This needs to change. We have to cut red tape as a priority.”

While ALSA does not dispute that alcohol is a product that causes harm in the community when it is abused, it is also a product that the vast majority of the population enjoy responsibly and to add pleasure to important occasions.

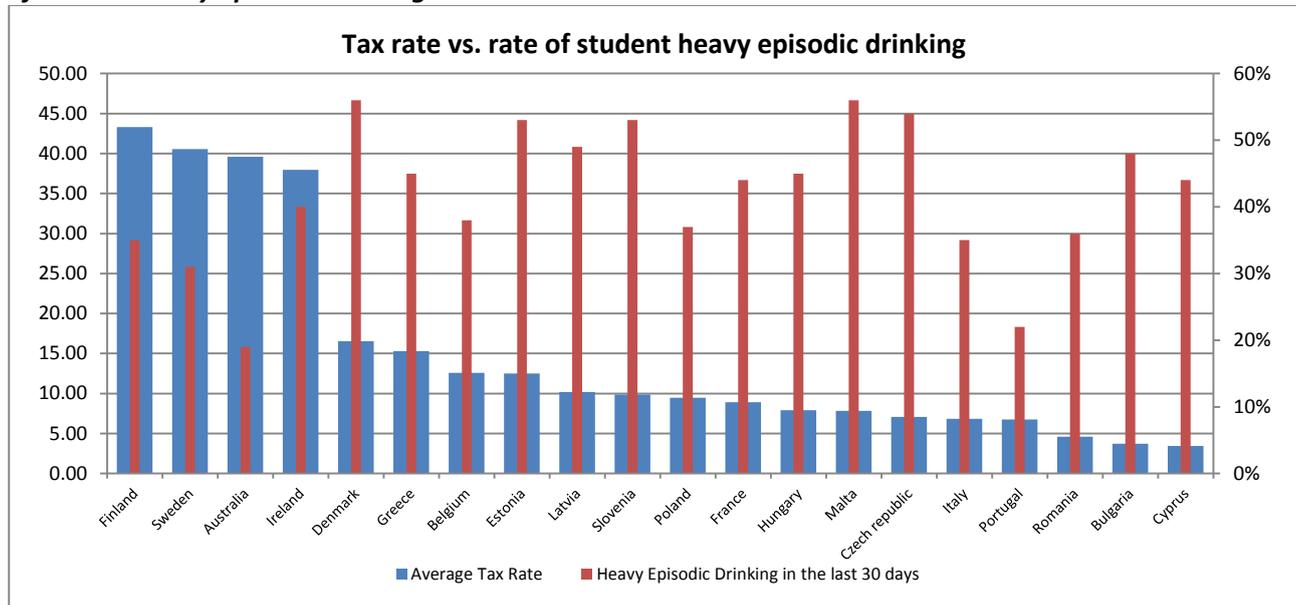
There is evidence that countries which adopt a mature and sensible approach to alcohol and its role in society have lower rates of harmful drinking. As can be seen from the below graph<sup>9</sup>, there is no correlation to alcohol prices and harmful drinking rates. This makes the case for high rates of alcohol taxes to be purely one of revenue raising for government rather than addressing the harmful consumption of alcohol.

**Figure 1: Average Price vs. Heavy Episodic Drinking**



<sup>8</sup> Jos de Bruin, National Chief Executive Officer, Master Grocers Australia, 17 March 2013  
<sup>9</sup> EU Figures: Alcohol in the European Union Consumption, Harm and Policy Approaches. WHO, 2012;  
 AUS Figures: 2010 National Drug Strategy Household Survey report. Australian Institute of Health and Welfare, July 2011  
 Tax Figures: Beer and spirits www.ato.gov.au; wine values Fogarty (2012)

This holds true even for high risk groups such as young people as demonstrated in **Figure 2: Tax rate vs. rate of student heavy episodic drinking**



ALSA acknowledges that higher prices will impact on overall consumption. Due however to the elasticity's involved, it is clear that moderate drinkers who cause little to no externalities will reduce consumption, while harmful drinkers will not alter their drinking behaviours.

The discriminatory high rate of alcohol taxes is also highly regressive.

This clearly points to other policy mechanisms besides broad measures such as alcohol taxes as being the appropriate tool to achieve targeted results. This is investigated further in later parts of this submission.

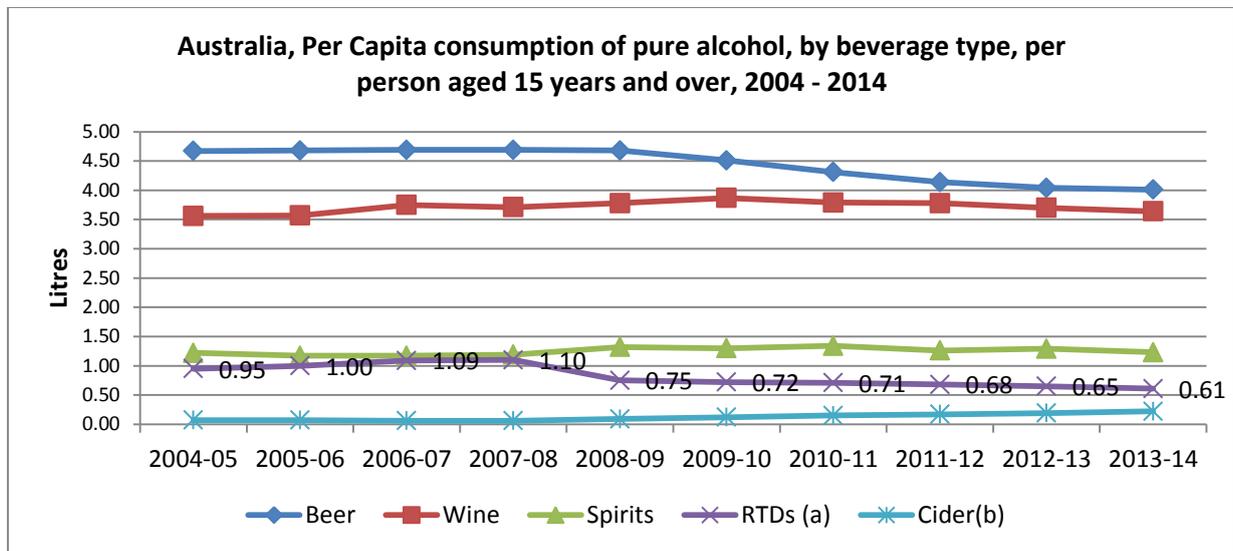
**ALSA submits that the guiding principles of ANTS be considered as the optimal alcohol taxation solution. That is for indirect alcohol taxes to be abolished in favour of broad based taxation measures. Any discussion over raising the rate of the GST should be accompanied by the removal of discriminate alcohol taxes. This would align Australia with other alcohol-producing nations who do not tax or only minimally tax alcohol directly.**

**High taxes are distorting consumer choice**

The 70% increase in the excise applied in 2008 to spirit-based Ready To Drink (RTD's) was touted as a health measure to reduce binge drinking in young Australians, particularly young women. Prior to the excise increase introduced on 27 April 2008 RTDs represented 12% of the total alcohol consumed and contributed more than \$1.1 billion annually in excise and GST (out of a total \$6.4 billion in tax revenue from alcohol sales in that financial year).

The Federal Government initially claimed the RTD tax hike would raise an additional \$2 billion (over four years). Younger drinkers moved to other forms of alcohol, distorting the market, including full strength bottle spirits and cider, resulting in the Government revising the forecast down to \$1.6 billion a few months after the introduction of the tax.

Figure 3, ABS, *per capita consumption of alcohol, by alcohol beverage type, 2004 - 2014*<sup>10</sup>, demonstrates the result in the increased tax has been 41% drop in RTD sales from pre tax increase in 2007/08 (1.10 litres per capita) to 2013/14 (0.61 litres per capita).



As retailers, it is our role to represent consumers and provide to their taste and product preferences. The high rates of alcohol are distorting consumer choice.

### **Cost of alcohol driving growth of illicit drug use**

The expense of alcohol is alleged by health experts as driving Australia's high rates of illicit drug use<sup>11</sup> as 2014 figures show Australia's combination of high levels of use and illicit substances contradict international trends.

Australia has some of the world's highest rates of illicit drug use per capita, ranking first for ecstasy, second for opioids, third for amphetamines, fourth for cocaine and seventh for cannabis<sup>12</sup>. "Substitution between substances, whether they're legal or illegal, is very common," NDARC drug policy modelling program director Alison Ritter said<sup>13</sup>. "That's just sensible consumer behaviour at one level ... It's no different to the choices one makes when shopping in a supermarket."

Cameron Duff of Monash University's School of Psychology and Psychiatry reported that young people frequently talk about the price of alcohol when explaining illicit drug use.

"The thing that comes through again and again is that party drugs, particularly ecstasy, are cheaper relative to alcohol," said Dr Duff<sup>14</sup>, who has been researching cultural aspects of drug use for more than a decade. "Young people are ... thinking the average night out at a bar can be \$100 without even trying, whereas a couple of tablets of ecstasy is \$40 or \$50."

The NSW Bureau of Crime Statistics and Research (BOCSAR) collects robust and reliable data to measure the NSW crime statistics, and is NSW is one of the few jurisdictions in Australia that records this type of

<sup>10</sup> <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4307.0.55.0012013-14?OpenDocument> (Accessed 5 June 2015)

<sup>11</sup> <http://www.smh.com.au/national/high-price-of-alcohol-drives-demand-for-illegal-drugs-20140810-102eo6.html>

<sup>12</sup> <https://www.unodc.org/wdr2014/>

<sup>13</sup> <http://www.smh.com.au/national/high-price-of-alcohol-drives-demand-for-illegal-drugs-20140810-102eo6.html>

<sup>14</sup> Ibid

data with statistically robust accuracy. The BOCSAR quarterly update on 2 June 2015<sup>15</sup> the number of arrests for amphetamine-related offences (including methamphetamine or 'ice' increased by 40.1 % in the two year period until March 2015.

Significant increases were also recorded in cocaine possession/use (up 45.3%), narcotics possession/use (up 17.7%) and cannabis possession/use (up 14.5%).

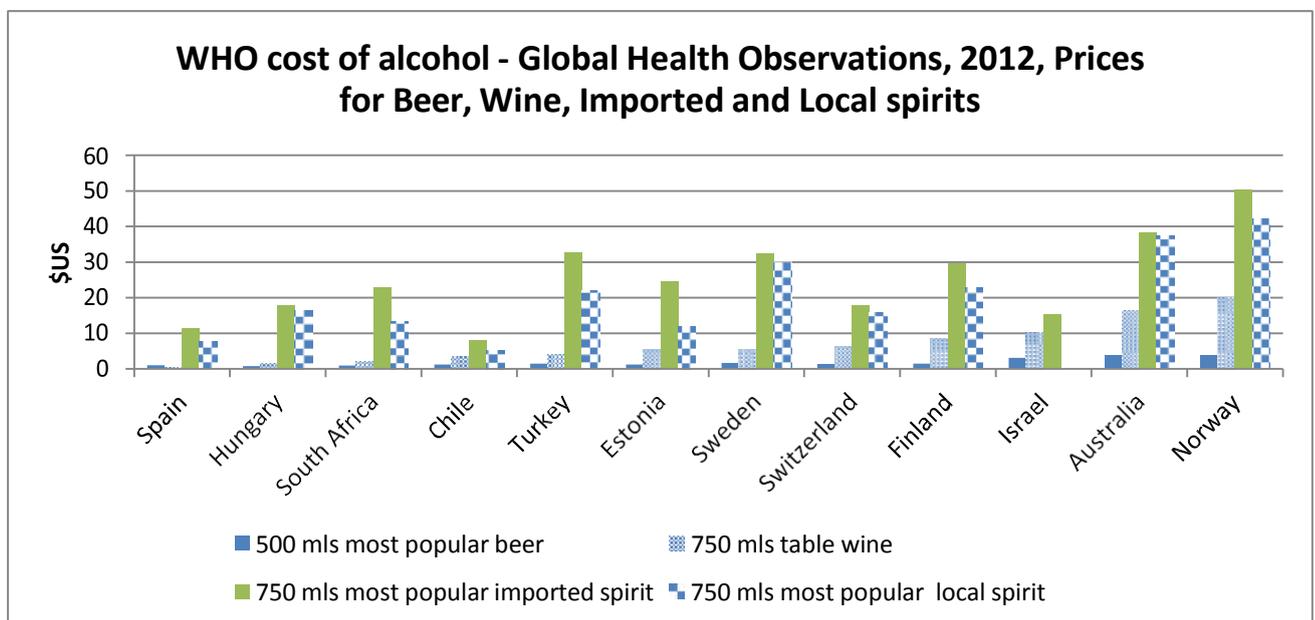
According to a UNSW report<sup>16</sup>, which was prepared by National Drug and Alcohol Research Centre, the ACT has recently reported one of the biggest increases in ice or crystal methamphetamine use among injecting drug users in Australia.

High alcohol taxes cause discrimination in consumer preference and fail in driving the most economic reward to the economy as a whole. ALSA submits that high alcohol taxes are causing distortions to consumer choice and can also be seen to be contributing to a dilution in overall government revenue to the black market.

### Cost of alcohol – OECD comparisons

Concern over alcohol-related violence has prompted demands to increase the price of alcohol<sup>17</sup>. But global data shows that, far from being inexpensive, Australia is one of the most expensive countries to buy alcohol. Of the OECD countries who responded to the WHO Global Health Survey in 2012<sup>18</sup>, Australia has the 2<sup>nd</sup> most expensive alcohol in all categories, i.e. most popular beer, wine, imported and locally produced spirits.

**Figure 4: WHO cost of alcohol - Global Health Observations, 2012, Prices for Beer, Wine, Imported and Local spirits**



N.B International positions may vary according to currency exchange rate variations.

<sup>15</sup> [http://www.bocsar.nsw.gov.au/Documents/RCS-Quarterly/NSW\\_Recorded\\_Crime\\_March\\_2015.pdf](http://www.bocsar.nsw.gov.au/Documents/RCS-Quarterly/NSW_Recorded_Crime_March_2015.pdf) (Accessed 2 June 2015)

<sup>16</sup> <https://ndarc.med.unsw.edu.au/news/methamphetamine-deaths-increase-across-australia-and-ice-use-jumps-52-cent-among-people-who>

<sup>17</sup> Ting, Inga, *Lifting alcohol prices won't stop binges: experts*, SMH, 13 January 2014

<sup>18</sup> World Health Organisation, OECD, 2012, *Only 12 OECD countries are represented. NB. other countries (such as USA, UK, Belgium, NZ, Ireland, France and Netherlands) did not respond to WHO Global Survey on Alcohol & Health in 2012*

The Task Force’s discussion paper **Australia’s tax system** (pages 13 - 34) is a significant chapter devoted to company tax rates and international competitiveness. There is a strong push by economists and treasury officials to lower Australia’s company tax rate for a range of very sensible reasons. Most notably, they recognise that "Australia’s tax system needs to support higher productivity and encourage workforce participation" and consequently that "tax rates that are increasingly uncompetitive will make it harder for Australia to continue to attract necessary investment".

It is disappointing that the White Paper has not considered these same arguments when looking at Australia’s high rate of alcohol taxation against our international peers as well as other alcohol-producing competitor nations.

The rationale for internationally competitive alcohol taxes are the same as for competitive company taxes.

As can be seen earlier in this submission, the largest windfall from alcohol production, logistics, warehousing, and retail sale goes to Australian and State Governments in the form of taxation or licence fees. Should just a fraction of this be returned to customers or the industry, it would improve Australia's international competitiveness overnight leading to more jobs, business investment, innovation and higher overall revenues to government from its broader tax collections.

***ALSA submits that the rates of alcohol tax in Australia should be compared against those of our competitor producing nations. This would improve working cashflow, industry profitability, and lead to a reinvigoration of our international competitiveness and drive a new push into export markets.***

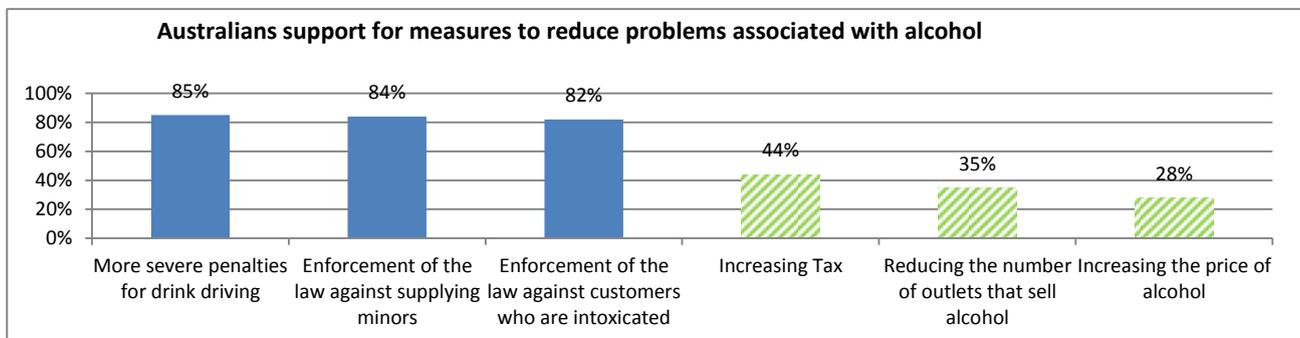
**Australians support targeted measures to curb alcohol abuse**

The Australian Institute of Health and Welfare (AIHW) has conducted the National Drug Strategy Household Survey (NDSHS) every 2 to 3 years since 1985. The 2013 National Drug Strategy Household Survey<sup>19</sup> collected data from nearly 24,000 people across Australia.

The most recent NDSHS 2013 results found that Australians support targeted measures rather than whole of population control measures to curb alcohol abuse.

Population wide measures to reduce alcohol related problems received the lowest level of support with only 28% supporting increasing the price of alcohol, compared to targeted measures which were strongly supported such as greater enforcement of penalties for drink drivers (85%), enforcement against supplying minors (84%) and enforcement against serving intoxicated customers (82%).

**Figure 5: Australians support for measures to reduce problems associated with alcohol<sup>20</sup>**



<sup>19</sup> Australian Institute of Health and Welfare (AIHW) 2014, NDSHS 2013  
<sup>20</sup> Australian Institute of Health and Welfare (AIHW) 2014, NDSHS 2013, Table 9.11

## **Substantial benefits of the alcohol beverage sector**

It is important to be cognisant of the substantial benefits of the alcohol beverage sector<sup>21</sup> in the context of the vast majority of Australians who consume alcohol in a way that adds to health, quality of life and the economy

*Winery, brewery and distillery tourism:* It is also estimated that total expenditure by domestic and foreign tourists visiting wineries, breweries and distilleries is close to half a billion dollars in 2013 (\$495 million).

*Healthy life gains:* It is well known that excessive alcohol consumption causes serious health problems in Australia. It is less well known that moderate consumption of alcohol confers health benefits (compared to abstention), across the population on average including both short term and long run health impacts.

*Health system expenditure savings:* The net impacts of health conditions due to and averted from moderate alcohol consumption leads to net savings for the national health system. Health expenditure savings due to moderate alcohol consumption are calculated as \$417 million in 2013, with substantial savings in dementia, diabetes and cancer care.

*Enjoyment value:* Finally, people drink alcohol because it provides enjoyment. This can be measured by how much they are willing to pay for alcohol beyond the price actually paid (known in economics as 'consumer surpluses'). It can also be measured by surveys which report the additional quality people report from consuming alcohol in moderate amounts. Using the lower of these approaches, the consumer surplus value of moderate alcohol consumption was estimated at \$8.5 billion in 2013 in Australia.

## **Conclusion**

ALSA believes that 80.7%<sup>22</sup> of Australians who consume alcohol within the internationally conservative Australian Government guidelines should not be penalised with excessive taxation on alcohol. The introduction of GST was meant to remove indirect taxes. However, the bi-annual CPI increases and the compounding impact of the GST have continued to increase the price of alcohol, penalising all Australians including those who cause no harm to themselves or others.

<sup>21</sup> Deloitte Access Economics, *Socioeconomic benefits of the Australian alcohol industry*, August 2014

<sup>22</sup> AIHW 2014, NDSHS 2013, Table 4.3

## **Overview of Australian Liquor Stores Association (ALSA)**

The Australian Liquor Stores Association Inc. (ALSA) has a charter to create and promote a responsible, sustainable and diverse off-premise liquor sector across Australia by effective and relevant engagement of all stakeholders.

ALSA was formed in 1983 by the State associations as the National Industry Association for the Liquor Store Sector and its membership represents around 80% of value of the market for take-away retail packaged liquor stores around Australia. The Board of ALSA is comprised of the Presidents from each of the State & Territory Liquor Stores Associations, plus one representative from each of Coles & Woolworths Liquor Groups.

ALSA Member organisations include LSA NSW & ACT, LSA SA, LSA NT, LSA WA, in addition to Coles & Woolworths and we are currently working with key retailers in Victoria and Tasmania. ALDI Stores have also recently joined our LSA NSW organisation.

Member stores include some of the most recognised and trusted brands in liquor retailing in Australia. These range from small family owned local convenience independent outlets, independently owned and run outlets operating under banners such as Cellarbrations, Little Bottler, Local Liquor, Baron's, Porters and many more, through to Woolworths packaged liquor outlets including Dan Murphy's, BWS Liquor & Woolworth's Liquor and Coles Packaged Liquor outlets including First Choice, Vintage Cellars & Liquorland plus ALDI licensed stores.

ALSA members support employment of 165,000 with over 47,000 people directly in the retail liquor store sector across Australia, including many trainees and apprentices, in addition to a further 118,000 indirect jobs.

## **ALSA Aims & Values**

ALSA focuses on the National political environment representing the views of the retail liquor sector to government and other stakeholders, to seek legislative outcomes that will improve the business viability and regulatory environment, or at least reduce the impact of new regulation on the businesses of our members.

ALSA takes an active role in commentary and shaping National alcohol policy and regulation along with the other key industry market sectors including beverage producers and other hospitality groups.

ALSA believes that alcohol consumption is ultimately an issue of individual responsibility. However, ALSA and our members fully accept that we have a responsibility to work with Governments and the community to minimise alcohol related harm to individuals and communities.

ALSA continues to promote standards of operation for its members beyond the minimum required standards of legal compliance and has implemented a range of voluntary product and service control initiatives across our members' stores, which are focused on responsible supply and promotion of alcohol.

ALSA has a demonstrated commitment to responsible supply and promotion of alcohol beverage products and has in place many voluntary responsible service and supply initiatives.

## ALSA Initiatives

The key initiatives are supported by point-of-sale material & include:

**"ID-25"** – If a customer looks under the age of 25 we encourage customers to take it as a compliment, as our staff will ask to see proof of age identification prior to selling them alcohol

**"Don't Buy It For Them"** – Designed to discourage Secondary Purchase & Supply and educate customers and staff they have a joint responsibility when it comes to discouraging underage drinking

**"ALSA Product Ranging Guidelines"** – Incorporates a checklist guide to assist individual operators to make sensible product ranging decisions on products that may have been packaged and marketed irresponsibly.

ALSA was a founding Board member of DrinkWise – a not-for-profit, independent research and social change agency funded by the Australian alcohol beverage industry. Through research, community based programs & social marketing campaigns it is dedicated to building a safer drinking culture in Australia. The Board of DrinkWise encompasses both industry & community members. ALSA continues to have a seat on the DrinkWise Board & plays an active role including providing retail outlet distribution support for DrinkWise campaigns.

ALSA have also provided the same retail outlet distribution support for the Commonwealth DoHA Point-of-Sale information campaigns on responsible drinking, including standard drinks educational campaigns. The ALSA Executive has participated on a number of National Committees to jointly develop Commonwealth alcohol education campaign direction & content.

ALSA owns and runs the Retail Liquor Development Foundation (RLDF) to provide cost effective training for liquor store staff, managers and owners, to develop career paths for young people in the industry and to encourage responsible and professional retailing by the constituent members of ALSA. This program has been relaunched as *ALSA-TRAIN*, an on-line website training program which also forms the theoretical pathway for government accredited Certificate IV Retail Management qualification.

ALSA has also recently launched *ALSA Retail Insights* – a website knowledge resource for liquor retailers and the industry to access up to date information with modules including a retail calculator toolkit for managing profitability, market insights, shopper insights, energy efficiency management, retail merchandising and other modules currently under development include retail store design & layout.