

Wine Economics Research Centre

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Wine consumer tax in Australia: A comparative perspective

Kym Anderson

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Contact details:

Wine Economics Research Centre
School of Economics
University of Adelaide
Adelaide SA 5005
AUSTRALIA

Email: kym.anderson@adelaide.edu.au

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Kym Anderson

University of Adelaide and Australian National University
kym.anderson@adelaide.edu.au

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Corresponding author:

Professor Kym Anderson
Executive Director, Wine Economics Research Centre
School of Economics,
University of Adelaide
Adelaide SA 5005, Australia
Phone +61 8 8313 4712
kym.anderson@adelaide.edu.au

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Australian wine producers would love to see less taxation of domestic wine consumption. Without rehearsing their arguments as to why wine ought to be taxed less than other alcohols, this article examines Australia's current wine consumer taxation in three comparative perspectives: over time, relative to taxes on other alcohol consumption, and relative to beverage taxes in other countries.

History of wine consumer taxes in Australia

Most countries tax alcohol consumption, partly to contribute to government revenue but also as a discouragement to such consumption and to compensate for the social costs associated with excessive consumption.

Up to the mid-19th century, alcohol customs and excise duties contributed more than 30% of colonial government revenue, and in the first decade of the Australian Federation its contribution averaged 23%. That had fallen to around 8% by the 1940s and 1950s, and it fell to less than 3% by the mid-1980s (Anderson 2015, Table 19).

Prior to the mid-1980s, wine made a miniscule contribution to that tax revenue. It did so via tariffs on imported wine (which simultaneously protected domestic producers from import competition) plus an excise tax that was briefly imposed on wine from 1970 to 1972.

Then in 1984, a wholesale sales tax on wine was introduced and gradually raised, before it was replaced, when the GST was introduced in 2000, by the so-called wine equalization tax (WET). The WET rate was set at, and has remained at, 29% of the wholesale price. When combined with the GST of 10%, the total is 41.9%, which was equivalent to the wholesale sales tax that was removed when the GST was introduced. A 5% tariff is still in place on wines imported from countries with which Australia does not have a free trade agreement, raising their total tax to 49%.¹

Wine relative to beer and spirits taxes in Australia

Australia's excise taxes on beers and spirits are raised by at least the rate of inflation each February and August. In fact the average retail prices of those beverages have been rising a little faster than the overall consumer price index (CPI) since 2000. Meanwhile, the tax on wine has remained fixed, yet its average price in Australia has been rising a little slower than the CPI – despite the quality of wine rising over time (Figure 1). That real price decline for wine is due in part to stiffer competition in the

¹ The percentage consumer tax equivalent (CTE) of taxes paid by the retail consumer is calculated as follows, assuming the domestic product is a close substitute for the imported product and the wholesale-to-retail margin is a percentage of the tariff-and-WET-inclusive wholesale price:

$$\text{CTE} = (1 + m)(1 + t)(1 + v)$$

where, in proportional terms, *m* is the import tariff (0.05), *t* is the WET (0.29), and *v* is the GST (0.1).

domestic market thanks to rapid domestic production growth from the early 1990s, to rapid import growth from 2001 when the Australian dollar began appreciating in the wake of the mining boom, and to increased buying power of retailers as their ownership became more concentrated.

[Insert Figure 1 here]

Australia is unusual in having an ad valorem (percentage) tax on wine rather than a tax on the volume of its alcohol (as with Australia's excise taxes on beers and spirits) and on having a lower tax on draught beer than packaged beer. A comparison of these tax rates therefore requires expressing them in a common unit, either volumetric (\$/litre of alcohol at specified alcohol strengths and currency exchange rates) or ad valorem (% of a specified wholesale pre-tax price in a particular currency).

A recent study has done that for Australia and 41 other high-income countries and key emerging economies, for both 2008 and 2018 (Anderson 2019). It defines a consumer tax equivalent (CTE) at the following average pre-tax wholesale prices in US dollars for still wines: non-premium (\$2.50 per litre), mid-range commercial premium (\$7.50 per litre) and super-premium (\$20 per litre). Taxes are often different for sparkling wine, so their CTE is expressed separately, at US\$20 per litre. Standard-quality beer and spirits (leaving aside craft beer and craft spirits) are considered at representative wholesale pre-tax prices of US\$2 and US\$15 per litre of beverage, respectively.²

Australia's 29% WET on all wines compares with average excise taxes, as of February 2020 after the latest CPI adjustments to them, that are equivalent to 55% for draught beer, 78% for packaged beer, and 160% for spirits. Since about one-quarter of beer consumed in Australia is in draught form, the weighted average excise tax on beer is 72%. In Australian dollars per litre of alcohol, these taxes are \$36.14 for draught beer, \$51.31 for packaged beer (so a beer-weighted average of \$47.52), and \$86.90 for spirits. By comparison, the WET is equivalent to \$5.80 for non-premium wine, \$17.40 for commercial premium wine, and \$46.40 for super-premium and sparkling wines. That is, all but the most expensive wines in Australia are currently taxed at less than half the rate for draught beer, one-third as much as packaged beer, and one-fifth as much as spirits.

Comparison with other countries' alcohol taxes

Alcohol excise tax data are published every two years by the OECD, 2018 being the most recent. So that year and a decade earlier are examined by Anderson (2019). The OECD data are supplemented by data from the European Commission (2018) for other EU countries, and from national government websites for emerging economies. The unweighted averages across all 42 countries in that study are summarized in Table 1 and detailed for 2018 in Appendix Tables A1 and A2. The following points can be drawn from them.

[Insert Table 1 about here]

First, wine is taxed slightly less than beer and much less than spirits in this large sample of countries. The unweighted average CTEs across the 42 countries and over the two years 2008 and 2018 are US\$11.40 per litre of alcohol for wine compared with \$14 for beer and almost \$25 for spirits. As a percentage of the pre-tax

² The alcohol content in volume terms is assumed to average 12% in 2008 and 12.5% in 2018 for wine, 40% for spirits, and 4% in 2008 and 4.5% in 2018 for beer.

wholesale price, wine's CTE averaged 22% behind beer at 29% and spirits at 75% (Table 1).

Taxes on all three beverages have risen over the decade to 2018. The volumetric averages rose by one-ninth in the case of beer and by a little over one-quarter for both wine and spirits (Table 1).

For ease of comparison, the Australian numbers also are shown in Table 1. On a per litre of alcohol basis, all three beverages are taxed about twice as much in Australia as in the 42-country sample. The beer and spirits rates have risen to a similar extent in Australia as in the 42-country average; however, the wine rate has gone up by 28% in the sample countries since 2008 while not rising at all in Australia.

When the excise taxes are added to import taxes, and the value-added tax or GST is then also imposed, the combined taxes in this sample of countries averaged around 50% for wine and beer in 2008 and 60% in 2018, and more than twice that for spirits. In this aggregate tax sense, Australian wine consumers are taxed a little less than those in the 42-country sample in ad valorem terms, while Australian spirits consumers are taxed one-quarter more and beer consumers three-fifths more (Table 2).

[Table 2 about here]

Averages hide a great deal of diversity in tax rates across and within countries though. Northwest European countries have the highest overall rates of taxation of alcohol consumption, while the United States, Germany, Italy and Japan have among the lowest taxes. The all-alcohols CTE range is from less than 20% to more than 120%, with Australia at the high end at close to 100% (Figure 2). The changes in the past decade also range widely, from small declines in a handful of countries to major increases in Nordic countries; Australia is around the median, with a 9 percentage point increase.

[Figure 2 about here]

Generally within the alcohol group, wine is taxed least (and almost zero in Europe's wine-producing countries and not at all in Argentina) and spirits most. The extent of those differences can be seen by the ratios of those taxes, shown in Figures 3 and 4, using the tax on commercial premium wine as an indicator. The wine/beer tax ratio is less than 0.5 for two-thirds of the 42 countries, and for the majority of the countries the wine/spirits tax ratio is less than 0.5 too. All the traditional wine-focused countries are in the bottom half of those charts, and mostly it is non-wine-producing countries near the top of those charts (although so is Chile). Australia is in the lower half of these charts, with wine taxed at half the beer rate and one-quarter of the spirits rate.

[Figures 3 and 4 about here]

Conclusion

The above comparisons over time, across alcohol types and across a large sample of 42 high- and middle-income countries allow the following conclusions to be drawn:

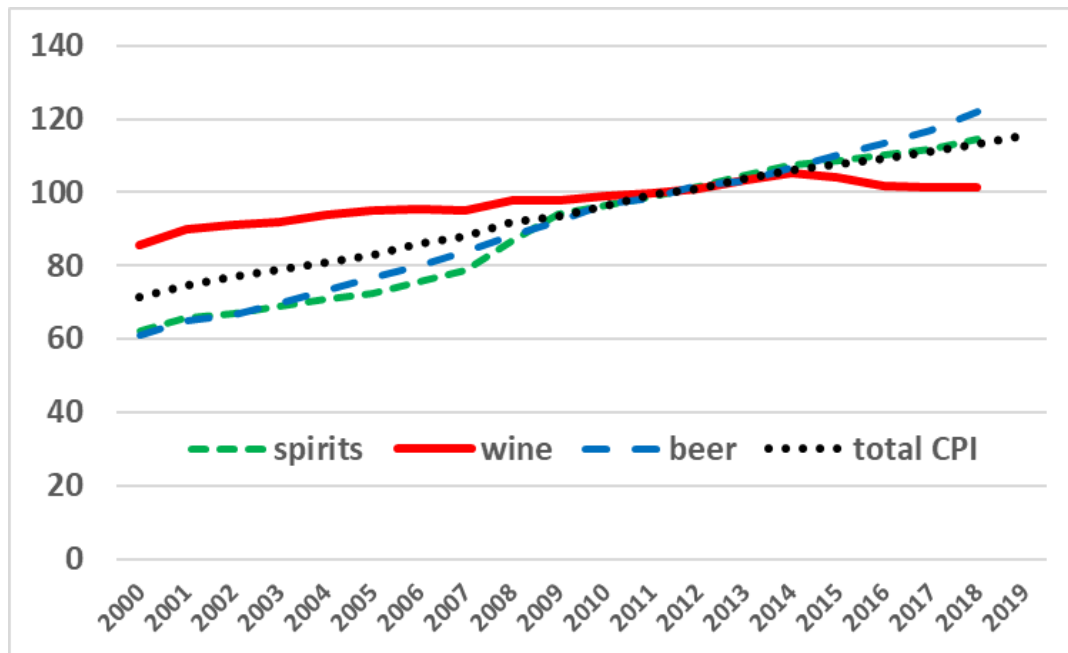
- The ad valorem rate of taxation of wine consumption in Australia has not altered over the past two decades.
- Since 2000, retail wine prices have risen slightly less rapidly than the CPI, while those for beer and spirits have risen slightly faster than the CPI.
- All three beverages are taxed about twice as much but the most expensive wines in Australia are currently taxed at less than half the rate for draught beer, one-third as much as packaged beer, and one-fifth as much as spirits.

- Consumption of each of the three beverages is taxed about twice as much in Australia as in the 42-country sample, but in volumetric terms the sample average has risen over the decade to 2018 (by one-ninth in the case of beer and by a little over one-quarter for both wine and spirits).
- When the excise tax is added to import taxes, and the value-added tax or GST is then also imposed, the combined taxes in the 42-country sample averaged around 60% for wine and beer in 2018, and more than twice that for spirits. In this aggregate ad valorem tax sense, Australian wine consumers are taxed a little less than those in the 42-country sample while Australian spirits consumers are taxed one-quarter more and beer consumers three-fifths more.
- Northwest European countries have the highest overall rates of taxation of alcohol consumption, while the United States, Germany, Italy and Japan have among the lowest taxes. The all-alcohols CTE range is from less than 20% to more than 120%, with Australia at the high end at close to 100%.
- The changes in the past decade also range widely, from small declines in a handful of countries to major increases in Nordic countries. Australia is around the median, with a 9 percentage point increase.
- Within the alcohol group, wine is taxed least and spirits most. Commercial premium wine is taxed at less than half the rates for beer and spirits in the majority of those countries. Australia is slightly different, with wine taxed at half the beer rate and one-quarter of the spirits rate.

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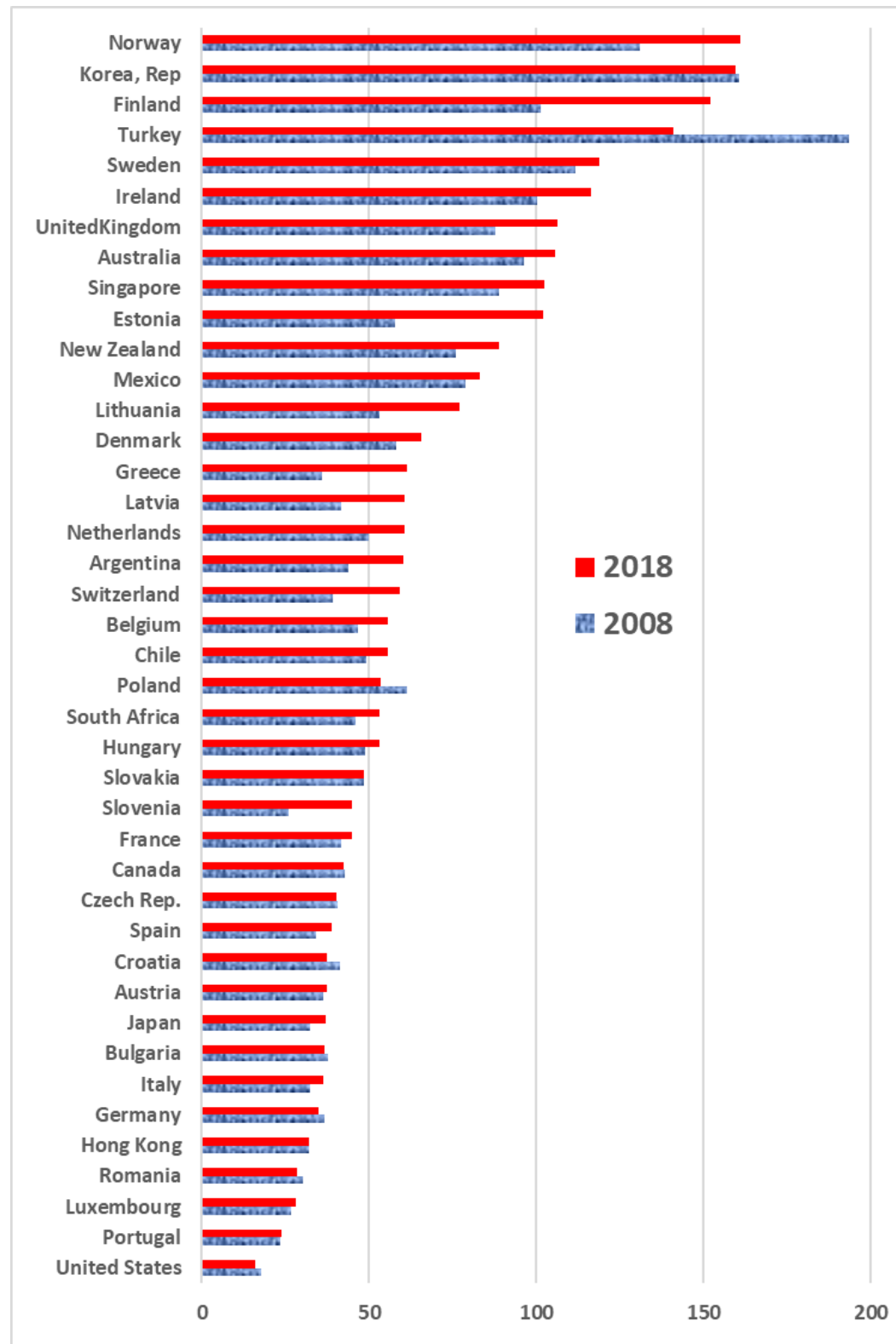
Figure 1: CPIs for alcoholic beverage and all products, Australia, 2000 to 2019
(2011-12 = 100)



Source: Australian Bureau of Statistics, accessed on 6 February 2020 at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Sep%202019?OpenDocument>

Figure 2: Weighted average of combined ad valorem CTE of excise, import and value added taxes on the retail price of all alcohol (wine, beer and spirits), 2008 and 2018

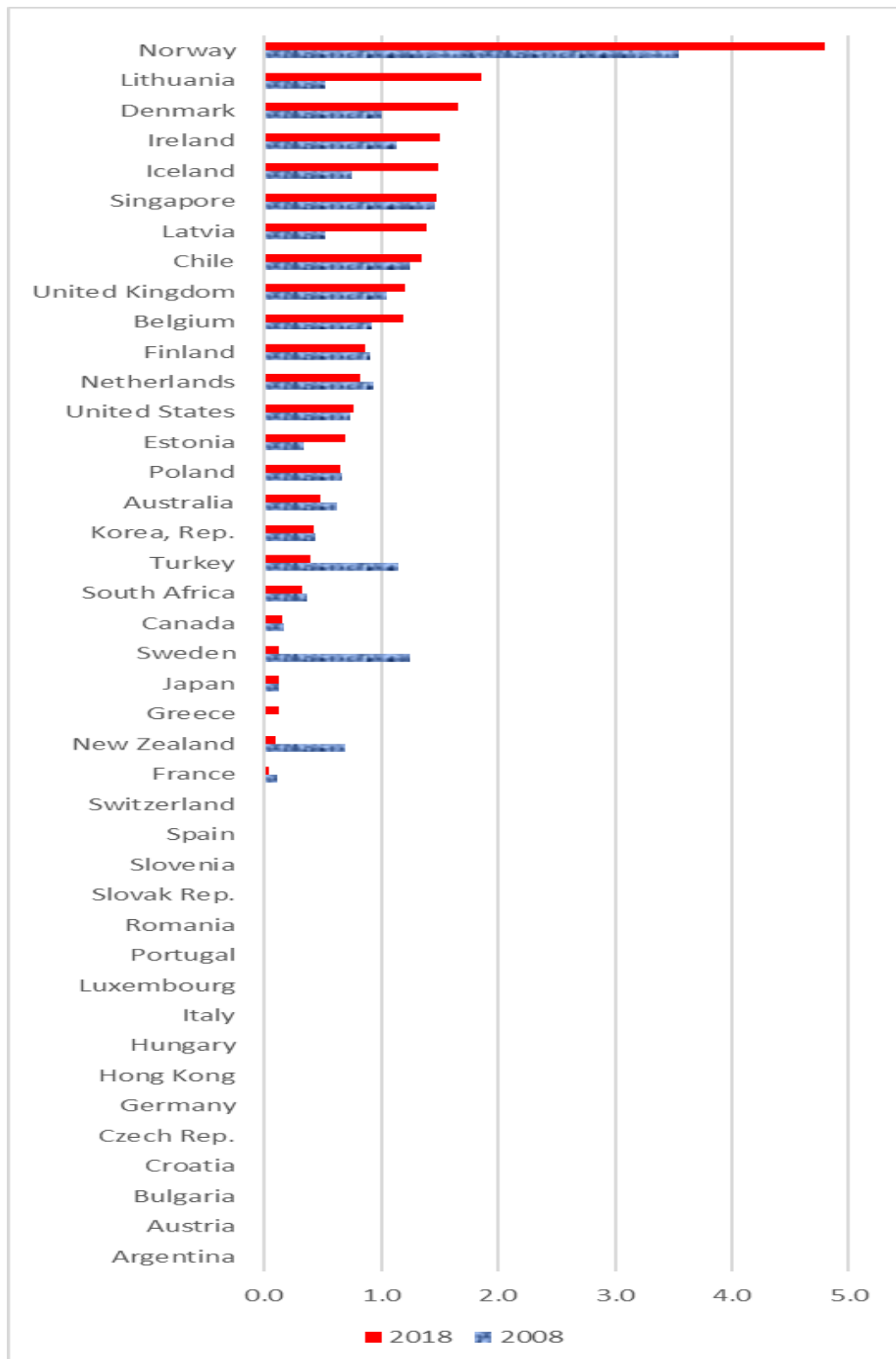
(% of wholesale pre-tax price, using 2014 volumes of alc. consumption as weights)



Source: Anderson (2019).

Figure 3: Ratio of wine/beer excise taxes in US\$ per litre of alcohol, 2008 and 2018

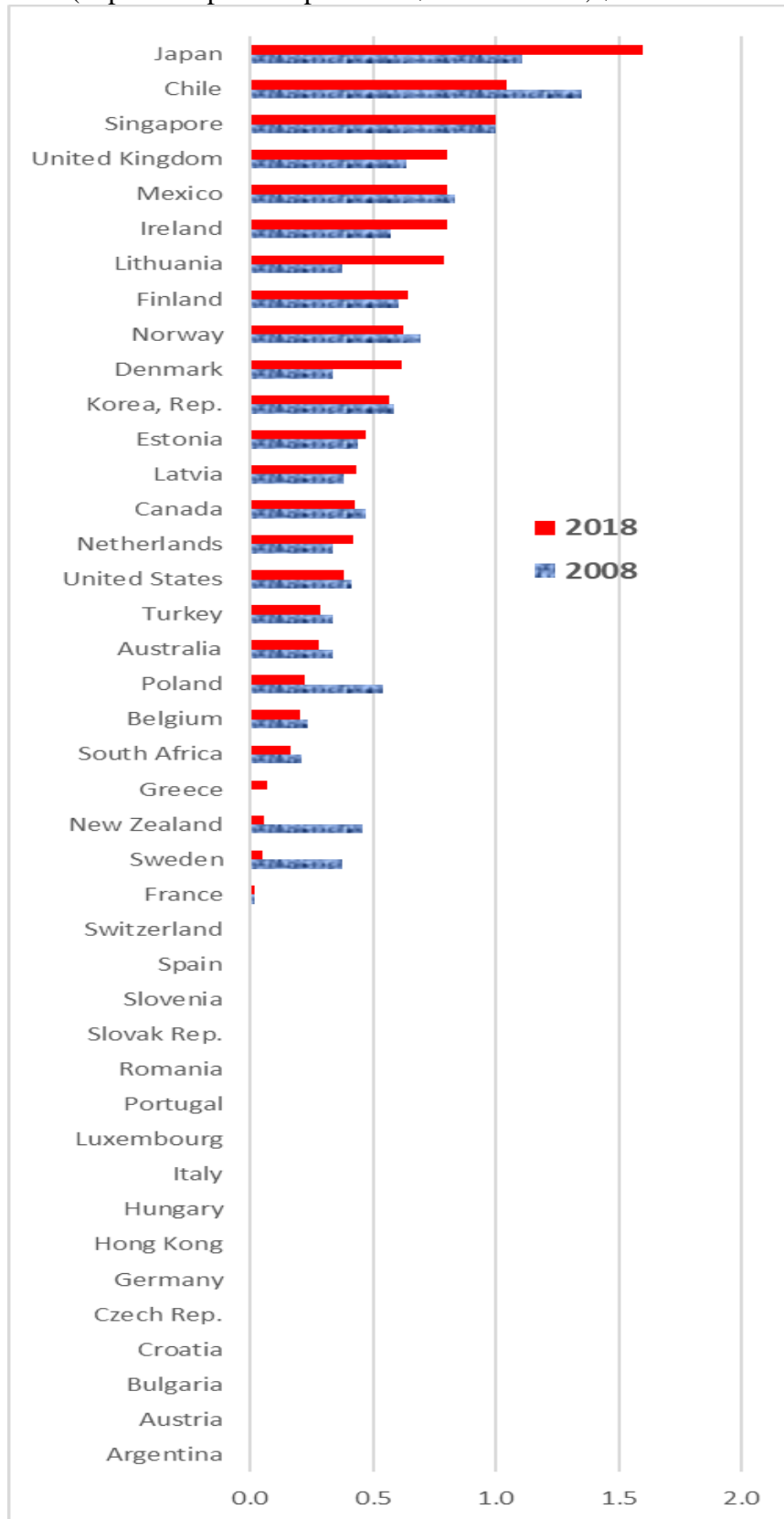
(at per litre product prices of \$7.50 for wine, \$2 for beer and \$15 for spirits)



Source: Anderson (2019).

Figure 4: Ratio of wine/spirits excise taxes in US\$ per litre of alcohol, 2008 and 2018

(at per litre product prices of \$7.50 for wine, \$2 for beer and \$15 for spirits)



Source: Anderson (2019).

Table 1: Average excise taxes on wine, beer and spirits, US\$ per litre of alcohol and ad valorem (percent) equivalent, Australia and 42-country average, 2008 and 2018

(unweighted average over 42 countries and then the two years)

(a) US\$ per litre of alcohol

	Wine^a		Beer		Spirits	
	Aust.	42 nations	Aust.	42 nations	Aust.	42 nations
2008	22.6	10.0	29.3	13.2	53.5	21.8
2018	21.8	12.8	32.2	14.7	61.9	27.5
<i>Average</i>	22.2	<i>11.4</i>	30.8	<i>14.0</i>	57.7	24.7

(b) Percent of pre-tax wholesale price

	Wine^a		Beer		Spirits	
	Aust.	42 nations	Aust.	42 nations	Aust.	42 nations
2008	29.0	18.1	58.5	24.1	171.0	74.8
2018	29.0	24.9	72.4	33.1	165.0	74.8
<i>Average</i>	29.0	<i>21.5</i>	65.5	28.6	168.0	74.8

^a Weighted average over the four wine types, using as weights the shares in the volume of total wine consumption.

Source: Anderson (2019).

Table 2: Ad valorem CTE of excise, import and value added taxes on the retail price of wine, beer, spirits and all alcohol, Australia and 42-country average, 2008 and 2018

(unweighted average over 42 countries and then the two years)

	Wine^a		Beer		Spirits	
	Aust.	42 nations	Aust.	42 nations	Aust.	42 nations
2008	49	50	74	48	213	173
2018	49	59	100	60	206	121
<i>Average</i>	<i>49</i>	<i>55</i>	<i>87</i>	<i>54</i>	<i>210</i>	<i>147</i>

^a Weighted average over the four wine types, using as weights the shares in the volume of total wine consumption.

Source: Anderson (2019).

Appendix Table A1: Excise taxes on alcoholic beverages per litre of alcohol for wine, beer and spirits, 2018 (US\$ at the wholesale pre-tax prices in column heads)

	NP wine, \$2.50/litre	CP wine, \$7.50/litre	SP wine, \$20/litre	Sparkling, \$20/litre	Beer, \$2/litre	Spirits, \$15/litre
Argentina	0.0	0.0	0.0	0.0	7.2	13.2
Australia	5.8	17.4	46.4	46.4	32.2	61.9
Austria	0.0	0.0	0.0	9.0	5.6	13.5
Belgium	6.7	6.7	6.7	23.1	5.6	33.6
Bulgaria	0.0	0.0	0.0	0.0	2.2	6.3
Canada	3.9	3.9	3.9	3.9	24.5	9.2
Chile	4.1	12.3	32.8	32.8	9.1	11.8
Croatia	0.0	0.0	0.0	0.0	6.0	7.9
Czech Rep.	0.0	0.0	0.0	8.0	3.4	12.2
Denmark	14.1	14.1	14.1	1.8	8.5	22.7
Estonia	13.3	13.3	13.3	13.3	19.0	28.2
Finland	34.4	34.4	34.4	34.4	39.9	53.8
France	0.3	0.3	0.3	0.8	8.3	19.6
Germany	0.0	0.0	0.0	12.2	2.2	14.6
Greece	1.8	1.8	1.8	1.8	14.0	27.5
Hong Kong	0.0	0.0	0.0	0.0	0.0	15.0
Hungary	0.0	0.0	0.0	0.0	5.9	12.1
Iceland	83.6	83.6	83.6	83.6	56.0	138.0
Ireland	38.2	38.2	38.2	76.4	25.3	47.8
Italy	0.0	0.0	0.0	0.0	8.5	11.6
Japan	5.7	5.7	5.7	5.7	44.5	3.6
Korea Rep.	6.6	19.8	52.8	52.8	46.8	35.1
Latvia	7.0	7.0	7.0	7.0	5.1	16.3
Lithuania	14.8	14.8	14.8	14.8	8.0	18.7
Luxembourg	0.0	0.0	0.0	0.0	2.2	11.7
Mexico	5.3	15.9	42.4	42.4	0.5	19.9
Netherlands	7.9	7.9	7.9	7.9	9.7	18.9
New Zealand	2.1	2.1	2.1	2.1	20.6	37.6
Norway	57.3	57.3	57.3	57.3	12.0	91.7
Poland	3.3	3.3	3.3	3.3	5.2	15.1
Portugal	0.0	0.0	0.0	0.0	5.3	15.6
Romania	0.0	0.0	0.0	0.9	2.0	8.1
Singapore	63.8	63.8	63.8	63.8	43.5	63.8
Slovak Rep.	0.0	0.0	0.0	7.2	4.0	12.1
Slovenia	0.0	0.0	0.0	0.0	13.5	14.8
South Africa	2.5	2.5	2.5	8.1	7.7	15.3
Spain	0.0	0.0	0.0	0.0	2.5	10.3
Sweden	3.1	3.1	3.1	3.1	23.6	60.3
Switzerland	0.0	0.0	0.0	0.0	5.8	29.3
Turkey	14.5	14.5	14.5	98.3	37.0	50.5
United Kingdom	29.6	29.6	29.6	37.9	24.5	36.8
United States	3.8	3.8	3.8	9.3	4.9	10.0
Unweighted ave.	10.3	11.4	14.0	18.3	14.7	27.5

Sources: Compiled from European Commission (2018) and the OECD (2018), plus national websites.

Appendix Table A2: Ad valorem consumer tax equivalent of excise taxes on wine, beer and spirits, 2018 (% of the wholesale pre-tax prices in column heads)

	NP wine, \$2.50/litre	CP wine, \$7.50/litre	SP wine, \$20/litre	Sparkling, \$20/litre	Beer, \$2/litre	Spirits, \$15/litre
Argentina	0.0	0.0	0.0	0.0	16.3	35.1
Australia	29.0	29.0	29.0	29.0	72.4	165.0
Austria	0.0	0.0	0.0	5.6	12.7	36.0
Belgium	33.7	11.2	4.2	14.4	12.7	89.7
Bulgaria	0.0	0.0	0.0	0.0	4.8	16.8
Canada	19.4	6.5	2.4	2.4	55.1	24.5
Chile	20.5	20.5	20.5	20.5	20.5	31.5
Croatia	0.0	0.0	0.0	0.0	13.5	21.1
Czech Rep.	0.0	0.0	0.0	5.0	7.7	32.5
Denmark	70.4	23.5	8.8	1.1	19.1	60.6
Estonia	66.4	22.1	8.3	8.3	42.8	75.1
Finland	172.1	57.4	21.5	21.5	89.9	143.4
France	1.7	0.6	0.2	0.5	18.8	52.2
Germany	0.0	0.0	0.0	7.6	5.0	39.0
Greece	9.0	3.0	1.1	1.1	31.6	73.4
Hong Kong	0.0	0.0	0.0	0.0	0.0	100.0
Hungary	0.0	0.0	0.0	0.0	13.3	32.4
Iceland	417.9	139.4	52.3	52.3	126.0	368.0
Ireland	190.9	63.6	23.9	47.7	57.0	127.6
Italy	0.0	0.0	0.0	0.0	19.1	30.9
Japan	28.5	9.5	3.6	3.6	98.1	9.6
Korea Rep.	33.0	33.0	33.0	33.0	93.6	93.6
Latvia	35.1	11.7	4.4	4.4	11.4	43.4
Lithuania	74.0	24.7	9.3	9.3	18.0	49.9
Luxembourg	0.0	0.0	0.0	0.0	5.0	31.2
Mexico	26.5	26.5	26.5	26.5	26.5	53.0
Netherlands	39.7	13.2	5.0	5.0	21.8	50.5
New Zealand	82.6	27.5	10.3	10.3	46.4	100.3
Norway	286.7	95.6	35.8	35.8	26.9	244.4
Poland	16.7	5.6	2.1	2.1	11.6	40.2
Portugal	0.0	0.0	0.0	0.0	12.0	41.6
Romania	0.0	0.0	0.0	5.8	4.5	21.5
Singapore	318.9	106.3	39.9	39.9	87.0	170.1
Slovak Rep.	0.0	0.0	0.0	4.5	9.1	32.4
Slovenia	0.0	0.0	0.0	0.0	30.6	39.6
South Africa	12.6	4.2	1.6	5.1	17.4	40.8
Spain	0.0	0.0	0.0	0.0	5.7	27.4
Sweden	122.5	40.8	15.3	15.3	53.2	160.8
Switzerland	0.0	0.0	0.0	0.0	13.1	78.1
Turkey	72.7	24.2	9.1	61.4	83.3	134.7
United Kingdom	148.0	49.3	18.5	23.7	55.0	98.3
United States	18.8	6.3	2.4	5.8	11.0	26.5
Unweighted ave.	55.9	20.4	9.3	12.1	33.1	74.8

Sources: Compiled from European Commission (2018) and the OECD (2018), plus national websites.

