**Drinks Trade May 2011**

**October's Tax Forum must be a step on the way to Henry Review**

The distilled spirits sector welcomed the alcohol tax reforms included in the 2010 Henry Tax Review, but unfortunately the Government immediately ruled out those recommendations, reasoning it was the wrong time because the wine industry is restructuring and facing a wine glut.

After the last election and as part of its negotiations with the independent MPs, the Gillard Government committed itself to a tax summit to discuss the Henry Review. The resulting two-day forum will be held this coming October.

Changing parts of the tax system is always a complex and politically difficult task, especially where different sectors of the same industry are treated very differently, some beneficially and some adversely. There is extra difficulty when industry structures and business models are built up in response to the tax system, rather than a sector neutral approach that says alcohol is alcohol, and all alcohol is equal. Imagine the added difficulty of a new carbon tax if coal from Newcastle was taxed more heavily than coal from the Pilbara. Pilbara coal miners would oppose the change twice as hard because their coal would lose a tax advantage.

However, the Henry Tax Review cut through a great deal of the complexity of alcohol tax reform. It listened to all the stakeholders, plus a few NGOs outside the industry. Then it started with a blank sheet of paper and applied rational tax theory and practice to designing a new scheme for taxing alcohol, a scheme based on good economics, not smart politics.

The Review team came up with a way to tax alcohol that was simple, non-discriminatory between consumers and sectors, and did not price alcohol any further out of reach of consumers.

The Henry Review went even further, and made it even easier for the government by outlining how that end point could be reached over a long period of time, so that there was not massive and immediate price changes and hence damage to sales volumes.

Very importantly, the recommendations also break the historical link between the government's need to raise easy revenue and the alcohol industry's vulnerability to paying increased taxes because alcohol demand is relatively inelastic.

Those in the alcohol industry opposed to the Henry alcohol reforms might consider how future governments will look for more revenue to fund the increasingly expensive health care and pensions of aging Australians at the same time as a declining working age population, and also what types of taxes are available that don't drive jobs and investments offshore. Further food for thought – what widely available consumer product is the 'new Tobacco' and will be officially discouraged as much as possible in the future?

DSICA has assurances from the Australian Government that alcohol taxes are included on the Tax Forum's agenda. We will be pushing the case for the Henry reforms to be adopted. Clarity around what the end of the wine glut looks like would be another win.