Drinks Trade - June 2010

Henry Tax Review shows the way ahead

After a delay of several months, the Government released the Henry Tax Review to the public, together with the Government's immediate response, which was to rule out 19 tax reforms and bring in the Resource Super Profits Tax.

One of the 19 ruled-out tax reforms – alcohol taxation - was not really ruled out but did have conditions. The conditions were that there would be no tax reform while the wine industry had a supply glut and was undergoing restructuring. The wine industry has itself acknowledged the supply problems and is working to overcome them.

The Henry Tax Review was truly ground-breaking in its approach to alcohol taxation because it re-asked the most basic question: what is the purpose of taxing alcohol.

The answer the review team came up with is that the purpose should not be to raise revenue for the government, but to offset 'net social costs' from alcohol misuse, which means the costs to people other than the drinker of their abuse. For example, alcohol-caused police costs, crime, prisons and emergency departments.

This is completely against about 500 years of tax history. Alcohol has been taxed for the purpose of gathering revenue for as long as there has been a government that needs taxes. Rebellions, smuggling and bootleg distillation have been some of the results. Alcohol was always a good thing to tax because increasing the tax did not reduce consumption by the same percentage so the amount collected went up, and it was something governments wanted to keep the price high to discourage over-consumption.

What does this suggested change mean in reality since taxation always raises some revenue? Changing the purpose of the taxation means changing how the required tax take is worked out. If the tax is not for collecting money, then the government has to start from the beginning, working out how much tax is required and on what basis is the tax paid.

The tax review recommends that the tax be set so as to balance the net social costs of alcohol abuse with the burden the tax would place on non-abusive drinkers. Individuals would bear their own costs of abusive drinking, rather than have their abuse counted as a social cost (to the community) as health economists currently do.

Another breakthrough was that for the first time, the impact of taxing alcohol on the non-abusive – i.e. responsible - drinkers would be recognised and offset against the impact of abusive drinking.

A single volumetric tax that applied equally across all forms of alcohol products was the best solution.

One of the reasons the review team gave was that in taxation theory, revenue is best raised from broadly based income, resources and consumption taxes (such as the GST) rather than a high tax on a narrow category of products.

The review team also recognised that the way that different forms of alcohol are currently taxed differently distorts drinkers' choices, and that this distortion imposes an economic cost. There are also added administration costs on industry and the government.

In short, the Henry Tax Review has suggested a revolution in the way Australia taxes alcohol.