# Alcohol taxation reform: starting with the Wine Equalisation Tax

## Researcher

The Allen Consulting Group

## Summary

Alcohol taxation reform is essential to correcting material economic health and social harms. Of all alcohol taxation regimes, the Wine Equalisation Tax (WET) and WET rebate scheme are particularly recognised as resulting in an illogical and inconsistent basisa for taxation. This is because the WET is a tax applied based on value at 29 per cent of the wholesale price, which has no consideration for the alcohol content of the wine and fruit based alcohol products. This favours the production of cheaper, higher alcohol content wine. Furthermore the WET rebate is a payment up to $500,000 made to Australian wine producers.

This analysis by Allen Consulting Group outlined the case for reforming the WET and WET rebate, as the first step to reforming Australia’s alcohol taxation system. The analysis also modelled the impact of changes in the WET to alcohol consumption, taxation revenue and retail price.

The analysis found that the current wine glut, which was raised as a hurdle for WET reform, was being exacerbated by the current WET and WET rebate. This is because the wine tax arrangements encourage producers to produce wine on the basis of volume rather than value, which was contributing to the current oversupply.

The report also raised the claims made by segments of the wine industry are ‘rorting’ the WET rebate, with estimates that this ‘is resulting in a $50 million cost to taxpayers. The case was also made for the WET rebate to be replaced with a formal industry structural adjustment package. When assessing the wine industry against Productivity Commission’s guidelines for the justification of structural adjustment packages, the packages.

### *Modelling WET reform scenarios*

The report then modelled three WET reform scenarios. In all scenarios, all other alcohol taxation rates remained the same. The three scenarios were:

1. Replacing the current WET with a volumetric tax (which does not alter the net tax burden on wine producers).
2. Replacing the current WET with the rate for full-strength draught beer ($30.86 per litre).
3. Replacing the current WET with the rate for packaged full-strength beer ($43.85 per litre).

The modelling of the WET reform scenarios showed that:

* All three scenarios would result in increased prices for cheaper wine (i.e. cask wine) and reduced alcohol consumption overall. Alcohol consumption would be reduced by between 4.85 million litres of pure alcohol and 16.34 million litres of pure alcohol, depending upon the proposed option.
* In so far that the consumption of cask wine has been associated with harmful alcohol consumption, the three alternative regimes proposed for taxing wine reduces spillover costs from alcohol misuse by reducing demand for cask wine in the order of 26.2 per cent and 61.2 per cent.
* The retail price of cask wine was found to increase by between 24.7 per cent and 114.6 per cent between scenarios.
* For all scenarios the level of substitution to other forms of alcohol was being offset by a reduction in the consumption of cask wine. The level of switching from wine to other forms of ranged between nil to 4.7 million litres of pure alcohol between scenarios.
* Both scenarios 2 and 3 reduce consumption and harm at the same time as raising considerable additional taxation revenue in the order of $900 million and $1,500 million respectively. This additional taxation revenue collected should be redeployed to assist in combating alcohol related harms, while also assisting with principled industry structural adjustment in the short to medium term so as to assist wine producers in meeting the current challenges in the sector and to adjust to the changed taxation arrangements. Such reforms would be welfare enhancing for the Australian economy.

## Recommendations

The taxation of alcohol is an effective policy instrument that can be used as means of changing consumer behaviours to reduce alcohol-related harms. Reforming the WET and WET rebate should be seen as a first step as these arrangements are clearly the worst component of the existing tax regime.

The additional taxation revenue generated through the application of scenario 2 or 3 could be used to assist in combating alcohol-related harms and, in the short term, support wine producers to adjust to the changed taxation arrangements. In any case, the government must ensure that in any assistance delivered to uneconomic producers promotes their retirement rather than propping up the cheap wine industry, which will lead to further social harm.

[view the report](https://www.fare.org.au/wp-content/uploads/Allen-Consulting-Group-Report-Alcohol-Taxation-Reform-Starting-with-the-Wine-Equalisation-Tax.pdf)