# The goon show: How the tax system works to subsidise cheap wine and alcohol consumption

## Researchers

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## Summary

This paper presents an overview of the Wine Equalisation Tax (WET) in Australia and compares the current system with some reform alternatives and systems in other countries.

When the GST was introduced in July 2000, wine products were given special tax status. While beer and spirits attract an excise based on the volume of alcohol (a volumetric tax), wine is instead taxed on the wholesale value (an ad valorem tax). As a consequence, cheap wine attracts far less tax than beer or spirits, and is by far the cheapest potable alcohol commercially available in Australia.

The WET is set at 29% of the wholesale price of wine. Australian producers (and those wholesalers who blend or otherwise add to production) are able to claim a rebate at the same rate, up to $500,000. This rebate can be claimed even if the claimant did not accrue a WET liability.

## Outcomes

This research found that just 67 (2 per cent) of the 3,698 wine entities in Australia pay the wine equalisation tax.

The vast majority (over 90%) of the Australian wine industry generate no net WET, after rebates, with many profiting from the current tax arrangements, receiving on average a net payment of $30,000.

In addition to the concessional tax rate wine attracts, and rebates paid even without a WET liability, the Australian Government spent $17.9 million in 2012-13 on various assistance measures for the wine industry, as well as a $25 million rebate to New Zealand producers.

The preferential tax treatment of wine over other alcoholic beverages can be seen as effectively a subsidy for wine, in the order of $1 billion a year.

Partly due to these tax arrangements, wine prices have lagged far behind inflation. The average wholesale price paid to winemakers per litre of wine in 2012-13 ($4.85) was almost identical to the price in 2007-08 ($4.83).

The cheapest cask wine is generally available at retail for around 30 cents per standard drink (a standard drink is 12.5mL of alcohol). WET paid on that standard drink is around 4 cents. In comparison, a standard drink of beer bought at a retail supermarket costs at least $1 per standard drink and the excise alone is 44 cents. Spirits attract an excise of $1 per standard drink, with the cheapest spirits retailing at around $1.50 per standard drink.

## Recommendations

Australia’s taxation treatment of wine encourages bulk production of the lowest quality wine. This paper examines three possible alternatives to a WET.

The first, as proposed by the Henry Tax Review, will apply the current beer excise to wine. The second is a volumetric tax at a rate mid-way between beer and wine. The third is a per-litre excise, as is common across the OECD. For those countries which have an excise, the amounts vary widely, with an average of around $3 per litre of wine.

All of these alternate taxation schemes would result in the cheapest wines increasing in price, with a corresponding reduction in sales, while premium wines would actually be taxed less, and would be expected to increase in sales, partly due to the price reduction and partly thanks to a smaller price differential compared with cheaper wines.

A volumetric tax would work to increase the cost of the cheapest wines, while having a positive effect on super-premium wines.

By removing the privileged treatment of wine, the government could receive increased revenues in the order of $1 billion each year. This revenue is presently lost under the WET, and is in effect a subsidy to the wine industry, encouraging production of low quality grapes in hot, irrigation intensive regions.

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