

Impacts of beer excise rate cut

Proposals to halve the beer excise would cost around a billion dollars over the next five years and undermine policies to reduce the abuse of alcohol.

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Introduction

In the lead up to the 2022 Budget and Federal Election there have been a number of calls to reduce the rate of excise tax levied on beer. Gaining significant media attention across print¹, radio² and social media³ is the Australian Hotels Association's proposal to cut the excise on draught beer by 50 per cent⁴, a proposal also suggested by the Brewers Association of Australia in 2021⁵.

Calls to reduce alcohol excise on tap beer have been made on the argument that it would be an effective way to support the post-COVID recovery of the hospitality sector. This paper argues that implementing such a policy would represent a short sighted and ineffective approach to economic stimulus with long-term impacts on both Commonwealth revenue and the coherence of Australian policies to limit the harms from alcohol.

Regarding claims that reducing the excise could be considered a cost-of-living benefit to consumers, the policy may lead to a fall in the price of a pint of beer poured from a tap in a pub of a maximum 40 to 45 cents, half that amount for a pot or a middy, and somewhere in between for a schooner.

The proposed halving of the excise on draught beer also poses several negative consequences. It represents a gender biased subsidy to alcohol consumption for men who drink at riskier levels, undermines existing support for genuinely smaller brewers, does nothing to support the restaurant industry, all at an annual cost of around \$190 million.

Furthermore, this lost government revenue could also be kept by large brewers and hotel chains for themselves. This would mean no price decrease in consumer products, no increase in employment, no support for the live music sector, and no support for the large number of cafes, restaurants and bars that sell no beer from kegs.

Proponents of the cut in beer excise have provided no evidence to support the conclusion that lowering the price of beer is the best way to spend \$190 million to support the hospitality sector. It is likely that support for live music, or to small restaurants and bars, or

¹ Daniel (2022) *MPs campaign for beer tax cut as booze lobby targets marginal seats*, <https://www.smh.com.au/politics/federal/mps-campaign-for-beer-tax-cut-as-booze-lobby-targets-marginal-seats-20220307-p5a2es.html>

² Radio National Drive (2022) *Concerns about lowering tax on alcohol*, <https://www.abc.net.au/radionational/programs/drive/concerns-about-lowering-tax-on-alcohol/13765832>

³ Brewers Association (2022) https://twitter.com/brewers_au/status/1498931100563156995?s=21

⁴ Australian Hotels Association (2021) *EXCISE – Pre-Budget Submission FY22-23*, <https://aha.org.au/wp-content/uploads/2021/12/Pre-Budget-submission-EXCISE-FY22-23.pdf>

⁵ Brewers Association (2021) *Pubs closed but beer tax still goes up*, <https://www.brewers.org.au/pubs-closed-but-beer-tax-still-goes-up/>

food discounts for all customers would provide more effective and equitable support for the hospitality sector.

CURRENT BEER TAXATION IN AUSTRALIA

Beer is taxed as an excise on the alcohol content, by volume, of the finished product. Within this there are also different tax rates. As such, the amount of excise paid on low alcohol beer is lower not just for the lower alcohol content but also because the excise rate itself is lower. Further, a beer that is sold in a pub via a tap has a lower excise than beer sold pre-packaged in a bottle or can, at a pub or elsewhere.

The amount of alcohol in beer is also arbitrarily reduced by 1.15 per cent before the excise is calculated. For example, a beer containing 4.5 per cent alcohol is taxed as if it only contained 3.35 per cent alcohol (i.e. 4.5 - 1.15).

The alcohol excise rates are updated (indexed) every 6 months in February and August to adjust for increases in the Consumer Price Index (CPI) so that the revenue collected broadly moves in line with inflation.

The amount of excise payable on beer is even further reduced via the existence of the *Excise Remission Scheme for Manufacturers of Alcoholic Beverages* that provides an automatic rebate of all excise paid up to \$350,000 a year. In effect, this scheme subsidises all brewers but small brewers, distillers and producers of Ready to Drink beverages (RTDs) receive the largest benefit in percentage terms.

PROPOSED POLICY CHANGES

In the lead up to the 2022 Federal Budget and the forthcoming election a number of alcohol lobby groups have proposed a significant cut to the excise on some beer products.

For example, the Australian Hotels Association (AHA)⁶ and Brewers Association of Australia⁷ have both proposed a 50 per cent reduction in the excise on beer sold from kegs in pubs, for all beer strengths. The proposal would further reduce the already favourable excise rate on keg beer sold at hotels and licensed venues.

Such a policy proposal would reduce the full strength tap beer excise from \$37.76 to \$18.88 per litre of alcohol, such that full strength tap beer would enjoy an excise discount of 65 per

⁶ Australian Hotels Association (2021) *EXCISE – Pre-Budget Submission FY22-23*, <https://aha.org.au/wp-content/uploads/2021/12/Pre-Budget-submission-EXCISE-FY22-23.pdf>

⁷ Brewers Association (2021) *Pubs closed but beer tax still goes up*, <https://www.brewers.org.au/pubs-closed-but-beer-tax-still-goes-up/>

cent compared to packaged beer (Table 1). The packaged beer excise rate represents the ‘tax benchmark’ used by Treasury for the analysis and estimation of tax concessions⁸.

Table 1: Proposed changes to beer excise rates and discount on benchmark

	Existing	Proposed	Discount on benchmark
Keg Beer			
Light	9.2	4.6	91%
Mid	28.82	14.41	73%
Heavy	37.76	18.88	65%
Packaged Beer			
Light	46.02	46.02	14%
Mid	53.59	53.59	0%
Heavy	53.59	53.59	0%



Source: The Australia Institute analysis of AHA policy proposals and Treasury 2022

The intended purpose of the policy, according to the Brewers Association, is to help the post-COVID recovery in the hospitality sector however the Brewers provide no evidence to support the conclusion that, of all the ways to help the hospitality sector, the most efficient and equitable approach would be to provide a large excise reduction on one form of alcohol which is not sold in a wide range of hospitality venues.

WILL LOWER EXCISE BE PASSED ON AS CHEAPER BEER?

If the excise was fully passed onto consumers, the biggest price reduction would be for a pint of full-strength beer at around 45 cents, and half that for a pot or middy. By comparison, for low strength beer the price fall for a pot or middy would be around two to three cents.

If the purpose of reducing the excise is to stimulate beer sales, then such a goal would be inconsistent with the objective of encouraging the consumption of low alcohol beer on which the current tiered excise rates for beer are based.

However, according to the Brewers Association themselves, any reduction in beer excise is unlikely to be passed on:

⁸ The Treasury (2021) *Tax Benchmarks and Variations Statement*, page 129, <https://treasury.gov.au/publication/p2022-244177>

Each venue owner could then decide whether to use this money to entice customers back through promotions, put more staff back on or pay down debt to help them remain viable.⁹

The Brewers Association makes no mention of a cut in the price of beer, and seasoned locals of pubs across Australia know well that ‘enticing customers through promotion’ is usually a euphemism for ‘drink specials’ whereby the lower effective price of beer is only available with significantly higher consumption levels, for example ‘2 for 1’ offers for draught beer.

The AHA appears slightly optimistic that a reduction in beer excise may, in part, be passed on in the form of lower prices at least in highly competitive areas, noting that “competition between venues would very likely see some or all of the cut directly being passed on to patrons”.¹⁰

But, the impact of COVID over the last two years meant that many pubs held off passing on recent excise increases, and price rises more generally, until February this year, as one relatively large price jump, meaning a small cut to beer prices now would do little to increase demand.

While the relative market power of producers, retailers and consumers will ultimately determine what percentage of any cut in beer excise will flow through to lower prices, it is important to note that the benefits of any reduction in price would overwhelmingly flow to men. According to the ABS males represent around 83 per cent of regular beer drinkers.¹¹

PROBLEMS WITH THE AHA AND BREWER’S ASSOCIATION PROPOSAL

Apart from the fact the excise reduction is unlikely to pass through to beer prices, there are several other problems with the proposal to cut draught beer excise. There is a lack of evidence that it would be an efficient or equitable form of stimulus for the hospitality sector, with specific shortcomings including:

- **Disadvantages restaurants, small bars and nightclubs:** The policy proposal will only apply to venues that sell tap beer which excludes the vast majority of restaurants, likely all smaller restaurants, along with many small bars and nightclubs.

⁹ Brewers Association (2021) *Pubs closed but beer tax still goes up*, <https://www.brewers.org.au/pubs-closed-but-beer-tax-still-goes-up/>

¹⁰ Australian Hotels Association (2021) *EXCISE – Pre-Budget Submission FY22-23*, <https://aha.org.au/wp-content/uploads/2021/12/Pre-Budget-submission-EXCISE-FY22-23.pdf>

¹¹ ABS (2018) *Apparent Consumption of Alcohol*, <https://www.abs.gov.au/statistics/health/health-conditions-and-risks/apparent-consumption-alcohol-australia/latest-release>

- **Disadvantages small brewers:** The interaction of the excise cut with the *Excise Remission Scheme for Manufacturers of Alcoholic Beverages* policy means that the size of breweries that pay no excise could effectively double. The purpose of the excise remission policy was to support small brewers. The proposed excise cut would mean some bigger brewers would pay zero excise placing smaller brewers at a competitive disadvantage.
- **Gender inequality:** On the one hand, only 17 per cent of regular beer drinkers are female¹² so it will encourage very few women back to pubs or their venues. On the other hand, men are more likely to be problem drinkers¹³ meaning the alcohol preferred by men should arguably carry higher excise rates, not lower.

In short, the policy is an inefficient and inequitable way to aid the post-COVID recovery of the hospitality sector. The policy aims only at one small part of the sector, brewers of tap beer and pubs that sell it, and in turn puts small brewers and the rest of the hospitality industry at a comparative disadvantage while targeting only a relatively small subset of consumers that least needs the encouragement to drink more.

FINANCIAL IMPACTS OF THE POLICY

Using ATO data on the reported volumes alcohol that attracts excise,¹⁴ it is possible to estimate the likely financial impacts on government revenue.

The calculation is made somewhat difficult by the volatility of recent keg beer sales due to the impacts of COVID. However, if it is assumed that keg beers sales return to their three-year pre-COVID levels an estimation can be made.

If keg beer sales for the next financial year do return to pre-COVID averages and the policy proposed by the AHA is introduced, the estimated fall in Government revenue would be around \$189 million a year.

Assuming indexation of excise continues on the discounted rate of excise, with a 3 per cent inflation rate, the annual cost of the AHA proposal would increase over time. By 2026-27 the annual cost could be around \$212 million. Over 5 years the cumulative cost would be just over \$1 billion (Table 2).

¹² Ibid.

¹³ ABS (2018) *National Health Survey: First results*, <https://www.abs.gov.au/statistics/health/health-conditions-and-risks/national-health-survey-first-results/latest-release>

¹⁴ Australian Government (n.d.) *Excise data*, <https://data.gov.au/data/dataset/excise-data>

Table 2: Estimated revenue impacts of a 50 per cent excise reduction

BAU: Revenue	2022-23	2023-24	2024-25	2025-26	2026-27
Light	\$1	\$1	\$2	\$2	\$2
Mid	\$48	\$49	\$51	\$52	\$54
Heavy	\$328	\$338	\$348	\$358	\$369
Total	\$377	\$388	\$400	\$412	\$424
POLICY: 50 per cent cut in beer excise					
Light	\$1	\$1	\$1	\$1	\$1
Mid	\$24	\$25	\$25	\$26	\$27
Heavy	\$164	\$169	\$174	\$179	\$185
Total	\$189	\$194	\$200	\$206	\$212
Lost revenue	-\$189	-\$194	-\$200	-\$206	-\$212
5-yr lost revenue: -\$1,001 million					

Note: Estimated impacts do not account for potential revenue changes associated with the *Excise Remission Scheme*.

Source: The Australia Institute analysis based on ATO excise data (<https://data.gov.au/data/dataset/excise-data>)



Conclusion

Proposals to reduce the excise payable on beer have the potential to deliver a significant loss of Commonwealth revenue but little potential to create jobs, stimulate the hospitality sector or address problematic drinking.

Any attempt to support the hospitality sector through a reduction in beer excise will deliver a narrow range of benefits to a narrow group of beneficiaries while doing nothing to support the broader hospitality sector, many of which sell little or no tap beer.

While there is strong evidence to support the conclusion that little or none of the excise reduction will be passed on to consumers, delivering a significant windfall to the small percentage of the hospitality sector that sells beer from kegs, if beer prices do fall the benefits to consumers will be similarly narrow. According to the ABS, 83 per cent of beer drinkers are men and, in turn, men will receive the overwhelming proportion of any reduction in beer prices.

Finally, while the existing beer excise regime is designed to encourage the consumption of low alcohol beer, proposals to halve the beer excise, if they were passed on to consumers, would deliver price reductions of around 45 cents per pint for full strength beer and only 2-3 cents for a pot or middy of light beer.