2021 Pre-Budget Submission

Spirits Industry Tax Reform

EST. A.D.A 2004
AUSTRALIAN DISTILLERS ASSOCIATION INC.

Spirits & Cocktails AUSTRALIA

Tax reform to unleash our industry's potential and fuel Australia's COVID comeback

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The Spirits Industry in Australia welcomes the opportunity to make a Pre-Budget Submission for consideration ahead of the May 2021 Federal Budget.

This submission is lodged on behalf of members of the Australian Distillers Association Inc. and Spirits & Cocktails Australia who together represent over 90% of spirits producers involved in the manufacture, marketing and sale of spirits throughout Australia. Our industry directly supports over 5,000 jobs in 84 Federal electorates and supports a further 15,000 jobs throughout the supply chain, from primary producers to the hospitality and tourism sectors.

We share a commitment to promoting a safe and vibrant spirits sector which supports Australia's mature drinking culture and creates opportunities for economic growth and industry development.

Creating opportunities for economic growth

At a time when Australians need to feel optimistic about this country's recovery from the worst of COVID-19, few industries offer as much promise as craft distilling in Australia.

There are now over 300 distilleries in 84 federal electorates – a marked increase since 2014, when Australia had just 28 distilleries. Our industry directly supports over 5,000 jobs in 84 Federal electorates and supports a further 15,000 jobs throughout the supply chain, from primary producers to the hospitality and tourism sectors. Significantly, more than 60% of these businesses are in rural and regional areas, bringing important economic benefits to these communities. Distillers buy produce from local farmers, attract tourists to their regions, and create jobs, both within their own operations and in the services and supply chains. Australians' awareness of the importance of their local industries has only increased during the global pandemic, and with recent international trade tensions. They are looking for their leaders to support local producers and manufacturers to fortify the economy.

Meanwhile, our local distillers have been growing in international renown. Australian distillers are known for their innovative methods and their intriguing use of native ingredients, such as lemon myrtle, Tasmanian pepperberry and even bunya nuts. The quality of their work is reflected in a growing list of international awards. In November, for example, Yarra Valley-based Four Pillars was named International Gin Producer of the Year for the second year running at the 51st International Wine and Spirits Competition. In prestigious US awards held in early 2020, Western Australia's Great Southern Distilling Co. won the American Distillers Institute Award for the best International Craft Whiskey. Sydney's Archie Rose also won the World Whiskey Awards 'World's Best Rye Whiskey'.

> 'The biggest negative impact the spirits tax has on our business is that it limits our ability to grow. Every tax increase is a lost opportunity for future growth'
>
> Eddie Brook, Head Distiller, Cape Byron Distillery

Such accolades have prompted industry commentators to speculate recently that Australia's distilling industry is on the cusp of a boom that will see it becoming a major international exporter of premium products, similar to what was seen when this country's wine industry burgeoned in the 1980s. Awareness of the growth of the industry among Australians is also encouraging:

But distillers in Australia are being held back by a spirits tax that is the third highest in the world. The tax is indexed to inflation and increases twice a year, and it is significantly higher than that imposed on beer or wine. It is not just distillers who feel frustrated at this unfair playing field; many Australians are also outraged by this disproportionately high tax on spirits, particularly as it offends the core Australian value of "a fair go".

> 'The industry employs a lot of people in Tasmania. It brings in a lot of tourism and people spend money on not only that but also other areas.' [1]
>
> Tasmanian resident

> 'Different types of alcohol should be taxed the same. Because alcohol is alcohol regardless of if you're having a gin or a glass of wine.'
>
> Victorian tourism and hospitality worker

[1] *Verbatim quotes are from soft voter focus groups held in Queensland, NSW, Victoria, Tasmania and WA on 14 and 15 December, 2020.*

When Australian distillers look to the future and contemplate expanding their operations, to employ more staff or order more produce, they are well aware they carry an inequitable tax burden that increases every six months. Australians also see the need to support this burgeoning industry so it can realise its growth potential.

Australians' drinking habits have become markedly more responsible over the past two decades. It is important to note, for example, that the perception that Aussies drank in increased volumes at home during lockdowns is incorrect – in a study conducted by the Australian National University, 53% of Australians reported their alcohol consumption remained unchanged and a further 27% reported their alcohol consumption decreased.[2] The total sales of alcohol beverages were significantly impacted by COVID-19 restrictions from March to May 2020, with spirits manufacturers reporting volume declines of 21% for full-bottled spirits and a further 37% volume decline for RTDs.[3] In light of this demonstrated and sustained maturity in Australians' drinking behaviour, a tax regime that explicitly targets spirits over other forms of alcohol appears increasingly anachronistic and unfair.

Now, there is an additional challenge. The COVID-19 pandemic spared no one in 2020. Directly or indirectly, we have all been impacted. But the hospitality and tourism sectors were particularly devastated, along with the spirits industry that supported them.

As Australia commences what the Federal Government has called "our comeback", the recovery of these sectors will have a unique and vitally important role to play. Hospitality creates social hubs and opportunities through which Australians will regain their sense of optimism about their lives getting back to normal. Hospitality and tourism are sectors built on our human need to gather and socialise, to enjoy one another's company in different environments. But they have been shattered by necessary border closures, social distancing requirements and lockdowns. Regional economies face the added challenge of finding workers to assist with the task of reopening.

> 'We're trying to support an emerging sector. We're not going to do that with these [high] tax rates.'
>
> Queensland resident

Budget 2021 presents a compelling opportunity for the Federal Government to create much needed stimulus by reconsidering its tax settings for spirits. By **pausing the automatic biannual tax increase for three years**, the Government would assist hospitality to recover from the impact of COVID-19. By **reducing the spirits tax rate to the brandy rate**, it would give a powerful kickstart to the domestic industry's attempt to grow into a premium agricultural-based export industry. In addition, we propose **an increase to the craft distillers refund scheme to provide much needed relief to local distillers.**

When this modest tax relief is applied to all spirits producers operating in Australia, everyone wins.

Modelling undertaken by PwC demonstrates that resetting spirits tax rates can increase Government revenue, while helping both the spirits industry as well as the tourism and hospitality industries – all without significantly increasing the volume of alcohol consumed. These revenue gains and flow-on benefits are made possible by the spirits industry working together; sales of traditional spirits brands, which account for up to 80% of the Australian market, provide the revenue gains to Government to reinvest in increasing the craft distiller refund for emerging local producers, while leaving a substantial balance to aid in the country's economic recovery.

> 'Everyone's a winner there. Why wouldn't you do this?'
>
> Queensland resident

Our proposed changes to the spirits tax will support further innovation and investment by local and international producers in the local manufacture of ready-to-drink spirits (RTDs), particularly low calorie and low alcohol options; as Australians' drinking habits have become more responsible, these product lines have emerged as one of the fastest growing segments of the Australian spirits market. With such change comes further growth and job opportunities.

Now, more than ever, reform of the spirits tax regime is vital. Alcohol taxation in Australia remains complex and increasingly discriminatory toward the spirits sector, and there have been numerous calls over the years to simplify the taxation system and make it more equitable across categories. Our recommendations in this submission propose the first small but important step towards tax reform, at a time when it is most needed by the Australian spirits sector and the wider hospitality and tourism industries it supports.

Spirits tax reform would deliver a triple win: for Government, the industry and consumers

A **PwC** analysis commissioned by **Spirits & Cocktails Australia** in 2020 (Appendix A) revealed that the rate of spirits excise in Australia is now so high that the Government collects less revenue than it would if the rate was lower. **PwC's** modelling utilises the best and most recent evidence and price elasticities on how alcohol tax changes impact consumption, as detailed in Monash University's, 'Disaggregated econometric estimation of consumer demand response by alcohol beverage types (2015)'.[4]

PwC's model uses these elasticities and applies them to the most up-to-date and granular information on Australian alcohol sales from IRI Worldwide.

Three policy scenarios were modelled: cutting the spirits excise rate to the brandy excise rate; freezing the spirits excise indexation for three years; and combining both these proposals. In all three policy scenarios, **PwC's** modelling shows that decreasing the spirits excise increases Government revenue as it accelerates an established market trend that sees consumers shift from lower taxed beer and wine to higher taxed spirits and RTDs.

Table 1: Summary of policy options, budgetary and alcohol consumption impacts[5]

Policy summary	**Increased revenue in financial year post-implementation** (1 July 2020 – 30 June 2021)	**Impact over forward estimates** (2020 – 2024)	**Pure alcohol consumption change** (2020 – 2024)
Cut spirits excise rate to brandy rate and freeze spirits and brandy CPI indexation for 3 years	+ $251 million	+ $1.4 billion	+ 0.57%
Cut spirits excise rate to brandy excise rate	+ $204 million	+ $894 million	+ 0.24%
Freeze spirits and brandy CPI indexation for 3 years	+ $65 million	+ $707 million	+ 0.17%

As a result, we recommend the government consider implementing option 1, which would maximise its return on taxation revenue while keeping increases to alcohol purchases to less than 1% in volume.

The three tax reform proposals summarised above would make purchasing spirits fairer for the 62% of Australians who choose to drink spirits,[6] whilst providing much needed relief for spirits manufacturers that were adversely impacted by hospitality venue and distillery closures necessitated by the COVID-19 pandemic.

With a fairer alcohol tax regime in place, the spirits industry has the potential to significantly contribute to jobs growth, the rural supply chain and tourism. Additionally, spirits can emerge as a key value-added agricultural export product.

Amending the craft distiller refund scheme

We further recommend that savings created through providing modest tax relief to the spirits industry be reinvested in offering much needed relief to local distillers by increasing the current excise refund scheme limit from $100,000 to $350,000 for two years at a full 100 per cent of excise duty paid on our products. The economic impact of this policy change is detailed in Appendix A.

This policy change will achieve equivalency in the rebate currently offered to small wine producers under the *Wine Equalisation Tax (WET)*, whilst ensuring distillers can maintain employment and supply chain opportunities in regional and rural Australia in their recovery from COVID-19. It will also allow distillers to have more capital to invest towards reorienting their businesses towards visitor destinations for inbound tourism, and to export premium spirits, capitalising on recent free trade agreements.

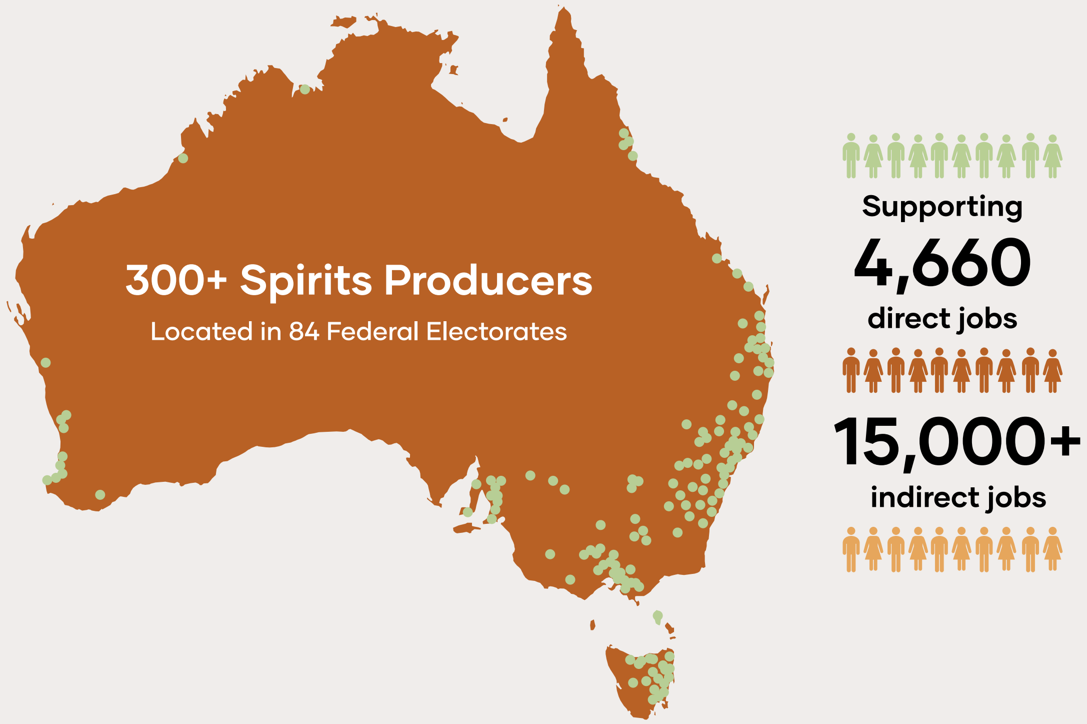
[5] Modelling conducted prior to COVID-19. 2020 data has not been used to update the model, as figures would not be representative of regular purchasing behaviour. Additional modelling can be undertaken on request.

It’s the right way to build an industry and share the benefits

4.1 It benefits Australia’s emerging craft distillers

International **Spirits & Cocktails Australia** members have paved the way for a vibrant local distilling industry. They have built an affinity among consumers for spirits such as rum, bourbon, whisky, vodka and gin through a commitment to quality and centuries-old expertise, innovation, substantial marketing investment, and sponsorship of major music, sports and cultural events. They have established significant supply chains with local manufacturers, contributing to the success of packaging, flavour and glass manufacturers. Local bars have also benefited from their investment through training programs to create world class bartenders who have in turn contributed to an emerging small bar scene, where the quality and provenance of centuries-old spirits brands can be enjoyed alongside emerging local spirits products.

Figure 1: Distribution of Australian distillers and major spirits manufacturers



There are now over 300 distilleries in 84 Federal electorates – a significant increase since 2014, a time when Australia had just 28 distilleries.[7] Tax currently represents over 50% of many local distillers’ overheads and a significant proportion of costs for global manufacturers operating within Australia. Taxation is an overhead that is holding everyone back, stifling job creation, manufacturing, tourism, agriculture and export opportunities.

Despite Australian gins, whiskies and rums winning awards around the globe for their quality, Australia currently exports only $4 per capita in spirits compared to $171 in Ireland, $120 in UK, $85 in Estonia, $70 in Sweden and $11 in New Zealand.[8]

There is an enormous potential for Australian distilled spirits to be a future export star of premium value-added food and beverage products, similar to the success enjoyed by the Australian wine industry. Free trade and economic partnership agreements in the region can boost opportunities for Australian distillers, as regional markets are seeing excellent growth in demand for international premium spirits, particularly in economies like Vietnam, the Philippines, South Korea and Japan (all signatories to the recently signed Regional Comprehensive Economic Partnership). Even Myanmar has this year opened its market to premium international spirits this year, providing an opportunity for Australian spirits exports, particularly as rum and whisky are local favourites.

Figure 2: Global spirits exports per capita

4.2 The benefits can flow along the value chain, including into regional Australia

Reducing tax and allowing spirits manufacturers greater margin will be important in the sector’s recovery from significantly reduced trade and tourism throughout the COVID-19 pandemic. $137bn is spent on leisure and entertainment in Australia annually and, increasingly, people are willing to spend more on unique or special experiences.[9] Australian distilleries not only produce some of the world’s best spirits but are now major attractions in tourism trails – and over 65% are located in rural and regional Australia, supporting a growing hospitality and tourism economy. Their contribution could be far greater.

Case Study

Bundaberg Rum Distillery, Queensland

100%	Bundaberg Rum Distillery sources 100% of its sugarcane from farmers in Bundaberg. 100% of waste water from the distilling process is treated and returned via irrigation to the sugarcane crops.
75,000	Since the $8.5m upgrade to the Bundaberg Rum Visitor Experience, the Bundaberg Rum Distillery attracts over 75,000 visitors each year, most from outside the region, and makes an important contribution to the local community.
No.1	The Visitor Experience has won Gold at the Queensland Tourism Awards and Australian Tourism Awards for two consecutive years, and is consistently voted best tourism experience in the region.[10]

Case Study

Cape Byron Distillery, New South Wales

Cape Byron Distillery is located at the heart of the Brook Family's 96 acre farm (Brookfarm) in the hinterland of Byron Bay. The distillery rests amid a macadamia orchard and rainforest the family regenerated over 30 years. It employs 32 people in the local community, 8 others throughout Australia, and sources its botanicals and supplies from its very own rainforest and the Northern Rivers, creating flow-on employment opportunities in the local area.

Cape Byron Distillery has emerged as a major tourism drawcard for the Northern Rivers, attracting over 9,000 visitors each year. Distillery tourism in the area has also grown with Husk Distillers opening its distillery door in 2019 and with Lord Byron Distillery commencing its rum production in 2018.

"We estimate for every one person we employ here at the distillery, we create opportunities for up to five more throughout our supply chain," said Cape Byron Distillery Co-Founder and Head Distiller, Eddie Brook. "Our distillery is now the largest purchaser of Davidson Plums across Australia, buying 24 tonnes to produce our Brookie's Slow Gin each year."

"The spirits tax is easily the biggest burden that we face as a young family distillery – we pay over 55% of the sell price of our gin in excise. The twice-yearly indexation of the tax means we're constantly chasing our tail. It's like playing a game of Pacman with the tax office, and we know we can't outrun it.

"Small Australian distilleries like us don't have the luxury of increasing our prices every six months – our retailers and customers just won't have it. Any additional margin we might achieve through efficiencies or economies of scale goes straight back to paying tax. With an ever-eroding margin and an increasing cost base, this tax simply isn't sustainable.

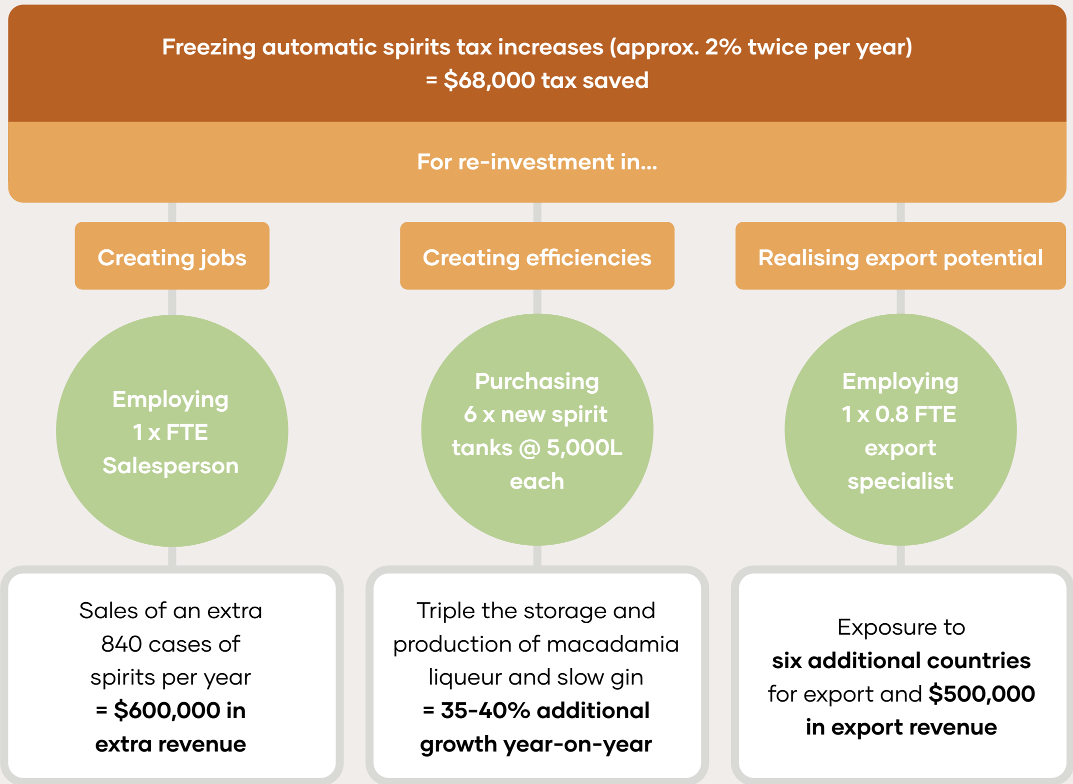
"As small business owners, we're not looking for tax reform to line our coffers. We need it to grow our businesses.

"The efficiencies gained as we mature as a business are eroded by the bi-annual excise increase, which stifles our growth potential. It's like running a race with an anchor attached to your ankle.

"Tax reform would have a multiplier effect on our business, allowing us to employ more staff to continue our growth, to invest in more efficient machinery and to realise our export potential.

"The biggest negative impact the spirits tax has on our business is that it limits our ability to grow. Every tax increase is a lost opportunity for future growth."

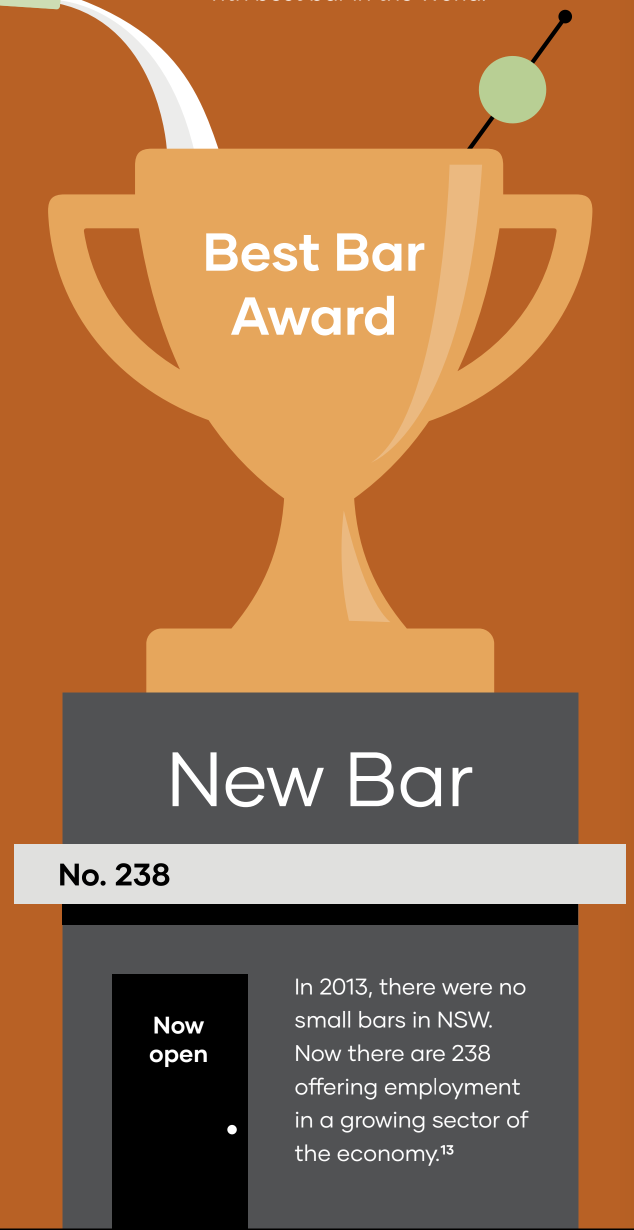
Figure 3: What spirits tax reform would mean to Cape Byron Distillery



Australian bar culture continues to improve, winning global acclaim.

Sydney's Maybe Sammy was named **Best Bar in Australasia in 2019 & 2020** and is ranked the 11th best bar in the World.[11]

Prior to COVID-19, there was a 67% **increase in drinking occasions in wineries, distilleries and breweries in 2019.**[12]



In 2013, there were no small bars in NSW. Now there are 238 offering employment in a growing sector of the economy.[13]

The Four Pillars gin distillery has become the **most visited destination in the whole of the Yarra Valley,** ahead of every individual winery.

Recognising the potential of a local success story.

2019 & 2018 World's Best Single Cask Single Malt Whisky, World Whiskies Awards

2020 & 2019 International Gin Producer of the Year, International Wine & Spirits Competition

2019 World's Best Classic Gin, World Gin Awards

2017 & 2016 Best Dark Rum in the World, World Drinks Awards

Gin and whisky trails have emerged across VIC, TAS, NSW, WA and QLD. Many states recognise the tourism benefit and are developing craft distilling strategies to promote regional tourism experiences.

Melbourne's Orlando Marszon won the **2018 Diageo World Class Bartender of the Year** competition in Berlin.[14]

4.3 Small changes to Australia's spirits excise could replicate the success of the United Kingdom's excise freeze

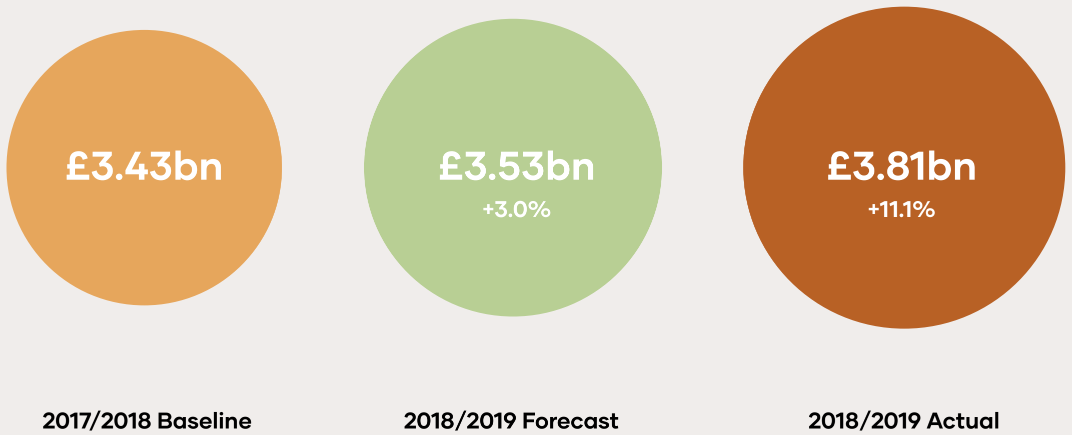
While the economic impact of COVID-19 will be felt throughout foreseeable Budget cycles, Australia can learn from the outcomes of excise freezes in the UK to guide potential spirits excise changes.

UK Government data shows that freezing the spirits excise has led to increased Government revenue, making more money available to fund public services.

HM Treasury initially forecast that following the freezing of the spirits excise in November 2017 revenue would increase by a modest 3% in 2018-19. The outcome surpassed expectations. Data from HM Revenue and Customs showed an increase in spirits revenue of 11%—£3.78bn—boosting HM Treasury by £380m. Spirits revenue alone accounted for 54% of the additional £566m revenue collected from all alcohol categories. It had the fastest growth of any alcohol category.[15]

After a further spirits excise freeze in October 2018, real-world data showed that revenue continued to grow. The Moving Annual Total (MAT) to October 2019 showed spirits revenue had risen by 2.6%.[16]

Figure 4: UK Government Revenue—Forecast vs Actual



Source: HMRC Tax & NIC receipts, April 2019; OBR Economic & Fiscal Outlook, March 2018.

There has been a corresponding boost to investment across the UK, especially in rural areas.

The Scotch whisky industry supports a substantial and UK-wide supply chain that benefits from a fair and stable tax regime. Recent figures show that over the last four years—during a period of excise freezes—its contribution to the UK economy increased by 10%, to £5.5bn. Australia has more distilleries than in all of Scotland so the economic impact of similar changes here could have great potential for its future investment and export earnings.

The industry is also crucial to other sectors, such as hospitality and tourism, which make significant contributions to the UK economy. Indeed, the Scotch whisky industry is now one of the UK's leading tourist attractions, and significantly contributes to job growth. With the right policy and taxation settings, Australia's distillers could follow the successful paths of both the Australian wine and Scotch whisky industries, capitalising on our quality agricultural inputs and capacity for inbound tourism.

Over the last five years the Scotch whisky industry invested more than £500million in capital projects in the UK including new distilleries, technology & tourist centres, supporting 42,000 jobs

This is only possible when the industry is supported through the tax system.

In 2018, Diageo announced it will spend £150 million on an extensive upgrade of its Scotch whisky visitor centres, including Talisker Distillery on Scotland's Isle of Skye.[17]

It's the right time

5.1 The COVID-19 crisis significantly impacted the Australian spirits and hospitality industries, leaving many with an uncertain future

The COVID-19 pandemic delivered a series of inconceivable challenges for the spirits and hospitality industries. At the height of the crisis in April 2020, hospitality revenue dropped by $8.5 billion, representing 10% of annual sales and over 500,000 hospitality jobs were lost across the sector. An initial 23 per cent increase in alcohol sales through bottle shops was not enough to offset a 72 per cent collapse in sales through hotels, pubs and bars[18] resulting in April 2020 being the worst on record for Australian spirits, wine and beer producers.

Spirits manufacturers were impacted by volume declines of 21% for full-bottled spirits, and a further 37% volume decline for RTDs. Local distillers reported revenue declines of 80% to 100% due to the sudden closure of distillery doors and regional tourism in line with nation-wide Stage 3 restrictions.[19]

One hundred and thirty Australian distilleries rose to the challenge of adapting their production lines to produce hand sanitiser to address shortfalls and meet increased consumer and health sector demand.

Spirits & Cocktails Australia and its members, along with the Australian Distillers Association, provided significant assistance to the hospitality and broader community through a range of initiatives, including:

- In June 2020, **Bundaberg Rum** announced a $11.5 million fund called 'Raising the Bar' to support bars, pubs and clubs throughout Australia as they rebuild following COVID-19. The programme offers free access to digital training through **Diageo Bar Academy** and funding for equipment to assist with reopening.
- **William Grant & Sons, Diageo, Bacardi, Beam Suntory,** and **Brown-Forman** distilleries shifted production at their facilities to produce hand sanitiser or to supply ethanol to the established manufacturers of hand sanitiser. Here in Australia, the **Bundaberg Rum** produced 100,000 litres of ethanol for the Queensland Government, to forward to hand sanitiser manufacturers.
- **Spirits Platform** created *'Home Five O'clock-tails'* to support bartenders throughout venue closures. 100 bartenders from across Australia submitted cocktail tutorial videos and were paid $250 for their approved video submissions that were shared and promoted on Spirits Platform's *Simply Cocktails Facebook page* and the bartenders' personal social channels.
- **Bacardi-Martini Australia** created 'Raise Your Spirits' hosting financial advice sessions for bartenders. Bacardi also offered its partners and their immediate family access to confidential counselling sessions and a host of supporting materials.
- **Pernod Ricard** offered *'Meals for Mates'*, providing $1 million toward meals for hospitality workers impacted by COVID-19. The widely utilised program provided a $25 voucher to meals to thousands of hospitality workers, while helping keep the takeaway and delivery industry open.
- **Brown Forman** distributed *"Friends of Jack"* packs to over 1,000 impacted bartenders, and partnered with key customer Memento Group to financially support impacted hospitality workers through the Help Out Hospo initiative.
- **Spirits & Cocktails Australia** partnered with the **Night Time Industries Association** to support the *'Keep Our Venues Alive'* campaign to support hospitality venues throughout the COVID-19 pandemic. Additionally, Spirits & Cocktails Australia donated $100,000 to deliver *The Community* Spirit, a joint initiative led by Australian spirits distributor *Nip of Courage* to support local distilleries affected by the worst bushfire season on record and raise much needed funds for charities involved in relief and recovery efforts. This initiative recently received international recognition at the 2020 Spirits Business Awards in London, winning the Ethical Award in the Sustainability and Innovation awards category.
- Australian craft distillers donated significant volumes of hand sanitiser to Australian charities and community groups.

Stimulating the spirits industry through meaningful adjustment of current tax settings in the May 2021 Federal Budget will provide the certainty needed for spirits manufacturers to recover from COVID-19 and reinvest in their businesses to create employment and tourism opportunities throughout Australia.

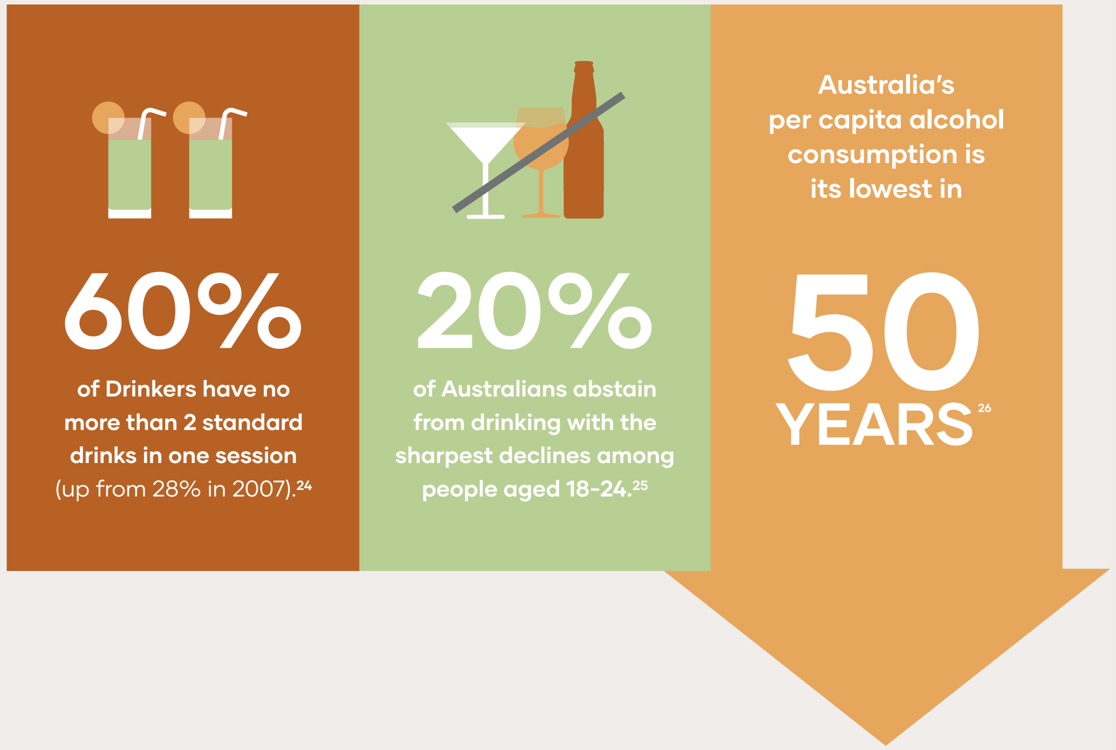
5.2 Australia's drinking culture is mature and responsible

Drinking trends across Australia are changing dramatically, and for the better.[20] [21]

The most comprehensive independent data on Australian drinking trends, the National Drug Strategy Household Survey conducted by the Australian Institute of Health and Welfare, found that over the last 10–15 years there have been significant declines in people drinking at risky levels. Fewer Australians are drinking on a daily or weekly basis, and more are deciding not to drink at all.[22]

Importantly, these trends continued throughout COVID-19 lockdowns. In a study conducted by the Australian National University, 53% of Australians reported their alcohol consumption remained unchanged and a further 27% reported their alcohol consumption decreased.[23]

Figure 5: Australia's changed drinking habits



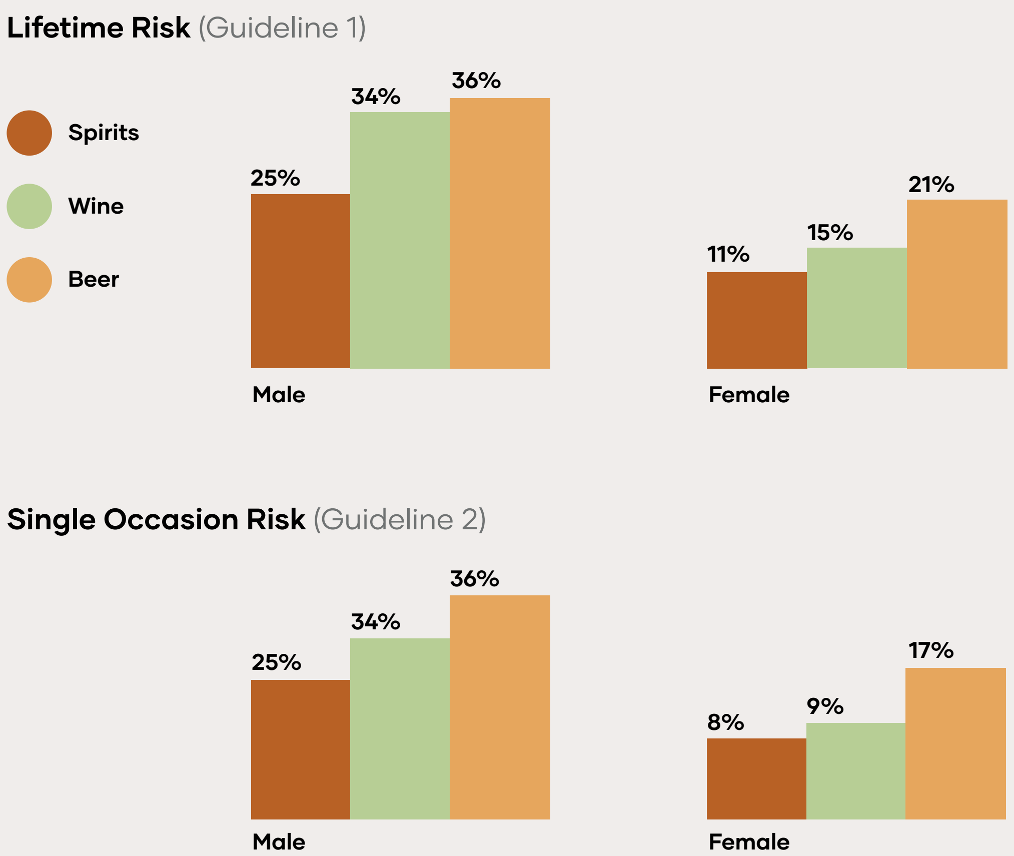
Australians are choosing to drink more premium drinks, less frequently, than drinking greater quantities of lower quality drinks,[27] and their choices increasingly blur the traditional categories of 'beer', 'wine' and 'spirits'. The steady decline in alcohol consumption by volume over the past 50 years contrasts with the 3% dollar growth in total 2019 alcohol sales, to $18.3bn.[28]

Spirits consumers play the biggest role of any alcohol drinkers in supporting more premium, higher value revenue growth.[29] This is consistent across consumption in venues and at home consumption, across socio-economic and age demographics, and in regional and metropolitan locations.

With Australians drinking less, but consuming more premium products, there is a strong economic policy rationale for the Government not to discourage spirits drinkers from consuming products that sustain this 'premiumisation' of Government revenue.

It is worth noting that no evidence suggests that spirits consumption comes at a greater social cost than the consumption of beer, wine or other alcohol beverages.

Figure 6: Predicted probability of exceeding National Health & Medical Research Council (NHMRC) 2009 Guidelines—by type of drink[30]



5.3 Time to accelerate the growth of premium spirits

In conjunction with Australians now drinking more responsibly, there has been a consumer shift to opt for fewer, but more premium drinks, particularly in the spirits and cocktails category. As Australia's food and drink culture evolves, premium and craft spirits are growing in demand both in licensed venues, but also in off-licence sales for at-home consumption. Innovation in cocktails and a renewed interest in the skills of bartenders and "mixologists" has seen a surge in consumer interest in higher-quality drinks and hospitality experiences.

Cocktails and small bars have benefited from this consumer shift and have grown in popularity in metropolitan and regional areas. These types of bars offer a diverse night-time experience and are home to a more premium drinking culture, with highly skilled mixologists and world class customer service. Bar training programs such as Beam Suntory's *The Blend* and Diageo's *Bar Academy* support the growth of domestic talent and creativity.

The value of spirits in the profitability of licensed venues and hospitality skills is particularly relevant given the wider social, cultural and economic benefit of supporting pubs and small bars – particularly as they recover from extended closures due to COVID-19 restrictions. With many small bars facing insolvency and the profitability and future of the pub and hotel industry under pressure, freezing or reducing excise is a positive way to support the hospitality sector.

In 2019-20, CPI excise increases on spirits added a further $26m to the cost of goods to be paid by hotels and small bars. A similar impost on an industry already heavily impacted by COVID-19 trading restrictions will negatively impact the ability of those businesses to employ more people and trade in a sustainable way as they recover from the pandemic.

Figure 7: The growth of spirits in Australia

The growth of spirits in Australia

In licensed venues	At home
Spirits contribute 41% to the total value of sales in licensed premises but account for just 13% of the total volume (in litres) of alcohol sold. Spirits offer venues greater sales value than beer (39%) or wine (20%).[31]	**62% of Australians choose to drink spirits.**[33]
Growing twice as fast as beer Spirits are growing twice as fast as beer in licensed premises, contributing 69% to value growth, compared to just 13% for wine and 18% for beer and cider.[32]	**75% of spirits growth comes from 'premium' bottles** retailing at over $50.[34]

It’s the right tax policy

6.1 Many Government inquiries have recommended reform

Multiple inquiries, including the **2009 Australia’s Future Tax System Review** (the Henry Tax Review),[35] have been critical of inconsistencies in Australia’s alcohol tax system. Other reviews over recent years have identified and articulated the same problem.[36] All have pressed for alcohol tax reform.

Here is how the Henry Tax Review expressed the ways inconsistencies in Australia’s alcohol tax framework disadvantaged consumers:

> *Taken together, current alcohol taxes reflect contradictory policies. They encourage people to drink cheap wine over expensive wine, wine from small rather than large producers, beer in pubs rather than at home, and brandy rather than spirits, and to purchase alcohol at airport duty-free stores. As a consequence, consumers tend to be worse off to the extent that these types of decisions to purchase and consume, which may have no spillover cost implications, are partly determined by tax.*[37]

The Treasury identified in 2015 that the system had come to reflect multiple priorities—raising revenue, reducing social costs of excessive alcohol consumption, and providing support to certain producers.[38]

To address the inconsistencies, the Henry Tax Review had recommended that alcohol taxation be set to a single objective—to address the spillover costs of alcohol consumption to society.[39]

A decade later, the same contradictions remain, and the discrimination of spirits taxation is continually widened by twice-yearly CPI increases on excise.

Several other anomalies compound the complexity. Spirits are taxed at one level if they are fermented from grapes (specifically brandy), and at a higher rate if fermented from grain (such as whisky). Cheap wine is taxed lightly, while premium wine is taxed heavily. Additionally, beer is taxed at one rate at the local pub and another when purchased to consume at home

Tax on beer and spirits is covered by 19 separate excise categories and 10 different excise rates,[40] from nil to $86.90 per litre of pure alcohol (/LAL). The WET, which covers wine, mead, sake and some forms of perry and cider, is levied at 29% of the product’s wholesale value.

Rethink: Tax Discussion Paper (2015)

The taxation of alcohol is complex, with rates varying considerably for different types of alcoholic beverages. This reflects policy changes over time to meet multiple objectives that include raising revenue, reducing the social costs of excessive alcohol consumption, and supporting wine producers and independent beer producers.[41]

Senate Red Tape Inquiry (2017)

The committee recommends that the Australian Government progress the reform of alcohol taxation, including the introduction of a single volumetric tax rate across all alcohol products, to be phased in to allow reasonable adjustment.[42]

Shifting The Dial: 5-Year Productivity Review (2017)

The Australian Government should move towards an alcohol tax system that removes the current concessional treatment of high-alcohol, low-value products, primarily cheap cask and fortified wines. Ideally, this would be achieved through a uniform volumetric tax rate for alcoholic beverages, calibrated to reflect the health impacts of alcohol consumption.[43]

6.2 Tax discrimination against spirits holds no logic

Excise on spirits, RTDs and beer is increased twice a year, every year in line with the consumer price index (CPI).[44] Because spirits and RTDs are taxed at a much higher rate than other alcohol beverage categories, the indexation results in a tax disparity between spirits and other categories that increases every six months.

Without taking action to deliver tax relief, there is a serious risk for Government that the excise base will be increasingly eroded, particularly if discretionary spending on spirits declines in Australia's recovery from the COVID-19 pandemic.[45]

The excise (/LAL) on spirits has increased by $16.30 over the past 10 years, representing an increase of **$4.22** per bottle of Bundaberg Rum.[46]

The corresponding excise (/LAL) increase for mid-strength packaged beer was just $9.62, representing an increase of just **$2.03** on a case of XXXX Gold [47]
—less than half the excise increase applied to spirits.

Case Study

Hellyers Road vs Budweiser

Hellyers Road, a whisky distillery in Burnie, Tasmania, is owned by farmers from a local dairy cooperative. Named 2017 Tasmanian Exporter of the Year, Hellyers Road exports to 20 countries worldwide.[48]

Compare the effect of excise over the next 10 years:

$35.80 Tax

Excise on a 700mL bottle of Hellyers Road 10 Year Old Original Single Malt Whisky will rise from $27.65 to more than $35.80—
an increase of $8.15.[49]

$23.40 Tax

Excise on a slab of Budweiser beer will rise from $18.07 to $23.40—
an increase of $5.33.

The extreme excise disparity between different alcohol categories is at odds with the consumer reality that individuals themselves are becoming more category agnostic, and do not identify as 'beer', 'wine' or 'spirits' drinkers. They increasingly focus on experiences and occasions—say, low-key afternoon drinks or drinking with a meal.[50]

Categories are further blurred in the way drinks are marketed. There is a trend for cans or bottles across all alcohol categories to be displayed in the same section of a bottle shop, similarly packaged, and often representing fusions of different categories, e.g. 'rose gin' or 'rose cider'.

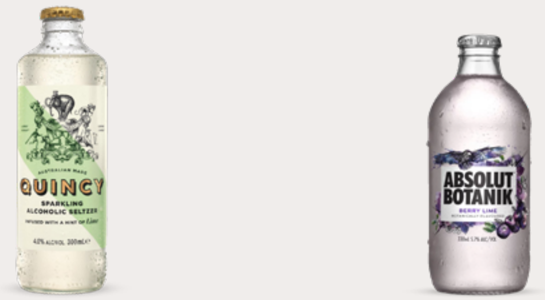
The four products produce varying excise outcomes with no logical consistency, despite having similar levels of alcohol (4.5–8.5% ABV) and similar target markets. It should be noted that the seltzer produced by brewers may undermine the Government's RTD revenue. It is a loophole already being exploited by some major multinational brewers.

Figure 8: Tax treatment of various RTD cans and tax per standard drink

Tax Category	Cider	Beer	Spirits	Wine
Tax Per Standard Drink	$0.25	$0.49	$1.10	$0.19

Inconsistencies are shown by comparing two RTDs that share a similar taste profile and target market. Due to excise categorisations, the Absolut Botanik Berry & Lime is taxed at more than double the rate of Quincy Lime Alcoholic Seltzer.

Figure 9: Tax treatment of similar RTDs



	Quincy Lime Alcoholic Seltzer	Absolut Botanik Berry & Lime
Product description (Dan Murphy's website)	This Australian Sparkling Alcoholic Seltzer is a new style of alcoholic drink, that uses rice to deliver a clean, dry taste that is gluten free. Infused with hints of natural lime juice flavour, it tastes as refreshing & light as sparkling water, only alcoholic.	Refreshing and summery, Absolut Botanik Berry Lime is bursting with Blueberry, Lime and Cucumber flavours matched with single-source Swedish Vodka. It makes for a fresh, lightly sparkling drink.
Alcohol content	4.0%	4.8%
Calories per 300mL serve	534kJ	570kJ
Excise category	Packaged beer greater than 3.5% ABV	Other excisable beverage of less than 10% ABV (i.e. RTD)
Tax per 300mL serve	$0.43	$1.23
Tax per 24 x 300mL Case [51]	$10.40	$29.67

6.3 Australia's tax on spirits is one of the highest in the world and hampers investment

The tax on spirits in Australia is the third highest in the world. Only Iceland and Norway's are higher.[52] It is 67% higher than New Zealand's,[53] and 950%—9.5 times—higher than the United States'.[54]

Additionally, local consumers pay more for spirits than just about anywhere in the developed world. Due to our high spirits excise, it is often cheaper to buy Australian products abroad. For example, a bottle of Starward Whisky, distilled in Port Melbourne, sells for just US$50 in the US, while consumers in Australia pay A$95—around A$23 more.

While Australia's craft spirits continue to receive global acclaim, higher domestic taxes make them less competitive internationally. Without relief to the headline excise rate, Australian distillers will struggle to raise the necessary profits from domestic sales to invest in their business to the necessary level to enable them to export to lucrative growth markets in Asia and around the world. A globally competitive domestic tax would support the growth of Australian spirits exports.

Figure 10: Australia's spirits excise per pure litre of alcohol compared to comparable markets. (in AUD).

6.4 Sustainable taxes reduce the risk of black market activity

High tax rates are not an excuse to break the law. However, if the level of tax becomes unsustainable, the risk of black market activity will increase.

Alcohol duty fraud is already occurring. In December 2019, the Australian Border Force (ABF) announced the disruption of an alleged multi-million dollar alcohol duty fraud.[55] The excise lost was estimated to have been around $28m,[56] but this figure is expected to rise into hundreds of millions of dollars. Footage released by the ABF indicated that the alcohol seized was overwhelmingly spirits.[57]

Compare this to the growth in trade of illegal tobacco after excise increases on tobacco products. In 2010, the Federal Government increased tobacco excise by 25%, followed by consecutive annual increases of 12.5% from 2013 onwards. KPMG estimated that illicit tobacco, as a proportion of legal tobacco consumption, rose from 8.3% in 2007 to 15% in 2017, falling slightly to 14.3% in 2018,[58] amounting to 2.1 million kilograms.[59] This represents an excise revenue loss of $2bn.[60]

These figures suggest that excessive alcohol excise will impact spirits prices sufficiently that illicit consumption will become more common.

Policy options that promise growth, jobs and investment

The three tax policy options outlined in this submission will deliver a net increase to Federal Government revenue. The difference in the outcome for each option lies in the size of the revenue increase to Government.

Table 1: Summary of policy options, budgetary and alcohol consumption impacts [61]

Policy summary	Increased revenue in financial year post-implementation (1 July 2020 – 30 June 2021)	Impact over forward estimates (2020 – 2024)	Pure alcohol consumption change (2020 – 2024)
Cut spirits excise rate to brandy rate and freeze spirits and brandy CPI indexation for 3 years	+ $251 million	+ $1.4 billion	+ 0.57%
Cut spirits excise rate to brandy excise rate	+ $204 million	+ $894 million	+ 0.24%
Freeze spirits and brandy CPI indexation for 3 years	+ $65 million	+ $707 million	+ 0.17%

PwC's modelling of these options utilises the best and most recent evidence on how alcohol tax changes impact consumption, as detailed in Monash University's, 'Disaggregated econometric estimation of consumer demand response by alcohol beverage types (2015)'.[62]

The Monash study is significant as prior to its publication there was no suitable or recent empirical evidence on the Australian alcohol market that allowed proper consideration of any tax change. It enables consideration of the behavioural response from consumers to changes to alcohol taxes by delving deeper than the headline categories of 'beer, wine and spirits' to estimate both own-price and cross-price elasticities in sub-categories including premium dark spirits and budget light spirits; premium beer and value beer; and premium and bulk wine. PwC's model uses these elasticities and applies them to the most up-to-date and granular information on Australian alcohol sales from IRI Worldwide.

In all three policy scenarios, PwC's modelling shows that decreasing the spirits excise increases Government revenue as it accelerates an established market trend that sees consumers shift from lower taxed beer and wine to higher taxed spirits and RTDs.

Importantly, all three options do not seek to increase tax on any other alcohol category and none result in any significant change to overall alcohol consumption (in all cases, overall alcohol consumption increases by less than one per cent).

As the policy options are primarily designed to benefit consumers, the model assumes that the full benefit of the excise increase is passed through to consumers, with producer and retailer margins remaining constant.

Additionally, the revenue generated by each policy option is significant enough to facilitate the implementation of our recommendation to increase the craft distiller rebate from $100,000 to $350,000 to achieve equivalency with the WET rebate, whilst simultaneously delivering an increase to Government revenue. Importantly this will ensure distillers can maintain employment and supply chain opportunities in regional and rural Australia in their recovery from COVID-19.

For more detailed information on the assumptions, data and elasticities used by PwC in formulating revenue gain estimates, please refer to the PwC analysis (Appendix A).

Option 1

Reducing spirits excise to the brandy rate and freezing CPI indexation for three years

Estimated gain to Federal Government revenue:

- **PwC estimates that Option 1 would result in a gain to Federal Government revenue of $1.4bn over the forward estimates period.**
- **The share of excise revenue generated by spirits and RTDs would increase. Over the forward estimates period, it would rise from 48.56% to 57.63%.**

Option 1 would deliver the greatest Federal Government revenue gains. It is a combination of the measures proposed in Options 2 and 3. Option 1 removes the existing spirits excise category, with all spirits and RTDs to be taxed at the brandy rate from 1 July 2021, and freezing CPI indexation of that rate for three years.

Option 1 has the advantage of also enabling the Government to deliver tax relief for consumers, and provides time to develop a longer-term alcohol tax reform plan that balances the many competing interests of the industry.

Option 1 would deliver greater revenue gains to the Government than Option 2 or 3 alone, while also having stronger benefits for consumers.

For example, Option 1 would deliver an immediate saving to consumers of approximately $1.61 per bottle of spirits and $2.48 per 24-pack of RTDs from 1 July 2020. It then prevents excise increases of around $3–$4 per bottle of spirits and $4–$7 per case of RTDs.

Table 2: Option 1 total Federal Government revenue related to alcohol (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	4 year total
Option 1							
Spirits and RTDs excise	3,313	3,475	4,041	4,305	4,605	4,809	17,760
Other alcohol excise and WET	3,532	3,685	3,540	3,584	3,639	3,693	14,455
All excise and WET sub-total	6,845	7,160	7,581	7,889	8,244	8,502	32,215
GST on spirits and RTDs	762	795	928	972	1,016	1,036	3,953
GST on other alcohol	2,459	2,527	2,390	2,353	2,319	2,318	9,380
All GST sub-total	3,221	3,322	3,318	3,325	3,335	3,354	13,333
Total revenue	10,065	10,482	10,899	11,214	11,579	11,856	45,548
Base							
Spirits and RTDs excise	3,313	3,475	3,553	3,670	3,807	3,934	14,964
Other alcohol excise and WET	3,532	3,685	3,777	3,900	4,043	4,131	15,851
All excise and WET sub-total	6,845	7,160	7,330	7,570	7,850	8,065	30,815
GST on spirits and RTDs	762	795	805	815	824	832	3,276
GST on other alcohol	2,459	2,527	2,549	2,560	2,575	2,591	10,276
All GST sub-total	3,221	3,322	3,354	3,375	3,399	3,423	13,552
Total revenue	10,065	10,482	10,684	10,945	11,249	11,488	44,366
Difference							
Spirits and RTDs excise	0	0	488	635	798	874	2,796
Other alcohol excise and WET	0	0	-237	-316	-405	-437	-1,396
All excise and WET sub-total	0	0	251	319	393	437	1,400
GST on spirits and RTDs	0	0	123	157	193	204	677
GST on other alcohol	0	0	-159	-207	-256	-273	-895
All GST sub-total	0	0	-36	-50	-63	-69	-218
Total revenue	0	0	215	269	330	368	1,182
% change (excise)	0.00%	0.00%	3.43%	4.21%	5.01%	5.42%	4.54%
% change (all revenue)	0.00%	0.00%	2.01%	2.46%	2.93%	3.20%	2.66%

Option 2

Reducing the spirits excise rate to the brandy excise rate

Estimated gain to Federal Government revenue

- **PwC estimates that Option 2 would provide a gain to Federal Government revenue of $894m over the forward estimates period.**
- **Despite the cut in spirits and RTD excise rates, the share of excise revenue generated by these two categories is modelled to increase from 48.56% to 54.07% over the forward estimates period.**

Brandy, a spirit distilled derived from fermented grapes, is currently taxed at a lower rate than all other spirits.[63] This policy is said to date back to 1979 and had the aim of boosting a then thriving grape wine industry.[64]

Under Option 2, it is proposed that spirits, brandy and RTDs would be taxed at the brandy rate from 1 July 2021. This would result in the effective abolition of one excise category and deliver an immediate cut to the excise rate of approximately $5 per litre of alcohol (/ LAL) for all spirits other than brandy. CPI increases in future years would be smaller given the reduction in the base rate of excise.

For example, under Option 2 excise on a bottle of Hellyers Road whisky would drop from $27.65 in 2019 to approximately $26.16 from 1 July 2021.

Table 3: Option 2 total Federal Government revenue related to alcohol (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	4 year total
Option 2							
Spirits and RTDs excise	3,313	3,475	3,943	4,079	4,243	4,397	16,663
Other alcohol excise and WET	3,532	3,685	3,591	3,704	3,836	3,915	15,046
All excise and WET sub-total	6,845	7,160	7,534	7,783	8,079	8,312	31,709
GST on spirits and RTDs	762	795	903	914	925	935	3,677
GST on other alcohol	2,459	2,527	2,424	2,432	2,444	2,457	9,757
All GST sub-total	3,221	3,322	3,327	3,346	3,369	3,392	13,434
Total revenue	10,065	10,482	10,860	11,129	11,448	11,704	45,142
Base							
Spirits and RTDs excise	3,313	3,475	3,553	3,670	3,807	3,934	14,964
Other alcohol excise and WET	3,532	3,685	3,777	3,900	4,043	4,131	15,851
All excise and WET sub-total	6,845	7,160	7,330	7,570	7,850	8,065	30,815
GST on spirits and RTDs	762	795	805	815	824	832	3,276
GST on other alcohol	2,459	2,527	2,549	2,560	2,575	2,591	10,276
All GST sub-total	3,221	3,322	3,354	3,375	3,399	3,423	13,552
Total revenue	10,065	10,482	10,684	10,945	11,249	11,488	44,366
Difference							
Spirits and RTDs excise	0	0	390	409	436	463	1,699
Other alcohol excise and WET	0	0	-186	-196	-207	-216	-805
All excise and WET sub-total	0	0	204	213	229	247	894
GST on spirits and RTDs	0	0	97	99	101	103	401
GST on other alcohol	0	0	-125	-128	-131	-135	-519
All GST sub-total	0	0	-28	-29	-30	-32	-118
Total revenue	0	0	176	185	199	216	776
% change (excise)	0.00%	0.00%	2.78%	2.82%	2.92%	3.07%	2.90%
% change (all revenue)	0.00%	0.00%	1.65%	1.69%	1.77%	1.88%	1.75%

Option 3

Freezing CPI indexation of spirits and brandy excise for three years

Estimated gain to Federal Government revenue

- **PwC estimates that Option 3 would result in a gain to Federal Government revenue of $707ml over the forward estimates period.**
- **As with Option 2, the share of excise revenue generated by spirits and RTDs would increase. Over the forward estimates period, it would rise from 48.56% to $52.91%.**

Another way to deliver tax relief to spirits consumers is to freeze the twice-yearly excise increases for a fixed period of three years. Option 3 ensures that issues discussed earlier in this submission do not worsen over this timeframe.

This option closely reflects the recent changes made by the UK Government, where several CPI freezes have delivered increased Government revenue with no increase to overall consumption trends.

A three-year indexation freeze would also provide time for the Government to consider and develop a longer-term strategy to holistically reform alcohol taxation.

For example, Option 3 prevents an excise increase of approximately $3–$4 per 700mL bottle of spirits and $4–$7 per 24-pack RTD case over three years.

Table 4: Option 3 total Federal Government revenue related to alcohol (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	4 year total
Option 3							
Spirits and RTDs excise	3,313	3,475	3,672	3,945	4,249	4,437	16,303
Other alcohol excise and WET	3,532	3,685	3,723	3,771	3,832	3,893	15,219
All excise and WET sub-total	6,845	7,160	7,395	7,716	8,081	8,330	31,522
GST on spirits and RTDs	762	795	834	881	927	945	3,586
GST on other alcohol	2,459	2,527	2,513	2,475	2,442	2,443	9,873
All GST sub-total	3,221	3,322	3,347	3,356	3,369	3,388	13,459
Total revenue	10,065	10,482	10,741	11,072	11,450	11,719	44,981
Base							
Spirits and RTDs excise	3,313	3,475	3,553	3,670	3,807	3,934	14,964
Other alcohol excise and WET	3,532	3,685	3,777	3,900	4,043	4,131	15,851
All excise and WET sub-total	6,845	7,160	7,330	7,570	7,850	8,065	30,815
GST on spirits and RTDs	762	795	805	815	824	832	3,276
GST on other alcohol	2,459	2,527	2,549	2,560	2,575	2,591	10,276
All GST sub-total	3,221	3,322	3,354	3,375	3,399	3,423	13,552
Total revenue	10,065	10,482	10,684	10,945	11,249	11,488	44,366
Difference							
Spirits and RTDs excise	0	0	119	275	443	503	1,339
Other alcohol excise and WET	0	0	-54	-129	-211	-237	-632
All excise and WET sub-total	0	0	65	146	232	266	707
GST on spirits and RTDs	0	0	29	66	103	113	310
GST on other alcohol	0	0	-36	-84	-134	-148	-403
All GST sub-total	0	0	-7	-18	-31	-35	-93
Total revenue	0	0	57	127	200	231	615
% change (excise)	0.00%	0.00%	0.88%	1.93%	2.95%	3.29%	2.29%
% change (all revenue)	0.00%	0.00%	0.53%	1.16%	1.78%	2.01%	1.39%

Increasing the craft distiller refund

The revenue gains delivered by implementing the proposed changes to spirits excise could also be used to help address the disparity between the tax incentives available to emerging craft distillers.

We recommend providing much needed relief to craft distillers by increasing the current excise refund limit from $100,000 to $350,000 for two years at a full 100 per cent of the excise duty paid. Analysis completed by PwC shows that this would increase rebate expenditure by $33 million over two years; a 47 per cent increase from current arrangements for those years.

This policy change will achieve equivalency in the rebate currently offered to small wine producers under the Wine Equalisation Tax (WET), while enabling distillers to re-invest in capital, expand their business towards tourism and export, including by potentially opening a tasting room or tourism experience onsite, as well as to maintain employment and create new supply chain opportunities in regional and rural Australia in their recovery from COVID-19.

Table 5: Total Federal Government refund expenditure to craft distillers and brewers (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2-year total (2019-20 & 2020-21)
Current refund scheme arrangements							
Distillers	2	9	9	10	11	11	17
Brewers	8	26	26	30	34	34	53
Total	10	35	35	40	45	45	70
Proposed refund scheme arrangements							
Distillers	2	25	25	10	11	11	50
Brewers	8	26	26	30	34	34	53
Total	10	51	51	40	45	45	103
Net increases in refund payments	0	16	16	0	0	0	33

Note: Totals may not sum due to rounding. These are refund estimates, but they are presented on an accrual basis (i.e. the year in which the excise is paid) and not when the cash refund is received, which may be delayed. On a cash basis, the vast majority of the net increase in refunds will occur in 2020-21 (delayed lump sum for 2019-20 and then monthly payments for 2020-21), with a small amount in 2021-22 (any delayed monthly payments from 2020-21).
Additional information is available at Appendix A.

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Spirits excise option modelling

Final report

January 2020

pwc

Disclaimer

This report is not intended to be read or used by anyone other than Spirits and Cocktails Australia.

We prepared this report solely for Spirits and Cocktails Australia's use and benefit in accordance with and for the purpose set out in our engagement letter dated 20 November. In doing so, we acted exclusively for Spirits and Cocktails Australia considered no-one else's interests.

We accept no responsibility, duty or liability:

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Overall results – all options

These results examines the revenue to government from four options of changes to taxation of spirits, as follows:

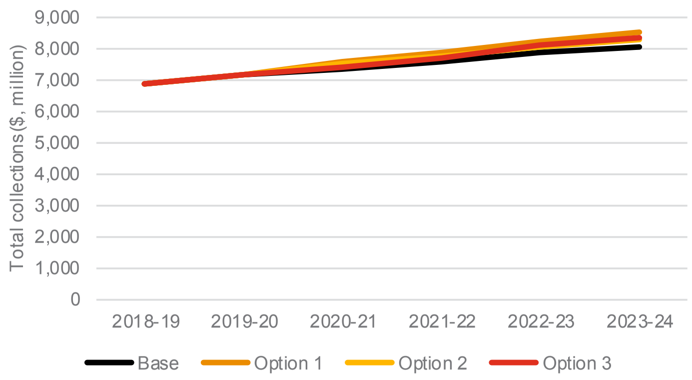
- **Option 1** - A combination of freezing Consumer Price Index (CPI) of the brandy excise and extending it to all spirits and ready-to-drink beverages (RTDs) (combination of Options 2 and 3 below).
- **Option 2** - Applying the current brandy excise rate to all spirits and RTDs. Currently, brandy is taxed at $80.20 per litre of pure alcohol (LAL) and spirits at $85.87 per LAL. This option would, in effect, abolish the existing spirits excise category and tax all spirits and RTDs, including brandy, at the existing brandy rate.
- **Option 3** - Freezing CPI increase of brandy and spirits excise at current rates for a period of three years. Currently rates are indexed with CPI twice a year in February and August.
- A separate examination of amending the craft distillers excise refund scheme.

All changes are assumed to start at the beginning of the 2020-21 tax year. The graphs to the right show the impact of Options 1-3 on total government revenue from alcohol excises, as well as collections just from excise of spirits and RTDs (i.e. excluding wine equalisation tax (WET) and excise on beer and cider). This shows that government collections from alcohol excise changes only marginally. The detail of each option is examined in the following pages and key approach assumptions are covered in the appendix.

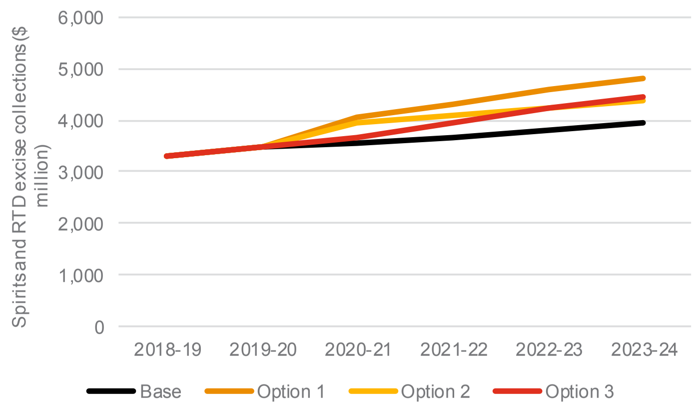
Throughout this report the term 'excise' is taken to mean both excise and excise equivalent customs duty as no distinction is drawn between domestically produced goods and excise equivalent goods in the analysis. Total revenue also includes changes to Goods and Services Tax (GST) collections.

It should be noted that analysis and forecasts in this report were prepared in January 2020 (with the exception of excise refund analysis which was added in June 2020) and so are on a pre-COVID-19 basis.

Total alcohol excise revenue (2018-19 to 2023-24)



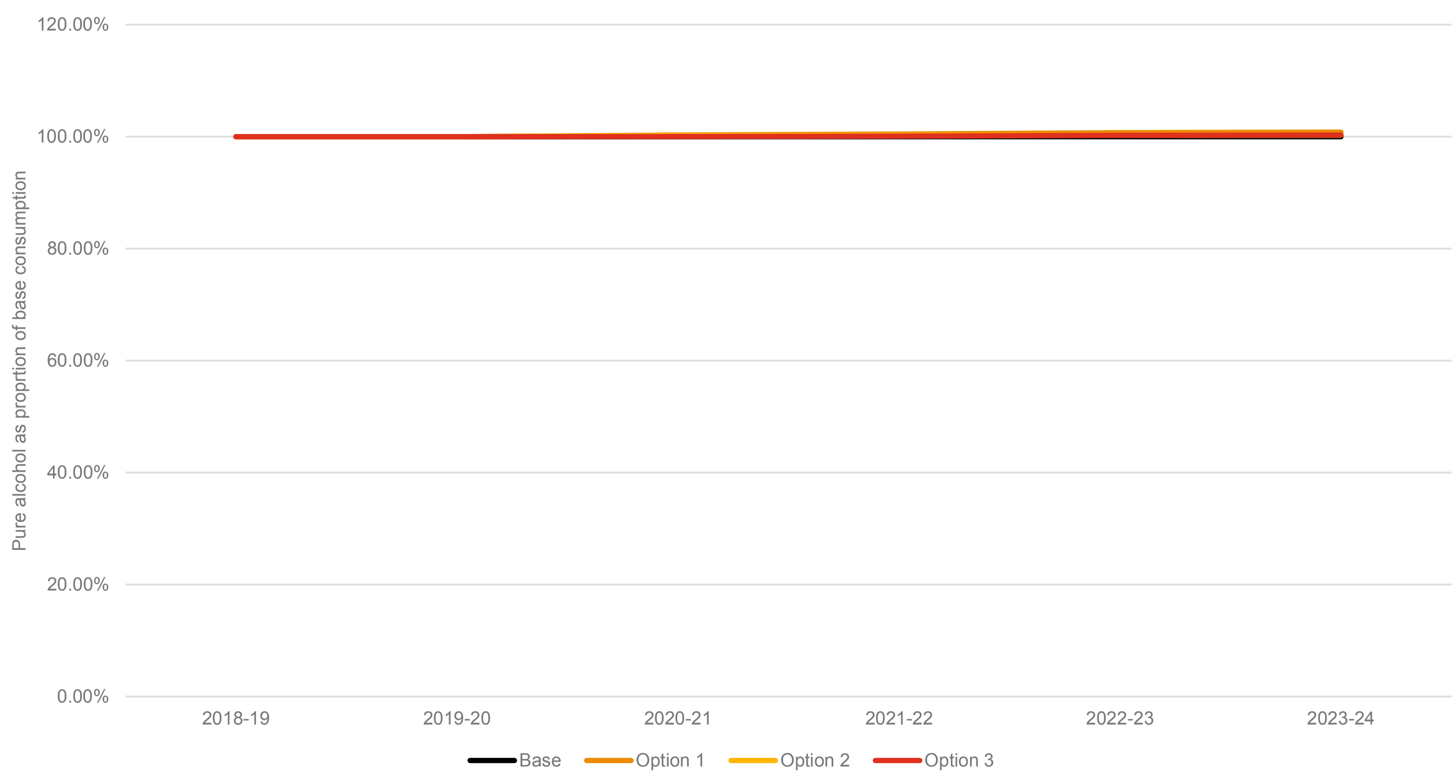
Spirits and RTD excise revenue (2018-19 to 2023-24)



Overall results – all options

The graph below shows proportional changes in total alcohol consumption associated with the three options. This show minor increases in the volume of pure alcohol.

Total pure alcohol consumption, as proportion of base forecast (2018-19 to 2023-24)



Option 1 detailed revenue results

The table below shows detailed revenue impacts from the combined option. Because indexation is frozen at the brandy rate, rather than the existing spirits rate in option 2, the revenue impact of this option is less than the sum of the parts (option 2 and 3).

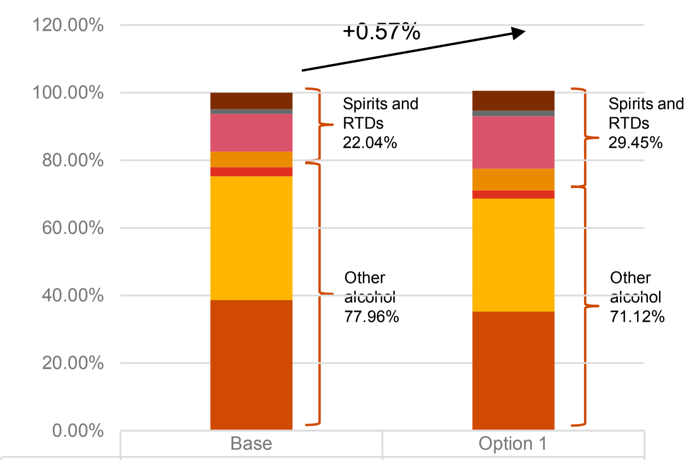
Total government revenue related to alcohol (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Four year total
Option 1							
Spirits and RTDs excise	3,313	3,475	4,041	4,305	4,605	4,809	17,760
Other alcohol excise and WET	3,532	3,685	3,540	3,584	3,639	3,693	14,455
All excise and WET sub-total	*6,845*	*7,160*	*7,581*	*7,889*	*8,244*	*8,502*	*32,215*
GST on spirits and RTDs	762	795	928	972	1,016	1,036	3,953
GST on other alcohol	2,459	2,527	2,390	2,353	2,319	2,318	9,380
All GST sub-total	*3,221*	*3,322*	*3,318*	*3,325*	*3,335*	*3,354*	*13,333*
Total revenue	**10,065**	**10,482**	**10,899**	**11,214**	**11,579**	**11,856**	**45,548**
Base							
Spirits and RTDs excise	3,313	3,475	3,553	3,670	3,807	3,934	14,964
Other alcohol excise and WET	3,532	3,685	3,777	3,900	4,043	4,131	15,851
All excise and WET sub-total	6,845	7,160	7,330	7,570	7,850	8,065	30,815
GST on spirits and RTDs	762	795	805	815	824	832	3,276
GST on other alcohol	2,459	2,527	2,549	2,560	2,575	2,591	10,276
All GST sub-total	3,221	3,322	3,354	3,375	3,399	3,423	13,552
Total revenue	**10,065**	**10,482**	**10,684**	**10,945**	**11,249**	**11,488**	**44,366**
Difference							
Spirits and RTDs excise	0	0	488	635	798	874	2,796
Other alcohol excise and WET	0	0	-237	-316	-405	-437	-1,396
All excise and WET sub-total	*0*	*0*	*251*	*319*	*393*	*437*	*1,400*
GST on spirits and RTDs	0	0	123	157	193	204	677
GST on other alcohol	0	0	-159	-207	-256	-273	-895
All GST sub-total	*0*	*0*	*-36*	*-50*	*-63*	*-69*	*-218*
Total revenue	**0**	**0**	**215**	**269**	**330**	**368**	**1,182**
% change (excise)	0.00%	0.00%	3.43%	4.21%	5.01%	5.42%	4.54%
% change (all revenue)	0.00%	0.00%	2.01%	2.46%	2.93%	3.20%	2.66%

Option 1 detailed consumption results

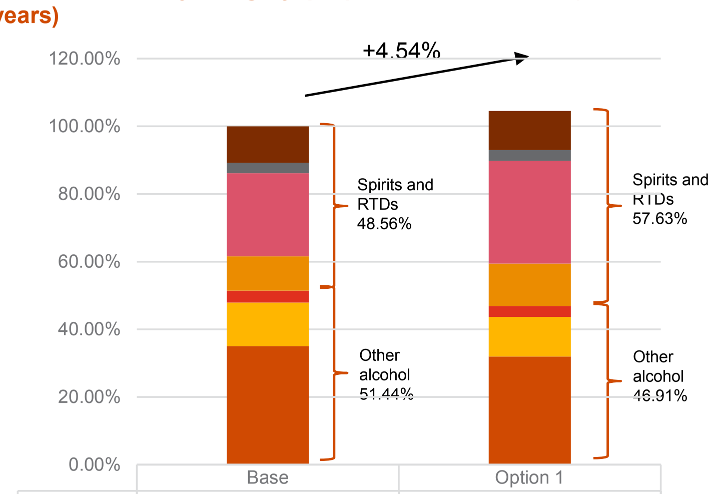
Under Option 1, pure alcohol consumption increases by 0.57 per cent. Alcohol volumes within the spirits and RTD categories increase, but this is offset by decreases in other categories. As a result of these changes, the proportion of excise revenue generated by spirits and RTD categories increases from 48.56 per cent to 57.63 per cent (as a percentage of excise revenue in the base case).

Pure alcohol consumption by category, proportion of base total (sum of four years)



	Base	Option 1
Dark RTD	4.88%	5.91%
Light RTD	1.42%	1.64%
Dark spirits	11.15%	15.51%
Light spirits	4.59%	6.40%
Cider	2.70%	2.46%
Wine	36.62%	33.39%
Beer	38.65%	35.27%

Excise revenue by category, proportion of base total (sum of four years)



	Base	Option 1
Dark RTD	10.75%	11.56%
Light RTD	3.13%	3.20%
Dark spirits	24.54%	30.35%
Light spirits	10.14%	12.52%
Cider	3.52%	3.22%
Wine	12.88%	11.74%
Beer	35.04%	31.96%

Option 2 detailed revenue results

The table below shows detailed revenue impacts from applying the brandy excise rate to all spirits and RTDs from 1 July 2020.

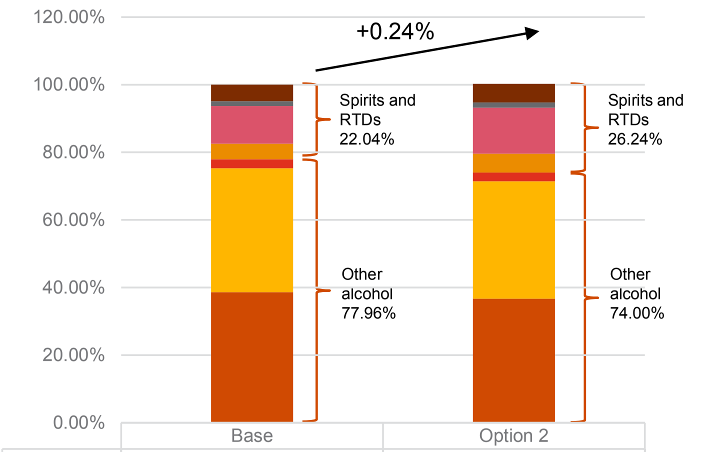
Total government revenue related to alcohol (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Four year total
Option 2							
Spirits and RTDs excise	3,313	3,475	3,943	4,079	4,243	4,397	16,663
Other alcohol excise and WET	3,532	3,685	3,591	3,704	3,836	3,915	15,046
All excise and WET sub-total	*6,845*	*7,160*	*7,534*	*7,783*	*8,079*	*8,312*	*31,709*
GST on spirits and RTDs	762	795	903	914	925	935	3,677
GST on other alcohol	2,459	2,527	2,424	2,432	2,444	2,457	9,757
All GST sub-total	*3,221*	*3,322*	*3,327*	*3,346*	*3,369*	*3,392*	*13,434*
Total revenue	**10,065**	**10,482**	**10,860**	**11,129**	**11,448**	**11,704**	**45,142**
Base							
Spirits and RTDs excise	3,313	3,475	3,553	3,670	3,807	3,934	14,964
Other alcohol excise and WET	3,532	3,685	3,777	3,900	4,043	4,131	15,851
All excise and WET sub-total	*6,845*	*7,160*	*7,330*	*7,570*	*7,850*	*8,065*	*30,815*
GST on spirits and RTDs	762	795	805	815	824	832	3,276
GST on other alcohol	2,459	2,527	2,549	2,560	2,575	2,591	10,276
All GST sub-total	*3,221*	*3,322*	*3,354*	*3,375*	*3,399*	*3,423*	*13,552*
Total revenue	**10,065**	**10,482**	**10,684**	**10,945**	**11,249**	**11,488**	**44,366**
Difference							
Spirits and RTDs excise	0	0	390	409	436	463	1,699
Other alcohol excise and WET	0	0	-186	-196	-207	-216	-805
All excise and WET sub-total	*0*	*0*	*204*	*213*	*229*	*247*	*894*
GST on spirits and RTDs	0	0	97	99	101	103	401
GST on other alcohol	0	0	-125	-128	-131	-135	-519
All GST sub-total	*0*	*0*	*-28*	*-29*	*-30*	*-32*	*-118*
Total revenue	**0**	**0**	**176**	**185**	**199**	**216**	**776**
% change (excise)	0.00%	0.00%	2.78%	2.82%	2.92%	3.07%	2.90%
% change (all revenue)	0.00%	0.00%	1.65%	1.69%	1.77%	1.88%	1.75%

Option 2 detailed consumption results

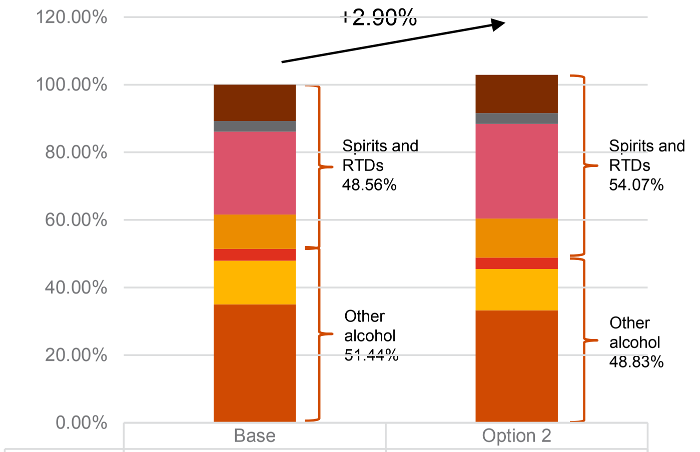
Under Option 2, pure alcohol consumption increases by 0.24 per cent. Alcohol volumes within the spirits and RTD categories increase, but this is offset by decreases in other categories. As a result of these changes, the proportion of excise revenue generated by spirits and RTD categories increases from 48.56 per cent to 54.07 per cent (as a percentage of excise revenue in the base case).

Pure alcohol consumption by category, proportion of base total (sum of four years)



	Base	Option 2
Dark RTD	4.88%	5.48%
Light RTD	1.42%	1.55%
Dark spirits	11.15%	13.59%
Light spirits	4.59%	5.61%
Cider	2.70%	2.56%
Wine	36.62%	34.75%
Beer	38.65%	36.69%

Excise revenue by category, proportion of base total (sum of four years)



	Base	Option 2
Dark RTD	10.75%	11.29%
Light RTD	3.13%	3.19%
Dark spirits	24.54%	28.02%
Light spirits	10.14%	11.58%
Cider	3.52%	3.34%
Wine	12.88%	12.22%
Beer	35.04%	33.26%

Option 3 detailed revenue results

The table below shows detailed revenue impacts from freezing CPI on brandy, other spirits and RTDs from 1 July 2020 for three years.

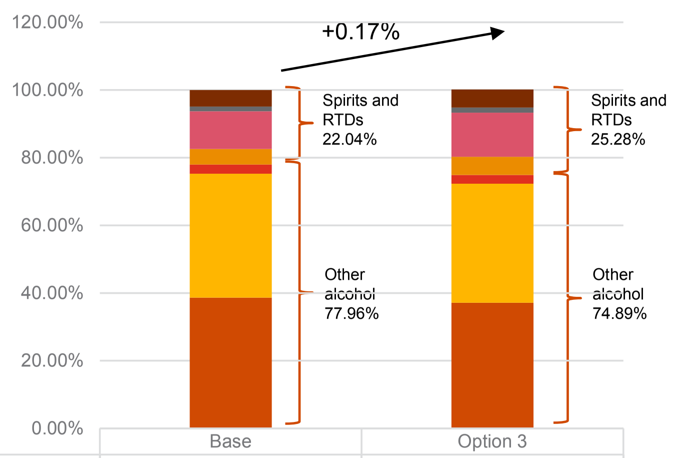
Total government revenue related to alcohol (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Four year total
Option 3							
Spirits and RTDs excise	3,313	3,475	3,672	3,945	4,249	4,437	16,303
Other alcohol excise and WET	3,532	3,685	3,723	3,771	3,832	3,893	15,219
All excise and WET sub-total	*6,845*	*7,160*	*7,395*	*7,716*	*8,081*	*8,330*	*31,522*
GST on spirits and RTDs	762	795	834	881	927	945	3,586
GST on other alcohol	2,459	2,527	2,513	2,475	2,442	2,443	9,873
All GST sub-total	*3,221*	*3,322*	*3,347*	*3,356*	*3,369*	*3,388*	*13,459*
Total revenue	**10,065**	**10,482**	**10,741**	**11,072**	**11,450**	**11,719**	**44,981**
Base							
Spirits and RTDs excise	3,313	3,475	3,553	3,670	3,807	3,934	14,964
Other alcohol excise and WET	3,532	3,685	3,777	3,900	4,043	4,131	15,851
All excise and WET sub-total	6,845	7,160	7,330	7,570	7,850	8,065	30,815
GST on spirits and RTDs	762	795	805	815	824	832	3,276
GST on other alcohol	2,459	2,527	2,549	2,560	2,575	2,591	10,276
All GST sub-total	3,221	3,322	3,354	3,375	3,399	3,423	13,552
Total revenue	**10,065**	**10,482**	**10,684**	**10,945**	**11,249**	**11,488**	**44,366**
Difference							
Spirits and RTDs excise	0	0	119	275	443	503	1,339
Other alcohol excise and WET	0	0	-54	-129	-211	-237	-632
All excise and WET sub-total	*0*	*0*	*65*	*146*	*232*	*266*	*707*
GST on spirits and RTDs	0	0	29	66	103	113	310
GST on other alcohol	0	0	-36	-84	-134	-148	-403
All GST sub-total	*0*	*0*	*-7*	*-18*	*-31*	*-35*	*-93*
Total revenue	**0**	**0**	**57**	**127**	**200**	**231**	**615**
% change (excise)	0.00%	0.00%	0.88%	1.93%	2.95%	3.29%	2.29%
% change (all revenue)	0.00%	0.00%	0.53%	1.16%	1.78%	2.01%	1.39%

Option 3 detailed consumption results

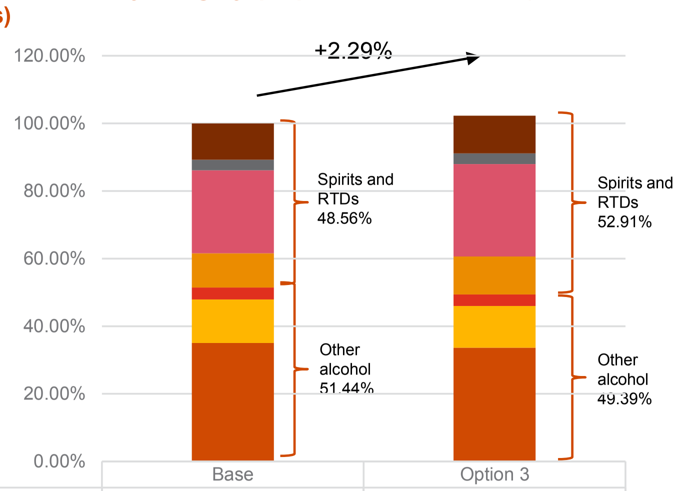
Under Option 3, pure alcohol consumption increases by 0.17 per cent. Alcohol volumes within the spirits and RTD categories increase, but this is offset by decreases in other categories. As a result of these changes, the proportion of excise revenue generated by spirits and RTD categories increases from 48.56 per cent to 52.91 per cent (as a percentage of excise revenue in the base case).

Pure alcohol consumption by category, proportion of base total (sum of four years)



	Base	Option 3
Dark RTD	4.88%	5.33%
Light RTD	1.42%	1.52%
Dark spirits	11.15%	13.06%
Light spirits	4.59%	5.37%
Cider	2.70%	2.59%
Wine	36.62%	35.17%
Beer	38.65%	37.13%

Excise revenue by category, proportion of base total (sum of four years)



	Base	Option 3
Dark RTD	10.75%	11.16%
Light RTD	3.13%	3.18%
Dark spirits	24.54%	27.31%
Light spirits	10.14%	11.26%
Cider	3.52%	3.38%
Wine	12.88%	12.36%
Beer	35.04%	33.64%

Amend and broaden the current craft distillers' refund scheme

Separate to the options examined above, analysis of amending and broadening the current craft distillers refund scheme has also been conducted. Currently, eligible craft brewers and distillers can claim a refund on up to 60 per cent of the excise duty paid on their products – capped at $30,000 per financial year in 2018-19 and previous years, increasing to $100,000 per financial year in 2019-20.

This analysis examines the increase in refund scheme expenditure if this cap was extended to $350,000 for craft distillers in 2019-20 and 2020-21 at a full 100 per cent of excise duty paid on their products. Analysis shows expenditure on the refund scheme would increase by $33 million over those two years, a 47 per cent increase from current arrangements over the same period.

This analysis, unlike the options presented above, calculates the impact of government revenue assuming no price or behaviour change. As a refund scheme that is back dated and designed to address current cash flow issues, it is assumed to not be incorporated in to prices, and therefore assumed to have no consumer response (in terms of consuming more/less or substituting between products).

Total government refund scheme expenditure to craft distillers and brewers (2018-19 to 2023-24, $ millions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Two year total (2019-20 and 2020-21)
Current refund scheme arrangements							
Distillers	2	9	9	10	11	11	17
Brewers	8	26	26	30	34	34	53
Total	**10**	**35**	**35**	**40**	**45**	**45**	**70**
Proposed refund scheme arrangements							
Distillers	2	25	25	10	11	11	50
Brewers	8	26	26	30	34	34	53
Total	**10**	**51**	**51**	**40**	**45**	**45**	**103**
Net increase in refund payments	**0**	**16**	**16**	**0**	**0**	**0**	**33**

Note: Totals may not sum due to rounding. These are refund estimates, but they are presented on an accrual basis (i.e. the year in which the excise is paid) and not when the cash refund is received, which may be delayed. On a cash basis, the vast majority of the net increase in refunds will occur in 2020-21 (delayed lump sum for 2019-20 and then monthly payments for 2020-21), with a small amount in 2021-22 (any delayed monthly payments from 2020-21).

Appendix approach - general

Key assumptions and sources are set out below.

- Baseline and forecast total volume consumption and retail value are taken from industry IWSR data provided by Spirits and Cocktails Australia. These forecasts were taken as given and not tested.
- Government revenue current and forecast were based on this consumption data provided, but has been adjusted to ensure that excise (and the level of pure alcohol implied by that excise) aligns with the forecast in Mid-Year Economic and Fiscal Outlook 2019-20.
- However, the specifics of the headline budget figures have been disaggregated to divorce brandy from other spirits and cider from RTD and WET. It has been assumed that 18.9 per cent of cider is included in other alcohol excise with RTDs (proportion of market that is flavoured cider from IBIS World *Cider Production in Australia*).
- Implied volume of pure alcohol is also sense checked against ABS *Apparent Consumption of Alcohol*, and typical alcohol by volume (ABV) percentages of various products on a desktop exercise.
- GST cannot be adjusted to specific budget forecasts, so is based on retail values in IWSR.
- The categorisation of baseline data is important to the results, especially in terms of assigning elasticities (as more categories can mean more responsiveness across categories, rather than own price adjustments within a category). Our modelling is built on the categories shown to the right, discussed and agreed with Spirits and Cocktails Australia.
- Price points for the full bottled spirits (FBS) have been aligned to IWSR data, where our budget category means IWSR low-price, value and standard (i.e. under $47.49), our mid means ISWR premium ($47.50 to $65) and our high means all other categories. It should be noted that the vast majority of IWSR data is in their Value and Standard categories for FBS, which is why they are in different categories for our modelling.

Description	Product	Sub-product	Price point
Low strength beer	Beer	Low	All
Mid strength beer	Beer	Mid	All
Full strength beer	Beer	Full	All
Red wine	Wine	Red	All
White wine	Wine	White	All
Other wine	Wine	Other	All
Cider	Cider	All	All
Brandy	FBS	All	All
Budget light spirits	FBS	Light	Budget
Mid light spirits	FBS	Light	Mid
High light spirits	FBS	Light	High
Budget dark spirits	FBS	Dark	Budget
Mid dark spirits	FBS	Dark	Mid
High dark spirits	FBS	Dark	High
Light RTD	RTD	Light	All
Dark RTD	RTD	Dark	All

- Our model is built on half years (as indexing happens twice a year). We have assumed seasonality based on IRI data provided by Spirits and Cocktails Australia which shows that approximately 46 per cent of consumption occurs in the January to June half year.

Appendix approach - elasticities

Elasticities are the assumption our modelling is the most sensitive to.

Our key source, discussed and agreed with Spirits and Cocktails Australia, has been Srivastava, P. et al (2014) *Econometric Modelling of Price Response by Alcohol Types to Inform Alcohol Tax Policies*, Monash University.

This has been reviewed against international examples and meta analysis and found to be the most appropriate for the Australian context. We note that the own price elasticities are higher than other analysis (i.e. Fogarty, J. (2004) *The Own-Price Elasticity of Alcohol: A Meta-Analysis,* University of Western Australia and Fogerty (2010) *The demand for Beer, Wine and Spirits),* but this can be due to the level of product detail in the Monash paper (compared to a single own price elasticity for spirits).

We have taken the Morishma elasticities of substitution from the Monash paper for cross product, and taken own price elasticity as given, with disaggregation across price points as below.

For disaggregating the Monash elasticities across price points, we have used one standard deviation of Australian estimates as shown in Fogerty (2010) *The demand for Beer, Wine and Spirits.* We have assumed lower own price elasticity for lower price points, to avoid a crowding to the bottom of the price points as price reduce, but have also allowed for a 0.3 price reaction to move up a price point (although as all are within the same taxation rate, this will not impact excise revenues).

For pass through of option price changes for the market to respond to with these elasticities, we have assumed that all costs except excise and profit are fixed, and profit margin stays consistent as a percentage on top of fixed costs and revised excise. In essence, the full excise cut is passed through to prices for consumers, with mark up proportions staying consistent.

Description	Own price	Substitution of products	Within category
Low strength beer		1.529	
Mid strength beer		1.666	
Full strength beer		1.483	
Red wine		1.490	
White wine		1.546	
Other wine		1.621	
Cider		1.494	
Brandy	-1.519	1.728	
Budget light spirits	-1.51	1.577	0.3
Mid light spirits	-1.26	1.577	0.3
High light spirits	-1.01	1.577	0.3
Budget dark spirits	-1.769	1.728	0.3
Mid dark spirits	-1.519	1.728	0.3
High dark spirits	-1.269	1.728	0.3
Light RTD	-1.164	1.534	
Dark RTD	-1.831	1.277	

Note – simplified structure for options where all spirits and RTD have a price movement.

Appendix - sensitivities

Alcohol excise modelling is most dependent on the choice of elasticities.

To test these sensitivities, we have modelled six sensitivity scenarios for each option, as follows:

- **A** – assume zero own price elasticity (i.e. current consumers of a product will have no volume reaction to a price change) and zero cross price elasticity (i.e. consumers will not move their expenditure between products, regardless of price movements)
- **B** – assume low own price elasticity (i.e. current consumers of a product will have a low volume reaction to a price change – we have used average elasticities for all spirits, rather than detailed product own price) and zero cross price elasticity (i.e. consumers will not move their expenditure between products, regardless of price movements)
- **C** – assume detailed own price elasticity (i.e. current consumers of a product have nuanced reactions to a price change dependent of the particular product that has a price change) and zero cross price elasticity (i.e. consumers will not move their expenditure between products, regardless of price movements)
- **D** – assume zero own price elasticity (i.e. current consumers of a product will have no volume reaction to a price change) and detailed cross price elasticity (i.e. consumers will move their expenditure between products in reaction to price change)
- **E** – assume low own price elasticity (i.e. current consumers of a product will have a low volume reaction to a price change – we have used average elasticities for all spirits, rather than detailed product own price) and detailed cross price elasticity (i.e. consumers will move their expenditure between products in reaction to price change)
- **F** – assume detailed own price elasticity (i.e. current consumers of a product have nuanced reactions to a price change dependent of the particular product that has a price change) and detailed cross price elasticity (i.e. consumers will move their expenditure between products in reaction to price change)

Our recommended set of assumptions is F, for the following reasons:

- Although A is the most conservative, is shows no consumer response which is unrealistic, given several decades of Australian literature that at a minimum shows an own price reaction for all categories of alcohol. Similarly, D is not recommend as it does not leverage the strong evidence base of own price reactions.
- B and E are also not recommended because although they do show an own price response, they have a single spirits own price reaction (which is most prevalent in the literature) which understates individual category movements that are relevant for the options presented (i.e. options modelled above separate movements for brandy, bottled spirits and RTDs, for example option 1 has no movement for brandy). This is because estimates of own price elasticity that only have a single spirits category are lower as they treat cross substitutions between products as own price, instead of the substitution reaction they actually are.

Sensitivity tests for each of the three options are presented on the follow pages. These show that without any cross product substitution, the net excise is always net negative, as without consumers moving into the now more attractively priced product, a discount applies only to current consumers, even if they increase consumption of that product. Change in pure alcohol consumption is generally higher with no cross price as there is no substitution out of non-spirits products which are both lower excise per litre alcohol and generally (though dependent on other factors) also higher all inclusive retail price higher per litre of pure alcohol. With lower own price elasticity, revenue responses are generally negative as there is not the increase in consumption to offset the discount effect.

Appendix - sensitivities

Sensitivity tests for option 1 – sums across four budget years

		No own price elasticity	Low own price elasticity (general spirits from Fogerty 2010)	Detailed own price elasticity (detailed categories from Monash)
No cross price elasticity	Spirits and RTD excise change ($ million)	A -1,678	B -1,042	C -287
	Other alcohol excise and WET change ($ million)	0	0	0
	Total taxation revenue – excise and GST ($ million)	**-1,882**	**-1,116**	**-209**
	Pure alcohol % change	0.00%	1.05%	2.30%
Monash substitution elasticities	Spirits and RTD excise change ($ million)	D 1,069	E 1,857	F 2,796
	Other alcohol excise and WET change ($ million)	-1,396	-1,396	-1,396
	Total taxation revenue – excise and GST ($ million)	**-888**	**58**	**1,182**
	Pure alcohol % change	-2.29%	-0.98%	0.57%

Sensitivity tests for option 2 – sums across four budget years

		No own price elasticity	Low own price elasticity (general spirits from Fogerty 2010)	Detailed own price elasticity (detailed categories from Monash)
No cross price elasticity	Spirits and RTD excise change ($ million)	A -971	B -584	C -124
	Other alcohol excise and WET change ($ million)	0	0	0
	Total taxation revenue – excise and GST ($ million)	**-1,089**	**-40**	**-73**
	Pure alcohol % change	0.00%	0.61%	1.33%
Monash substitution elasticities	Spirits and RTD excise change ($ million)	D 733	E 1,174	F 1,699
	Other alcohol excise and WET change ($ million)	-805	-805	-805
	Total taxation revenue – excise and GST ($ million)	**-379**	**149**	**776**
	Pure alcohol % change	-1.28%	-0.59%	0.24%

Appendix - sensitivities

Sensitivity tests for option 3 – sums across four budget years

		No own price elasticity	Low own price elasticity (general spirits from Fogerty 2010)	Detailed own price elasticity (detailed categories from Monash)
No cross price elasticity	Spirits and RTD excise change ($ million)	A -756	B -450	C -88
	Other alcohol excise and WET change ($ million)	0	0	0
	Total taxation revenue – excise and GST ($ million)	**-848**	**-482**	**39**
	Pure alcohol % change	0.00%	0.47%	1.03%
Monash substitution elasticities	Spirits and RTD excise change ($ million)	D 588	E 931	F 1,339
	Other alcohol excise and WET change ($ million)	-632	-632	-632
	Total taxation revenue – excise and GST ($ million)	**-283**	**128**	**615**
	Pure alcohol % change	-0.99%	-0.46%	0.17%

Appendix – refund scheme amendments

Analysis of the refund scheme amendment was conducted separately to the other options in this report.

The other options have a excise change that can directly impact the price paid by the customer, so have been analysed incorporating consumer behaviour and elasticities. However, as a refund that is back dated and designed to address current cash flow issues, this is assumed to not incorporated in to prices and therefore have no consumer response.

Therefore, estimates of government impact incorporate just the cost of increased refund on activity that was already occurring.

The approach to that estimate was as follows:

- The cost of current excise refund scheme arrangements were taken from Treasury's *Tax Benchmarks and Variations 2019*.
- The components of that current costs that is paid to craft distillers and craft brewers was estimated using the following sources:
  - ATO data on the number of excise claimants across level of current excise paid
  - ABS *Count of Businesses* data on the number of business (by turnover size range) in the industry classes of 'Beer Manufacturing' and 'Spirits Manufacturing)
  - The relative proportions of excise to total turnover by alcohol type from base case modelling of excise scenarios above.
- That allowed for a profile of current excise claimants to be built over across the level of current excise paid, with craft brewers separate from craft distillers.
- Amendments were then modelled based on the profile of current excise paid across different bands for just craft distillers.

It should be noted that this approach requires each entry claiming the refund to be classed as either a brewer or a distiller and does not recognise that some organisations may be claiming refunds for excise charged on both beer and spirits. It is assumed for the craft component of the industry, which this analysis examines, this will be a negligible amount but it is still a caveat to note. This distinction is drawn using ABS *Count of Business* data which assigns businesses to an industry based on 'main activity'.

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If you would like further
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