



MEDIA RELEASE
A REVIEW OF THE TAXATION OF ALCOHOLIC BEVERAGES IN SOUTH AFRICA: REQUEST FOR PUBLIC COMMENTS

Following the 2010 and 2012 Budget announcements, National Treasury today publishes for public comment a discussion paper, *A Review of the Taxation of Alcoholic Beverages in South Africa*.

The proposals contained in the discussion paper must be seen as part of a package of measures (financial and non-financial) aimed at addressing the negative externalities associated with alcohol and encouraging a more responsible approach to the use of alcohol. Such measures include excise duties on alcoholic beverages, limits on the drinking age, restrictions on liquor trading hours, restrictions on alcohol advertising, education targeted at the youth and other groups at risk (e.g. pregnant women), better enforcement of laws and regulations to combat alcohol abuse and illicit trade, and higher penalties for drinking and driving.

The discussion paper covers the following areas:

- The experience of the current excise duty structure for alcoholic beverages since 2002;
- Recent developments in excise policy formulation both locally and internationally;
- Alcohol excise tax anomalies;
- The scope for utilising the excise duty system to effectively internalise the social external costs arising from alcohol abuse; and
- Policy reform options.

The current South African alcohol excise tax regime

South Africa applies a transparent alcohol excise duty rate structure that differentiates between alcoholic beverage types (beer, wine spirits, etc.). International benchmarks were used as reference in 2002 and 2012 when the total consumption tax burdens on the various types of alcoholic beverages were set or adjusted. The current total consumption tax burden (excise duties plus VAT) as a percentage of the weighted average retail selling price for wine, clear beer and spirits is set at 23, 35, and 48 per cent respectively.

Appropriate excise tax rates for different types of alcoholic beverages are informed by a combination of factors, including the recognition of the social costs of alcohol abuse, local market conditions, the level of alcohol (alcohol content), social and political perceptions and values, and international and regional developments. Internationally, alcohol taxation tends to reflect country-specific histories, revenue needs and in some instances even protectionism, but not necessarily the true or reasonable estimate of external costs.

The external costs associated with alcohol abuse are borne by persons other than those who abuse alcohol. These externalities are borne by broader society due to the inability of liquor markets to adequately internalise - and price - the costs of alcohol abuse. Apart from taxation, the public sector attempts to mitigate the impact of alcohol abuse on society through a range of expenditure programmes and regulatory interventions. These costs incurred by government, and therefore by taxpayers, can be viewed as a very conservative indicator of the externality costs associated with alcohol abuse.

If excise taxation were to fully internalise the external costs of alcohol abuse, excise duties on alcoholic beverages would need to increase significantly. However, higher excise rates may exacerbate social problems arising from excessive alcohol consumption as heavy drinkers turn to cheaper, or illicit, alcoholic beverages. Illicit trade in alcoholic beverages might threaten government's broader alcohol-related policy objectives, and undermine tax revenues as a result of unpaid or under-paid excise duties and value-added tax.

Policy consideration and reform options

The aggregate level of alcohol consumption in a society is viewed by most health professionals as the main yardstick for monitoring the alcohol market, the social and health consequences of such consumption, and the effectiveness of excise tax interventions. However, some commentators argue that patterns of drinking are a more appropriate indicator of alcohol abuse (especially in the case of non-price sensitive drinkers). Educational programmes and regulatory interventions aimed at discouraging risky and hazardous alcohol consumption, such as binge drinking, under-age drinking, drunk-driving and drinking during pregnancy, are important measures that compliment pricing (including tax) interventions. The success of non-tax interventions to encourage behavioural change depends largely on effective enforcement and outreach.

An ideal alcohol consumption tax regime should provide certainty to both government and industry, and not be open to manipulation or undue lobbying. The overall effectiveness of the alcohol excise tax regime, the costs and complexity of tax administration and compliance, the potential impact on the economy and on illicit trade should all be considered in reforming the current excise tax regime for alcoholic beverages.

Among the key aspects raised in the discussion document for consideration in the reform of the excise tax regime for alcoholic beverages are:

- The recognition of the social costs of alcohol abuse and the need to include such costs in the price of alcohol;
- The need to keep track of international benchmarks;
- Whether the current approach to target the total consumption tax burdens of wine, clear beer and spirits should be reviewed;
- Whether a uniform tax based on alcohol content rather than by product type (e.g. wine, beer, spirits, etc.) should be considered;
- Dealing with anomalies in the cider, alcoholic fruit beverage (AFB), and sprints cooler market (sometimes collectively referred to as the ready-to-drink (RTD) market);
- The appropriate classification and taxation of mixed and fermented alcoholic beverages;
- Taking account of changes in the structure of the alcoholic beverage market;
- Technological advances in production techniques and product development; and
- The displacement of some lower priced products by illegally produced alcohol products.

Comment period

Written comments should be submitted to Riaan Labuschagne, email: Riaan.Labuschagne@treasury.gov.za, by the close of business on 30 June 2014.

Copies of the discussion paper (*A Review of the Taxation of Alcoholic Beverages in South Africa*) are available on the National Treasury website: www.treasury.gov.za

Issues by: National Treasury
Date: 05 May 2014