# Historical and cross-cultural changes in taxation of different alcoholic beverages

## Researcher

1. Dr Elizabeth Manton, Centre for Alcohol Policy Research, La Trobe University.

## Summary

Most countries tax the domestic consumption of alcoholic beverages, but in all cases the tax rates vary widely between beverages. For example, in Australia commercially produced beer is taxed at eight different rates, brandy is taxed lower than other spirits, and wine is taxed through a separate tax, based on its value rather than its alcohol content.

Both economists and public health representatives have called for alcoholic beverages to be taxed on the basis of alcohol content, thereby eliminating such anomalies. Although these arguments for changes to the taxation of alcoholic beverages are made on economic rationality and evidence-based public health grounds, what is missing from the debate is the influence that historical experience in particular cultures may be playing.

There are numerous studies that relate the history of alcohol in Australia. However what is lacking, is any long-term historical analysis of alcohol excise taxation in Australia, and the role that the historical and cultural context in diverse developed economies (including Australia) plays in the current excise taxation of different alcoholic beverages. This report aims to address these deficiencies to facilitate a more informed debate about future excise taxation on alcoholic beverages.

## Outcomes

### Australian history of excise taxes on beer and spirits

In Australia in 2012 the excise tax on spirits (on a per litre of alcohol basis) was more than double the excise tax on the most commonly consumed beer: full strength (not draught). Since the Commonwealth assumed responsibility for taxes (including excise tax) in 1901, this has not always been the case. For large parts of the twentieth century, that is, between 1921 and 1988, the excise tax on spirits has been close to the excise tax on beer, even being lower from the 1930s to the 1970s. Large increases or decreases in the beer excise tax have been responsible for the changes in this relationship, rather than major changes in the spirits excise tax.

In 1902 the beer excise tax had been set very low for historical reasons grounded in the earliest excise tax levels in the Colony of Victoria and its need to be lower than the customs tax at that time for industry protection reasons. Over the next 20 years the beer excise tax increased markedly, probably because of the need to raise revenue, particularly as spirits consumption declined by more than half.

In 1984 differential taxes according to the strength of the beer were introduced for public health reasons (primarily to tackle road mortality). In 1988 the excise taxes on all beer were markedly reduced, leading to spirits being taxed much more heavily than beer for the first time since 1921. Commentary on beer excise often focuses on the reduction in excise on low strength beer in 1984 and overlooks that the excise on all beer went down in 1988. Explanations for this include both public health concerns as well as political expediency to moderate the effect on the Consumer Price Index (CPI).

In 2001, at the time of the introduction of the GST, political expediency was also a factor in reducing the excise tax on ‘ordinary beer’. Since that time the excise tax on mid strength draught beer has been kept very low. However the market share of full strength (not draught) beer is 28 times higher, that is, it is the highest taxed beer that is most consumed.

From a public health advocacy perspective, this review of beer and spirits excise taxes demonstrates that setting alcohol excise taxes in Australia has historically been a balancing exercise between industry protection, revenue raising, public health concerns and political expediency. Australia had a long history of not taxing spirits more heavily than beer until the late 1980s. Even when excise was used to attempt to shift consumption patterns, for example within the beer market, there has been limited success as by far the largest market share, at over 80 per cent, is for the most heavily taxed full strength beer.

### Cross-cultural history of excise taxes on beer, wine and spirits

In 2012 the tax per litre of alcohol was higher for spirits than for beer or wine not only in Australia but across a range of developed economies, and beer seemed to be taxed on average a little bit more than wine,. As discussed above, Australia is the only country in this study for which data have been sourced to show that for long periods in the twentieth century, the beer and spirits excise taxes were similar.

Wine is taxed lightly in wine-producing countries (Australia, France and, to a lesser extent, the United States of America) because of the political power of many small producers. Historical reasons for favouring wine, such as self-interest of the rich (who drank wine and set the taxes), or belief in the health-giving properties of wine, do not explain the tax outcome as consistently as the lobbying power of small producers.

Spirits have long been associated with social disorder and adverse public health, for example, during the gin craze in the eighteenth century in the United Kingdom (UK), American attitudes to whiskey starting in the late eighteenth century, and the adverse impacts of spirits drinking in Norway and rum drinking in Australia in the early nineteenth century.

Taxes on spirits have been used to try and alter consumption patterns, for example in the UK to try and switch consumption from gin to beer. Early attempts by Americans to do the same were unsuccessful because of post-Revolutionary sentiments which deemed taxes to be an infringement on the ordinary man’s freedom to drink whiskey.

However excise has limitations in promoting consumption patterns. The shift in consumption in wine-producing countries such as France and Italy away from the ‘Mediterranean’ drinking pattern towards a more ‘globalised’ drinking pattern demonstrates that other forces are more powerful than excise taxes. The taxation history of spirits had a minor diversion in the 2000s when ready-to-drink spirits-based beverages (RTDs or alcopops) were taxed at a much lower rate than spirits. This led to a dramatic increase in spirits consumption especially by teenagers or, more specifically, teenage girls. This resulted in dedicated tax changes to change this anomaly, for example in Norway in 2003-2004 and in Australia in 2008, with a resulting drop in consumption.

A wide range of taxation policy tools were employed beyond excise, for example Prohibition in the US in 1919, and the imposition of greater controls on the availability of spirits after Repeal in 1933. But when excise was employed, the industrialised nature of spirits production made it amenable to imposing higher excise taxes.

Excise as a revenue raising measure is never more evident than when required to fund wars. For example, the first short-lived attempt in the US in 1792 to pay off debts from the Revolution, then the more successful introduction of excise taxes to fund the Civil War, the rises in beer excise in the UK to fund the Napoleonic Wars, and steep rises in beer excise in Australia and the UK to fund World War II.

In addition to the findings in the Australian history, the international cross-cultural comparison of differential excise tax on the different alcoholic beverages reveals that wine taxes are set low in wine producing countries, primarily because of the political power of small producers and the more industrialised nature of spirits and beer production which means there are fewer political constraints on taxing them. There is a widespread use of excise taxes on spirits to try and influence consumption patterns to counter social disorder and adverse public health, although there are limitations on its effectiveness. The use of excise taxes to influence consumption cannot be seen in isolation from other policy measures such as prohibition or controlling availability. Excise has a long history of being used primarily for revenue raising, especially in times of war, and this has had a major impact on beer excise taxes at specific periods in history.

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