# Optimal rates of alcohol taxation

## Researcher

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## Summary

In October 2012, Marsden Jacob Associates prepared a report for the Foundation of Alcohol Research and Education (FARE) titled [*Bingeing, collateral damage and the benefits and costs of taxing alcohol rationally*](https://fare.org.au/bingeing-collatoral-damage-and-the-benefits-and-costs-of-taxing-alcohol-rationally/). The report was built around a Benefit Cost Analysis (BCA) of altering existing taxation arrangements for alcoholic beverages. In particular, taxing wine products according to alcohol content rather than wholesale price. We found that there were significant net benefits to the Australian community from this policy change.

In June 2015 FARE commissioned Marsden Jacob Associates to investigate the percentage change in excise rates that would maximise net benefits to society. We undertook this research and analysis by updating our 2012 alcohol model with more recent data on alcohol consumption from the Australian Institute for Health and Welfare (AIHW). Underlying assumptions and empirical factors relating to the behaviour of consumers in response to price changes remain unchanged from our 2012 report.

In this summary report, we outline the scope for this 2015 analysis, and summarise the results. We encourage the reader to consult our [2012 report](https://fare.org.au/bingeing-collatoral-damage-and-the-benefits-and-costs-of-taxing-alcohol-rationally/) to gain a detailed understanding of the many assumptions and technical foundations upon which this analysis is built.

## Outcomes

Australians would be better off if the government taxed alcohol rationally at substantially higher excise rates. This conclusion is confirmed by new benefit-cost analysis by economists, Marsden Jacob.

The analysis poses the question “What is the optimal increase in alcohol excise rates to maximise the welfare of Australians?” Even under the most conservative and limiting assumptions, the answer is “by almost 75 per cent”. This would also generate each year an additional $4.3 billion in taxation revenue which can be used to reduce less efficient taxes.

The results outlined in this report suggest that lifting 'across the board' excise rates by 74 per cent is likely to result in net benefits to society in the order of $207 million. This result compares favourably with our [2012 analysis](https://fare.org.au/bingeing-collatoral-damage-and-the-benefits-and-costs-of-taxing-alcohol-rationally/) of a 50 per cent increase in excise, that found net benefits of around $250 million could be expected.

In particular, moderate drinkers would be the main beneficiaries of such a reform.

Some 13 per cent of adult Australians drink at more than twice the maximum level recommended by medical guidelines. These drinking decisions are undoubtedly harmful to the drinker and to others including family and partners. If these drinking decisions are recognised as irrational then much bigger increases in excise rates on alcohol are warranted. Under these more realistic assumptions, excise rates need to be increased by a factor of almost two and a half times.

Specifically, the optimal tax increase is 145 per cent. The minimum estimated benefits could be as large as $688 million per year, resulting in a $6.4 billion boost to government revenue each year.  
The findings are conservative because the benefits measured relate to reductions in short term drinking behaviours only. Higher prices for alcohol reduce bingeing and short term drinking levels generally, lowering a range of harms to others, including family violence and criminal behaviour.

## Recommendations

From a policy perspective, the results in this report provide further weight to our [2012 conclusion](https://fare.org.au/bingeing-collatoral-damage-and-the-benefits-and-costs-of-taxing-alcohol-rationally/) that a 50 per cent increase in excise rates would be unambiguously good for the Australian community.

The consistency of results across the 2012 and 2015 economic assessments sends a clear message to policymakers. There are unambiguous benefits on offer from reforms to alcohol taxation policy in Australia. In other words, there is little to lose, but plenty to gain from taking a rational approach to the taxation of alcohol in Australia.

[VIEW THE REPORT](https://fare.org.au/wp-content/uploads/MJA-Optimal-rates-of-alcohol-taxation-Sep-2015.pdf)