# The Australian wine tax regime: Assessing industry claims

## Researchers

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## Summary

This report explores the veracity of claims made by segments of the wine industry on the potential impacts of possible alcohol taxation reform scenarios. The proposal by the Henry Tax Review to move from the current ad valorem tax on wine, referred to as the Wine Equalisation Tax (WET), to a volumetric tax, has been fiercely challenged by some in the wine industry. To back up its opposition to the change, the Wine Federation of Australia (WFA) produced estimates of the job losses and declines in sales.

## Outcomes

The Australia Institute analysis of the WFAs claims found that the WFA made misleading claims about the amount of tax paid by Australian wine producers and highly exaggerated claims about the possible impacts of alcohol taxation reform on wine industry jobs and sales.

The WFA claimed that tax rates on Australian wine are much higher than in other comparable wine-producing countries. However the Australia Institute Analysis found that the figures produced to support this claim were misleading, because they included the Australian Goods and Services Tax (GST) but ignored the equivalent value-added tax in European countries. The figures also failed to account for the fact that many small Australian producers effectively pay zero WET in Australia due to the WET rebate. Further analysis found that if the figures are revised to take into account these oversights then the Australian taxation system conforms more closely to other wine-producing countries.

The WFA also claimed that a volumetric tax would lead to a significant reduction in wine production and employment and would increase the price of cheap wine. The analysis found that while the price increase is likely to be proportionately highest for cask wine, cask wine will still remain the cheapest means of obtaining a given amount of alcohol; red wine would still be cheaper by 47% compared with the next cheapest type of alcoholic beverage. This implies that any reduction in cask wine consumption is likely to translate into an equivalent reduction in total alcohol consumption.

Finally the WFA made exaggerated claims about the impacts of tax changes on sales and job losses, suggesting that there would be a 34% fall in sales and between 5,300 and 12,000 job losses. The analysis found that these figures were based on very unrealistic assumptions about the changes in consumption that could be expected following price increases. Using figures derived from recent empirical studies, production could fall by 5.2% and that there may be a loss of 599 jobs – 95% fewer than the WFA claims. These figures include both direct and indirect impacts of lower production in the wine industry itself and in the industries which supply it.

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