

# Comments on **Excise Taxation in Australia**

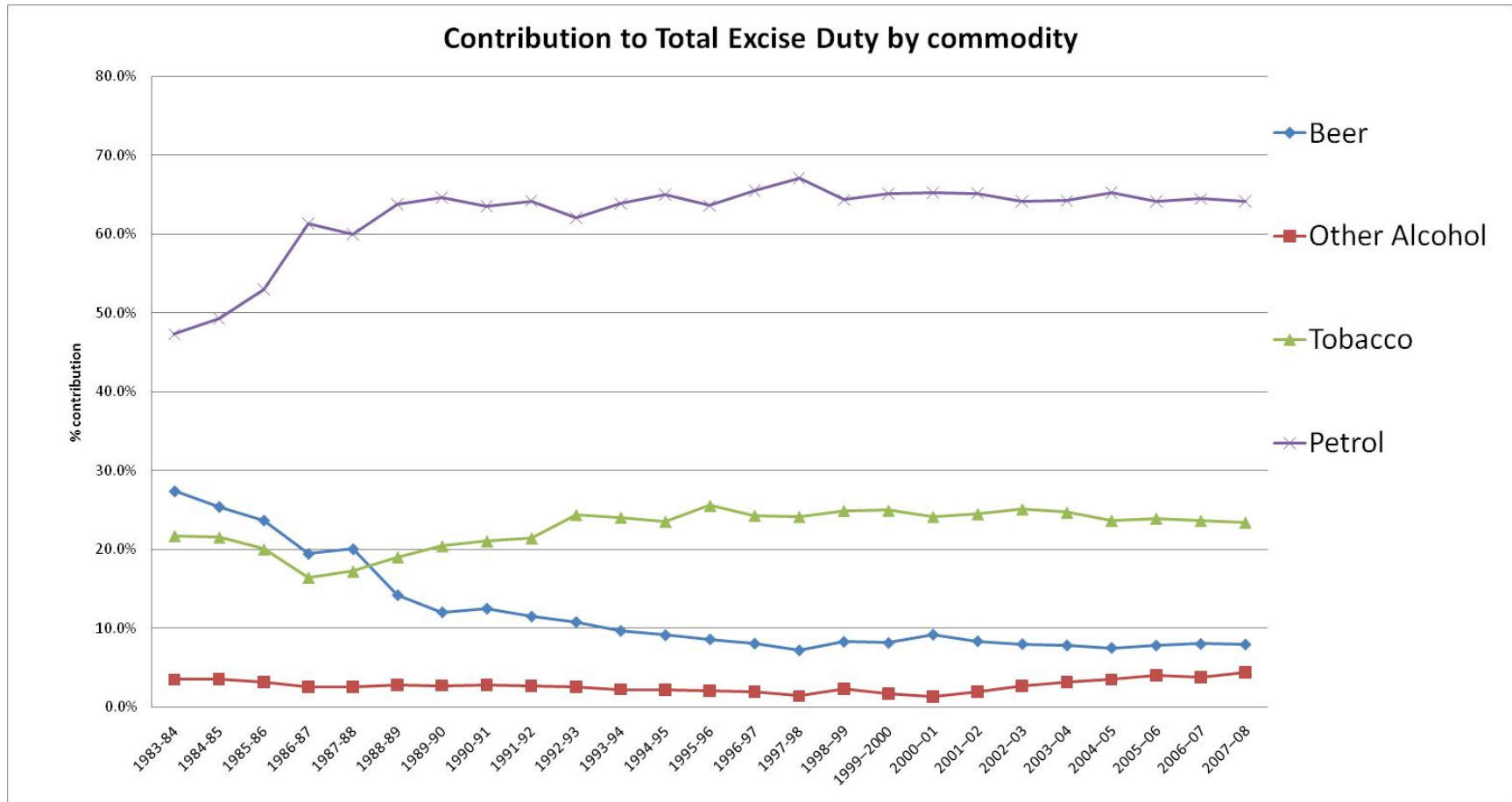
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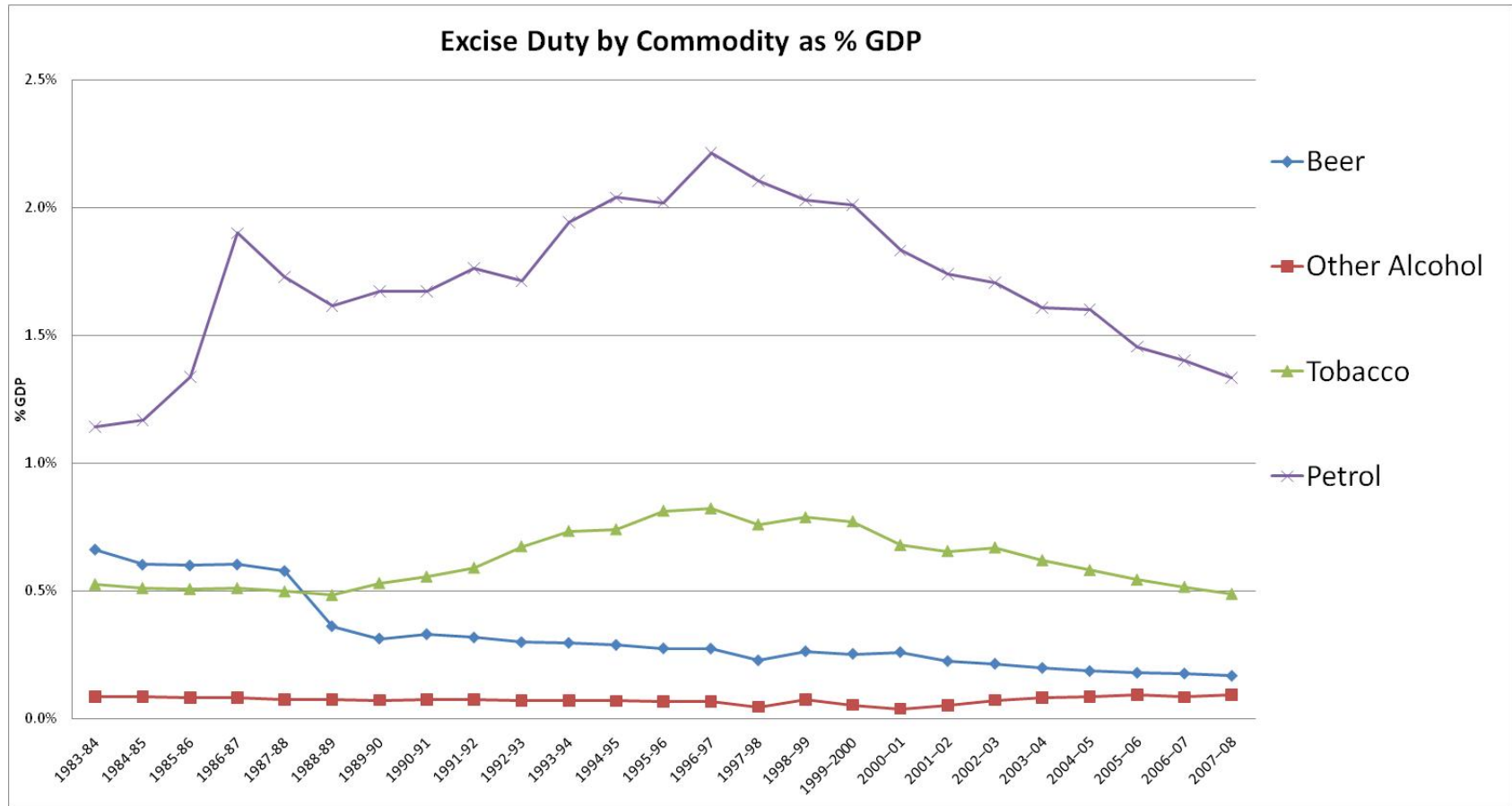
Neil Warren

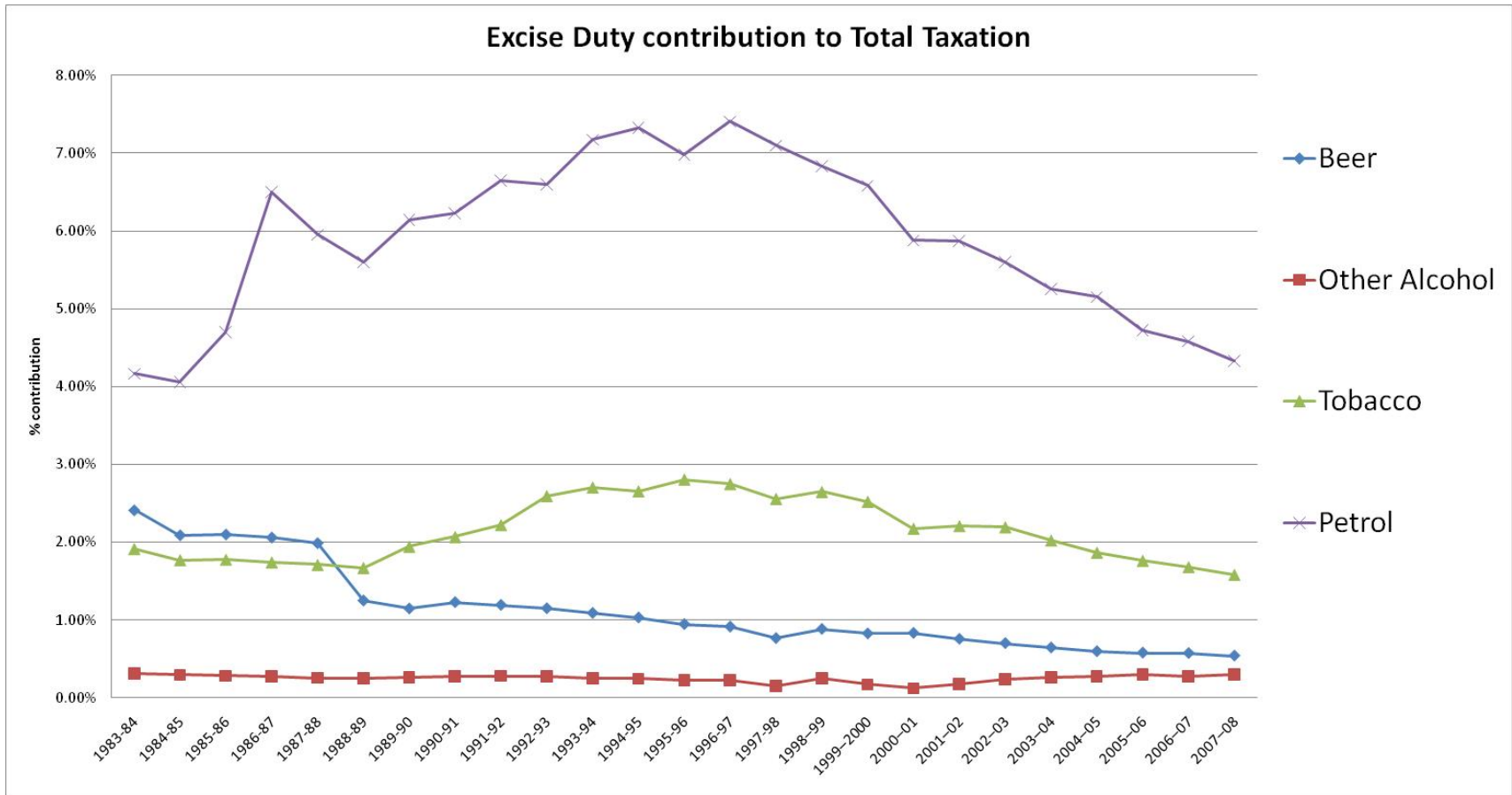
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19 June, 2009

**Atax**

# Trends in Australia's Excise Duty







# What is an Excise?

**Indirect not direct** → an indirect tax is one where the person who is liable to pay the tax (the taxpayer) is someone other than the person who actually bears the cost of the tax (the consumer).  
(OECD)

## ***OECD 5121 – Excises***

60. Excises are taxes levied on particular products, or on a limited range of products, which are not classifiable under 5110 (general taxes), 5123 (import duties) and 5124 (export duties). They may be imposed at any stage of production or distribution and are usually assessed by reference to the weight or strength or quantity of the product, but sometimes by reference to value. Thus, special taxes on, for example, sugar, beetroot, matches, chocolates, and taxes at varying rates on a certain range of goods, as well as those levied in most countries on tobacco goods, alcoholic drinks and hydrocarbon oils and other energy sources, are included in this sub-heading.

# What is the coverage of Excise?

- **Narrow-Based Consumption Tax (NBCT) not Broad-Based Consumption Tax (BBCT)**
- **NBCT** are different from a **BBCT** in that:
  - they are levied on a limited range of products;
  - they are not normally liable to tax until the goods enter free circulation, which may be at a late stage in the supply chain;
  - are generally assessed by reference to the weight, volume, strength or quantity of the product, combined in some cases, with *ad valorem* taxes; and
  - characterised by a small number of taxpayers at the manufacturing or wholesale stage.

# Designing NBCT?

- Question: Are the 'Good' Tax Design Principles enough for consideration of NBCT ie efficiency, equity, simplicity..

...relevant but not enough.

- Economics of NBCT design

Step 1: How do we apply the 'good' tax criteria to NBCT design...and how do we operationalise this criteria?

Step 2: What if taxes are not enough to achieve design objectives? (...regulation?)

**....lets start with taxation**

# Tax Policy Designer's Guide to NBCT Design (Step 1)

- **Efficiency enhancing NBCT**
  - Work/leisure choice (tax leisure substitutes)
  - Elasticity related differential rates
  - Benefits charging (and hypothecation)
  - Market failure correction
    - Negative externalities (health, congestion, environment, hypothecation etc)
    - Information failure (degree of paternalism? )
- **Equity enhancing NBCT**
  - Progressivity (LCT, WET... )



# **Operational Guide** to Tax Policy Designer's NBCT Design

**Focus on the tensions for designers?**

- I. Revenue vs market failure correction**
- II. Base – broad commodity group or product specific**
- III. Rate Structure:**
  - a) Flat vs progressive (alcohol, congestion!)**
  - b) Specific or ad valorem (dollars or discouragement!)**
- IV. Hypothecation or no hypothecation**
- V. Paternalistic approach or not?**
- VI. Degree of equity/efficiency tradeoff?**

# **Tax Policy Designer's Operational Guide to NBCT Design**

## **VII. Efficiency complications**

- a) **Substitutes in or out of contention?  
eg cross border competition (Gambling!)**
- b) **Complements in or out of contention?  
ie achieve secondary goals or not such as taxing leisure**

## **VIII. Equity complications**

- a) **Discrimination by age Y/N? eg alcopops**
- b) **Discrimination according to degree of abuse Y/N? =>  
progression or not? eg alcopops, casual drinker**
- c) **Discrimination by SES Y/N? eg smoking**
- d) **Progressivity via excises inferior with strong tax admin**

# **Tax Policy Designer's** **Operational Guide** to NBCT Design

## **IX. Simplicity**

- a) Targeted vs blunt (or broader based ) eg beer different to wine – or all alcohol taxed the same?
- b) National or subnational or co-occupy

## **X. Externality valuation**

- a) financial
- b) physical
- c) psychological

## **XI. Spillover consideration**

## **XII. Tax administration**

- a) Avoidance and evasion issue
- b) Point of imposition (where there are the least number of collectors)

## (Step 2)

# Regulation ..and the mix with taxes

- Regulation
  - Taxes alone do not suffice eg passive smoking effects; Drunk-driving accidents
  - ...so what mix of taxation and regulation?
  - Case-by-case consideration eg alcohol sale restrictions; tobacco advertising restrictions; RBT

# So what does all this mean for NBCT design in Australia?

- Alcohol
  - Alcopops tax GOOD (abuse, discrimination)
  - Wine tax increase GOOD (abuse, relative price distortion)
  - Draught Beer low tax – OK for medical purposes! – RBT complement addresses excessive drinking
  - Beer Cans – low strength low tax OK; high strength high penalty as abuse related (?)
- Petroleum
  - Ethanol Tax GOOD – under valued spillovers
  - Petrol tax – an environment and road user proxy – but why not direct road pricing
  - Indexation of petroleum GOOD – relative price maintenance
- Tobacco
  - Per stick OK; regulation OK; distributional effects not OK but less so if education retargeted