

**Alcohol, taxation and the potential for positive change:
A submission to the 'Henry review' of Australia's taxation system**

**Professor Steve Allsop, Associate Professor Tanya Chikritzhs
and Mr Vic Rechichi
National Drug Research Institute Tier 1 Research Centre
Curtin University of Technology, Perth**

Contact Details

Professor Steve Allsop
Director
National Drug Research Institute

P: 08 9266 1600

E: S.Allsop@curtin.edu.au

Postal:
National Drug Research Institute
Curtin University of Technology
Health Research Campus
GPO Box U1987
Perth WA 6845

Introduction

The National Drug Research Institute welcomes the comprehensive review of the Australian tax system, and the opportunity to comment on the 'Australia's Future Tax System' consultation paper.

While the scope of the review is much wider, for the purposes of this submission we will focus solely on how the Australian taxation system, and the review of it, relates to alcohol and, more specifically, to the taxation of products that contain alcohol.

Background

Much of the Australian population drinks alcohol, and alcohol use is associated with a range of symbolic, economic and social benefits. However, alcohol use also contributes to a range of acute adverse consequences, including injury (e.g. violence, accidents on the road and at work; self-harm) and chronic harms, including problems such as cirrhosis, breast cancer, cardio-vascular disease and depression.

In Australia, the main causes of alcohol-related deaths are cancer, alcoholic liver cirrhosis and road trauma. Among people aged 15 to 34 years, alcohol is responsible for the majority of drug-related deaths and hospital episodes, causing more deaths and hospitalisations in this age group than all illicit drugs combined.

More than 40 different conditions have been identified as being partly or entirely attributable to alcohol consumption. The alcohol-related degenerative diseases, typified by chronic conditions such as organ failure (eg liver cirrhosis) and the development of cancer (eg liver cancer) tend to occur as a result of many years of alcohol use.

Short bouts of drinking to intoxication tend to be associated with acute conditions such as violent assaults, road injuries and drowning. Chronic conditions accounted for most (42%) of the 3290 estimated alcohol caused deaths in Australia in 1997 (Chikritzhs et al, 2001). Acute conditions accounted for 28% and mixed (stroke and suicide) for 30%. Of the 62,914 estimated potential life years lost in that year, acute conditions were responsible for 46%, chronic for 33% and mixed for 31%.

Defining the problem

Alcohol is a major public health concern in Australia.

In 2004-05, there were almost 3,500 deaths caused by alcohol in Australia, and more than one million hospital bed days were committed to alcohol related causes (Collins and Lapsley 2008).

Current levels of morbidity and mortality place an unacceptable burden on the community. Not only does alcohol related harm have relevance for individual drinkers, but alcohol problems also affect innocent bystanders and the broader community. A large proportion of our policing and health services are involved in responding to alcohol related problems.

Drinking alcohol during pregnancy can also cause harm to the unborn child and may cause Fetal Alcohol Syndrome, alcohol is a causal factor for colorectal cancer, and Australian and international studies have established that alcohol is significantly associated with crime, particularly violent crime.

Among young people, alcohol also plays a causal role in a range of physical, mental and social harms. In the short term, alcohol consumption has been found to increase the risk of adolescent mortality and morbidity from violence, depression, suicide, homicide, substance abuse, “date-rape” and reckless driving. In the long term, there is accumulating evidence that suggests that adolescents have a greater risk of physiological harm from risky alcohol use than mature adults. For example, adolescents have a greater risk of memory loss and decreased bone growth, neurological damage, and alcohol addiction developing later in life (Donovan and Winter, 2006).

Research shows that 44% of alcohol is consumed at levels that pose risk in the long-term, and 62% is drunk at levels that pose risk in the short-term. In these studies risky drinking was defined as exceeding an average of four standard drinks per day for men and two per day for women.

According to research conducted by the National Drug Research Institute (NDRI) as part of the National Alcohol Indicators Project:

- Most (51%) of the alcohol consumed in Australia in 1998 posed short-term health risks to the drinker, and 39% was consumed at levels that posed health risks in the long term.
46% of male and 32.5% of female drinkers were at risk of short-term harm from drinking (e.g. injury) at least once a month.
- People aged below 25 years have the riskiest drinking patterns. Between 1993–2002, an estimated 2,643 young people (aged between 15 and 24) died from alcohol-attributable injury and disease caused by risky/high risk drinking in Australia.
Over 80% of all the alcohol consumed by 14–17 year olds is drunk at risky/high risk levels for acute harm. Over the ten years 1993–2002, an estimated 501 under-aged drinkers in this age group died from alcohol-attributable injury and disease caused by risky/high risk drinking in Australia.
- During 1997, 3,290 Australians died from injury and disease caused by high-risk drinking. On average, 19 years of life were lost for each person who died prematurely from an alcohol-caused condition.

The effect of alcohol is felt across the entire community. Tangible direct costs include alcohol-related and alcohol-specific crime and health costs, welfare costs, preventative measures like property protection, insurance, safety and security, and lost output and productivity by drinkers and affected third parties. Intangible costs include emotional impact costs for victims of crime or for those affected by domestic violence and abuse, the human costs of drink-driving, the premature death of

drinkers, and the impact of reduced perceptions of safety for business, especially in major cities (AERF, 2008)

A large proportion of our policing and health services are involved in responding to alcohol related problems, there are significant death and injury rates among our elderly and Indigenous populations, and alcohol is a significant factor in road injury and for child abuse and neglect:

- *Road injury*: It is estimated that between 1990 and 1997, 31% of all driver and pedestrian deaths on Australian roads were alcohol-related. National rates of alcohol-related road deaths and serious injury declined between 1990 and 1996, broadly following changes in per capita alcohol consumption.
- *Older drinkers*: An estimated 10,592 Australians aged over 65 died from causes directly attribute to alcohol between 1994 and 2003.
- *Indigenous Australians*: Over the 5 year period from 2000 to 2004, an estimated 1,145 (4.85/10,000) Indigenous Australians died from alcohol attributable injury and disease caused by drinking.
- *Police time*: 60% of all police attendances and 90% of all late night calls involve alcohol.
- *Assaults*: In 1998/99, it was estimated that 8,661 Australians were hospitalised as a result of injuries sustained in alcohol-related assaults.
- *Hospitalisations*: Between 1993/94 and 2000/01 over half a million Australians were hospitalised due to risky/high-risk drinking, some 110,000 of whom were older Australians (65 years plus). These admissions are costly - in a single year in this period, alcohol problems demanded 400,000 hospital-bed days.
- *Child abuse and neglect*: alcohol use contributes to child abuse and neglect. In a Western Australian study of Aboriginal child deaths in 2008, 81% of the 22 cases involved high-risk drinking (Frances, et al 2008).

For details on alcohol related harm in Australia, see the Bulletins from the National Alcohol Indicators Project at www.ndri.curtin.edu.au/publications/naip.html.

Alcohol: Price and tax

Alcohol taxation is an important source of government revenue and influences the price of alcohol over and above market forces. Changes in taxation and prices (even small changes) have an effect on alcohol consumption.

International evidence consistently indicates that increases in excise on alcohol have a significant effect on overall levels of alcohol consumption ie that higher priced alcohol is associated with per capita declines in consumption. Lower levels of overall consumption are closely related to lower levels of alcohol-related harm.

Furthermore, price changes have been demonstrated to influence consumption and harms among specific high-risk populations including young people, heavy drinkers and Indigenous populations (Loxley et al 2004, Babor et al 2003). It can also be used as an effective means for 'directing' drinkers to beverages with lower alcohol content, which have a corresponding relationship with lower levels of alcohol-related harm (e.g. low or mid-strength beer).

Therefore taxation must play its part in endeavours not only to raise revenue toward funding the social and economic costs of alcohol. It is also known to be effective in raising the real price of alcohol and controlling consumption and related harm.

The most effective taxation strategy to prevent and reduce alcohol related problems is one where all alcoholic beverages are taxed according to their alcohol content.

That all beverages are taxed in this way is important. Where discrepancies exist (e.g. the current wine equalisation tax), *some* drinkers – especially those for whom intoxication at the lowest cost is a major factor – may substitute with products that offer lower prices per standard drink.

NDRI recommends the introduction of a 'tiered' volumetric tax, where the base tax is determined according to alcohol content and an additional 'harm index' is applied to beverages shown to be particularly problematic and/or associated with particularly high levels of harm. NDRI also recommends consideration of a 'minimum floor price' for alcoholic products as part of a comprehensive strategy designed to discourage consumption of such higher-strength beverages and to avoid adverse outcomes from aggressive price discounting that can contribute to increased consumption and harm. In the first instance, discrepancies between taxation rates for different types of alcohol should be removed. The logic of the 'alcohol is alcohol' approach is that a 3 per cent by volume beer, wine or spirits product all have the same effect on the human body and therefore should have the same excise tax rate. Corresponding decreases in consumption from increases in taxation and therefore price will work to address alcohol-related harm at the population level.

Furthermore, a system which places an additional tax on beverages shown to be particularly problematic and/or associated with particularly high levels of harm could be even more effective. Price and excise regimes have been shown to be effective in encouraging drinkers to consume lower-alcohol content beverages (Stockwell et al 1997, 2001). Such a tax would provide an instrument for Government to respond to specific social problems as required and provides an incentive for production and

consumption of lower-strength alcoholic beverages, which are associated with lower levels of alcohol-related harm than higher-strength alcoholic beverages.

This approach can result in incentives for industry to produce lower alcoholic beverages, for individuals to consume such beverages and for an overall reduction in per capita consumption and related problems.

There is a strong evidence-based argument that the Australian Government should consider applying a 'tiered' volumetric tax, where the base tax is determined according to alcohol content, and an additional 'harm index' is applied to beverages shown to be particularly problematic and/or associated with high levels of harm.

Introduction of a minimum floor price for alcohol would also reinforce and support the effects of such measures.

It is crucial that such tax/price levers are reassessed regularly to ensure they outpace increases in disposable income to maintain their effectiveness.

Case study: Living With Alcohol

The Northern Territory's Living With Alcohol (LWA) program is a highly relevant Australian example of the effect of a price/excise increase. Introduced in 1992, LWA was a comprehensive program to reduce alcohol consumption and alcohol-related harms in the Northern Territory. It was initially funded by the imposition of a small levy on all alcoholic beverages sold in the Territory containing 3% alcohol by volume or greater. The LWA Levy effectively raised the retail cost of these beverages by about 5 cents per standard drink. As a direct result of a High Court ruling, the LWA Levy was removed in 1997 which in turn resulted in a fall in the real price of alcohol. Nevertheless, LWA programs and services continued to operate to 2002 and were funded from redirected taxes collected by the Commonwealth.

NDRI evaluations of the program showed that the public health, safety and economic impact of the LWA program resulted in significantly reduced alcohol-attributable deaths as well as financial cost savings to the Territory (Chikritzhs et al 1999, 2005; Stockwell et al 2001). The combined impact of the LWA program and Levy resulted in an immediate reduction in acute alcohol-attributable deaths among both Indigenous and non-Indigenous Territorians. In the absence of the Levy, the LWA program alone did not show a significant impact on acute alcohol-attributable deaths. The results of these evaluations present strong evidence about the impact of even small increases in taxation, alone and when combined with comprehensive programs and services designed to reduce the harms from alcohol. As evidenced here, an increase in the real price of alcohol brought about by such economic strategies, even when seemingly minor, results in significant health and economic benefits. Without the support of a price increase, programs and services for reducing alcohol related harms may have limited benefits for reducing harms that tend to arise from episodes of drinking to intoxication, such as road injury and violent assault. Nevertheless, alcohol specific programs and services such as those provided by the LWA program may also have positive, longer term impacts on chronic alcohol-attributable disease.

Issues to note

Before outlining NDRI's recommendations in relation to the taxation of products containing alcohol in Australia, there are some other noteworthy points NDRI would like to bring to the review panel's attention.

Accurate and reliable data

The drinking culture and characteristics of countries vary, as does that of different demographic and psychographic groupings within countries. Trends, behaviour and disposable income change over time. It is necessary to develop relevant data and to continually update those data.

To optimise tax settings designed to influence price points as a contribution to safer and healthier consumption of alcohol, continual empirical scientific study is needed on price elasticities, cross-elasticities and substitution effects in the Australian context (Stockwell and Crosbie, 2001). Such research needs to be done independently of vested interests. NDRI urges the Government to provide substantial ongoing funding for such work.

Furthermore, excise tax settings need to be evidence-based, and the ongoing collection and publication of quality, reliable and independent sales and consumption data is essential to ensure the most effective and equitable alcohol tax regime. NDRI encourages the Government to continue efforts to reinstate the collection of wholesales sales data on a national basis.

Community support

It is interesting to note that Australians currently appear more receptive to landmark action, particularly in the area of taxation and price controls, to address alcohol-related harm than in previous years.

According to the 2007 National Drug Strategy Household, there was a significant increase in the previous three years in public support for changes in alcohol-related policy.

Almost a quarter of Australians 14 years and older supported increasing the price of alcohol (24.1%, up from 20.9% in 2004) and 41.3% (up from 38.6%) supported increasing tax on alcohol to pay for health, education and treatment of alcohol-related problems (AIHW, 2008). Both shifts were statistically significant. It is also worth noting that these shifting attitudes were prevalent before the Australian Government's so-called 'alcopops tax' was introduced and brought alcohol and tax controls to the forefront of public debate.

Purported health benefits of alcohol

The review panel may receive submissions suggesting that alcohol consumption confers certain health benefits on drinkers. We direct the panel to international research, conducted by NDRI in collaboration with research partners in the United States and Canada, that demonstrated that the majority of research suggesting 'moderate' drinking helps prevent heart disease may be flawed and that the extent to which these benefits actually translate into longer life may have been exaggerated (Fillmore et al 2006). More information on this research is available at <http://db.ndri.curtin.edu.au/media.asp?mediarelid=76>.

Package of measures

While not necessarily within the scope of this review, NDRI believes it is also worth noting that the evidence suggests that the positive impact of any singular change in alcohol policy, such as an increase in alcohol excise, is greater if it was introduced as part of a package of measures addressing alcohol-related harm, such as: overall reductions in the physical availability of alcohol; curbing alcohol promotions and advertising; and, improved enforcement of relevant legislation such as drink-driving and sales to minors (Loxley et al 2004, Babor et al 2003).

Conclusion and recommendations

As a signatory to 'Alcohol Taxation: a submission made by various bodies concerned with alcohol harm minimisation', NDRI has outlined its recommendations to the tax review panel (AERF 2008). In the interests of brevity, only the primary recommendations are briefly reiterated here:

1. Consumer products containing alcohol warrant specific taxation in addition to the taxation applying generally to consumer products and services.

Alcohol should be taxed differently because it is not a normal benign consumer product. The World Health Organisation says that alcohol is a drug which needs to be regulated and taxed as such. It is valid and proper public policy to tax consumer products containing alcohol differently from other consumer products, solely because they contain alcohol. There are two main reasons for such an approach. Firstly, taxation is needed to raise the price of alcohol as a means of moderating risky and harmful drinking. Alcohol price settings must also take into account changes in disposal income to ensure changes in the price of alcohol are effective (see recommendation 7 below). Secondly, the known negative high economic and social effects from the harmful consumption of alcohol means that cost recovery is warranted to help support expenditure on alcohol-related public programs.

2. Optimal taxation design requires a taxation system to be simple, efficient and equitable: the alcohol taxation system should be no different.

Alcohol taxation unjustifiably differentiates between some imported and domestic products; between similar products in the same product category; between different pack types; promotes low alcohol beer but not other low alcohol products; taxes some products by volume and others by value; and some producers and consumers get tax concessions and allowances not available to others. Despite significant improvements in alcohol taxation design over the last decade, the alcohol taxation system is still complex and distorted.

3. Alcohol should be taxed as alcohol regardless of its type or category.

Alcohol is a psychoactive drug. It can change the way we feel, think and behave. The physiological effects of a unit of alcohol ingestion on the human body are the same regardless of product type, so alcohol should be taxed as alcohol. The value of an alcohol product is irrelevant to its effect – ingesting a 750ml bottle containing 13 per cent alcohol by volume has the same alcohol effect whether it is cheap or expensive.

4. A premium above the standard rate of excise per unit of alcohol is sometimes warranted.

The alcohol is alcohol approach means that products of the same or similar strength should be taxed the same. That should be the general but not universal rule. Where a product category or a product type within a category is targeted at or drunk by

immature, vulnerable and/or otherwise high-risk drinkers then it is appropriate to reduce risk by applying a premium to the standard tax rate.

5. The tax regime should encourage less harmful consumption by taxing alcohol content progressively.

This means that a number of alcohol tax thresholds and rates are required on a scaled basis. Alcohol consumption frequently involves consumption of a number of drinks over a particular timeframe, and drinkers generally tend to a repeat pattern of regular drinking behaviour. On health and safety grounds consumers of alcohol are better off consuming lower-strength drinks than the same number of higher-strength drinks in a given drinking period. Pricing has its part to play in encouraging such behaviour. This means that low-strength alcohol products should attract less taxation than mid-strength alcohol products, which in turn should attract less alcohol taxation than high-strength products. Consideration should also be given to a minimum floor price for alcohol to encourage the choice of low-strength alcohol products.

6. Using tax as a behavioural tool requires rate-setting to be evidence-based.

Excise tax settings need to be evidence-based, and the ongoing collection and publication of quality, reliable and independent sales and consumption data is essential to ensure the most effective and equitable alcohol tax regime.

7. The current value of alcohol taxes should be maintained and not erode over time, to ensure that the real price effect of taxation remains constant.

This means that alcohol taxation should continue to be indexed to the consumer price index, as it presently is in Australia.

In conclusion, NDRI encourages the review panel to be guided by public health considerations and consistent evidence about the role of taxation in preventing and reducing alcohol related harm. Current alcohol-taxation policy in Australia is a complex mish-mash of policies, bedevilled with inconsistencies and distortions. Its principles are confused. Some of its effects are harmful and not helpful to society. The great advantage of the Henry Tax Review is that it offers a once-in-a-generation opportunity to propose comprehensive tax reform. Alcohol is an area of taxation in need of significant reform.

It has been well-documented in this and other submissions that the alcohol taxation regime can play a key and significant impact in reducing the overall harm caused by alcohol to the community, and as a specific lever to address particular instances of risky drinking.

The review panel has a rare opportunity to not only create a workable and understandable system, but one that can play a pivotal role in the public health of a nation. NDRI wholeheartedly encourages the review panel to make the most of that opportunity.

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