

## APPENDIX 1 – CURRENT ALCOHOL TAXATION POLICIES IN NEW ZEALAND

The main purpose of taxation is to generate Government revenue. However, Governments also use taxes on beverage alcohol for several other purposes: to attempt to reduce abuse and harm by making alcohol less accessible; to create trade barriers; to encourage the purchase of domestic products over imported products.

In establishing alcohol policies, Governments weigh commercial freedoms and consumers' rights of access to a product against protecting their citizens. This includes determining levels of taxation that do not impose an undue burden on consumers and restrict their choices or penalize producers by restricting fair trade practices. It is these considerations and sometimes conflicting interests that Governments must give due consideration when determining policies and frameworks.

### (A) CURRENT ALCOHOL TAXATION RATES

There are currently two corrective taxes on alcohol products in New Zealand<sup>(h) (i)</sup>: alcohol excise and the Health Promotion Agency (HPA) levy. Both are charged on alcohol manufactured in, or imported into, New Zealand; and both are collected by the New Zealand Customs Service. GST is paid on the HPA levy, but not on the excise tax.

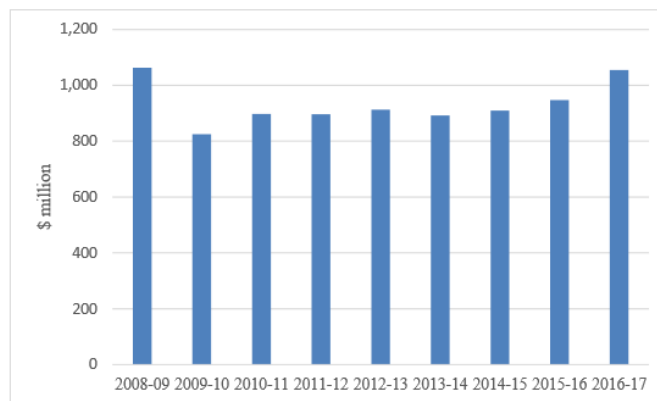
Rates of alcohol excise vary by product type and alcohol volume. Some rates are applied on a per litre basis, while others are applied on a per litre of alcohol basis. Table 2 below shows rates for beer and certain wines and spirits as at January 2022, and the annual excise adjustments based on movements in the Consumer Price Index.

**Table 2 – Comparison of New Zealand alcohol excise rates, from 1 July 2019 showing yearly CPI adjustments<sup>(m,n,o)</sup>**

| Type    | Description  | Alcohol Excise Rate (GST excl.) for Spirits from 1 July 2019 | Alcohol excise rates (GST excl.) effective from 1 July 2020 | Alcohol Excise Rate (GST excl.) for Spirits from 1 July 2021 |
|---------|--|--|---|--|
| Beer    | Containing more than 1.15% vol., but not more than 2.5% vol.   | \$0.44751 per litre of beverage                              | \$0.45929 per litre of beverage                             | \$0.46627 per litre of beverage                              |
|         | Containing more than 2.5% vol.   | \$29.839 per litre of alcohol                                | \$30.624 per litre of alcohol                               | \$31.089 per litre of alcohol                                |
| Wine    | Containing more than 14% vol., fortified by the addition of spirits or other substance containing spirit | \$54.347 per litre of alcohol                                | \$55.777 per litre of alcohol                               | \$56.625 per litre of alcohol                                |
|         | Other  | \$2.9839 per litre of beverage                               | \$3.0624 per litre of beverage                              | \$3.1089 per litre of beverage                               |
| Spirits | Containing more than 1.15% vol., but not more than 2.5% vol.   | \$0.44751 per litre of beverage                              | \$0.45929 per litre of beverage                             | \$0.46627 per litre of beverage                              |
|         | Containing more than 2.5% vol., but not more than 6% vol.  | \$29.839 per litre of alcohol                                | \$30.624 per litre of alcohol                               | \$31.089 per litre of alcohol                                |
|         | Containing more than 6% vol., but not more than 9% vol.  | \$2.3871 per litre of beverage                               | \$2.4499 per litre of beverage                              | \$2.4871 per litre of beverage                               |
|         | Containing more than 9% vol., but not more than 14% vol.   | \$2.9839 per litre of beverage                               | \$3.0624 per litre of beverage                              | \$3.1089 per litre of beverage                               |
|         | Containing more than 14% vol.  | \$54.347 per litre of alcohol                                | \$55.777 per litre of alcohol                               | \$56.625 per litre of alcohol                                |

Revenue from alcohol excise is pooled with revenue from other taxes and directed to various spending programmes through the Budget process. Revenue from the HPA levy is set aside to fund the HPA to promote health and wellbeing and encourage healthy lifestyles. Alcohol excise is far larger than the HPA levy in revenue terms. In 2017, alcohol excise raised \$1 billion while the levy raised \$12 million (Figure 9). The Government collected approximately \$1.1 billion from alcohol excise taxes in the financial year ending 30 June 2019.

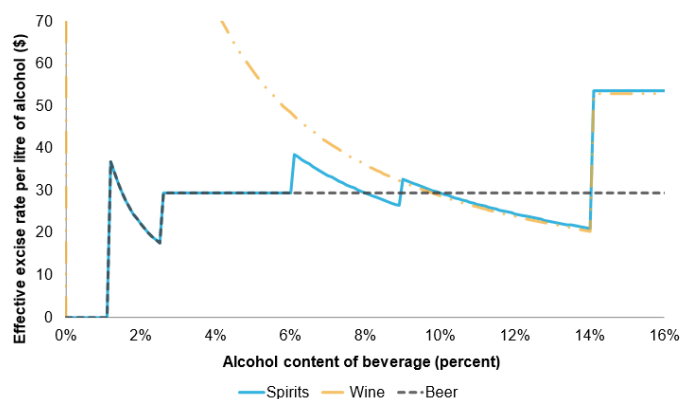
**Figure 9 – New Zealand nominal revenue from alcohol excise (2008 – 2017) <sup>(i)</sup>**



Alcohol excise rates are customarily increased in line with inflation each year. Given the annual inflation rate increased to 4.9% in the third quarter of 2021, the highest increase in a decade, it is reasonable to conclude that there will be a substantial rise in excise rates from 1<sup>st</sup> July 2022.

**The complex rates structure currently in place means there is considerable variation in the effective rate of excise per litre of alcohol.** The rates of alcohol excise vary by product type and alcohol volume (Figure 10). Some rates are applied on a per litre basis, while other rates are applied on a per litre of alcohol basis. In 2003, rates for spirits containing between 14-23 per cent alcohol volume were increased to the level of rates for spirits containing more than 23 per cent alcohol volume.

**Figure 10 – Effective rate of excise per litre of alcohol, (2018) <sup>(i)</sup>**



In practical terms, the current cost of excise tax on a standard bottle of 700ml spirits (40% alcohol) is \$15.855, and the HPA levy is \$0.0895. The total customs & excise / levy cost is therefore \$15.94, which is 18.1% of the total of, for example, an \$88 bottle of spirits. GST is also paid on the bottle (\$13.20), taking the total tax to \$29.14 (33.1% of the cost of an \$88 bottle of spirits). Typically distributors/retailers will charge up to 50% of the recommended retail price (RRP) of a bottle, leaving just 17% of the RRP for the distiller to cover materials, production and overheads, and any profit. Profit margin is influenced by the complexity of the manufacturing process and the RRP.

Many distillers earn as little as \$5 profit on each bottle. In all cases, a significant number of bottles need to be sold in order to make a business viable.



#### (B) 2018 ALCOHOL TAXATION POLICY REVIEW

On 20 September 2018 the New Zealand Tax Working Group released the Future of Tax report.<sup>(h)</sup>

The Tax Group stated that **“it is difficult to understand why the rates of excise per litre of alcohol should vary so much across different products. A case could be made for applying a consistent rate per litre of alcohol across all products – which would increase rates for some products and decrease them for others.”** The Group stated that little could be said in favour of the current approach for applying rates of excise. They recommended that the Government review the rate structure with the intention of rationalising and simplifying it.

We agree. A principled approach to Excise Tax calculations will meet the dual goals of ensuring 1) commercial freedoms and consumer access and 2) protecting citizens from harm. In our view, developing a clear and explicable link between excise rates and espoused excise goals is essential.

## APPENDIX 2 – OTHER COUNTRY STRATEGIES FOR INDUSTRY STIMULUS FOR SMALL DISTILLERS

Some countries provide excise tax relief to smaller distilleries by way of a reduced excise tax rate or rebate on tax paid. Examples:

### EXAMPLES OF EXCISE REBATES IN OTHER COUNTRIES

#### (i) Australia

##### *Relief Description*

An existing brewery refund scheme (Excise Regulation 2015) was extended to Australian-based distilleries and producers of low strength fermented beverages from 1 July 2017 (*Excise Amendment [Refund Scheme for Alcohol Manufacturers] Regulations 2017*). See Appendix 3 for details. The changes were intended to provide support to domestic distillers of beverages such as whisky, vodka, gin and liqueurs, and domestic producers of excisable low strength fermented beverages such as non-traditional cider. Under this new law, the distillery could claim a refund of 60% of the excise duty paid on products, to a maximum of \$30,000 per financial year. Even at this level of rebate, the Australian Distillers Association (ADA) had calculated that in order to be “breaking even” an Australian distillery needed to be turning over a sufficient volume of alcohol beverage such that it was likely to be paying between \$260,000 and \$572,000 a year in excise.

After a Governmental review the \$30,000 amount was increased to a maximum of \$100,000 per financial year from 1 July 2019.

In May 2021, the excise refund cap for small brewers and distillers was increased from \$100,000 to \$350,000 per year as part of the 2021-22 Federal Budget. The government recognised the massive economic potential of the spirits industry in Australia and this decision will deliver assistance to more than 300 craft distillers around Australia, most of whom are based in rural and regional areas. It also fixes a previous inequity in incentives offered to domestic producers, ensuring that the benefit available to small brewers and distillers will now be aligned to what is available to small winemakers under the Wine Equalisation Tax (WET) Producer Rebate. From 1 July 2021, small distillers will automatically receive their excise remission upon lodgement of their excise returns, up to an annual cap of \$350,000. This represents a more than tripling of the current \$100,000 refund cap. All eligible distillers will receive a full 100% remission (up from 60% refund) of any excise they pay on alcohol they produce up to the cap of \$350,000 each financial year.

##### *Stated impact*

Distilleries most benefiting from the rebate were likely to be of the size to pursue export opportunities and to be able to compete in the international markets. Smaller distillers would be encouraged to grow in the industry segment for future export opportunity.

#### (ii) USA

##### *Relief Description*

The *US Tax Cuts and Jobs Act of 2017*<sup>(i)</sup> came into effect on January 1, 2018 as a two year trial and was extended for a further year from December 2019. The act was made permanent in December 2020. The act significantly lowered the federal excise tax rates for alcohol beverages produced at certain production volumes, and allocated government funds

to accelerate the growth of beverage alcohol industries by eg. the fast-track processing of label, formula and permit applications.

Prior to the *US Tax Cuts and Jobs Act of 2017*, the federal *Craft Beverage Modernization and Tax Act Reform Act* law allowed for reduced tax rates for small brewers and winemakers, but not distilled spirits. The new Act extended excise relief to distilled spirits and increased the excise tax reduction across the board for all alcoholic beverages. Importers of wine, beer, and spirits also receive excise tax reduction credits. For distilled spirits, the tax credits are provided in production thresholds:

- For the first 100,000 proof gallons (a gallon of spirits that is 50% alcohol) produced or imported, \$2.70 per proof gallon; and
- For the next 22,130,000 proof gallons produced or imported, \$13.34 per proof gallon.
- Any other production or imported distilled spirits are taxed at the standard rate of \$13.50 per proof gallon.

Effectively, the excise tax rate for smaller distilleries is reduced by 80%, from \$13.50 per proof gallon to \$2.70. This is a decrease from approximately \$2.14 per bottle to \$0.43 per bottle of 40 proof spirits. Reductions in taxes on beer and wine in the new Act were smaller.

#### *Stated impact*

The sweeping changes in this revised Act provided a significant opportunity for producers and importers to take advantage of (more) level playing fields and (more) profitable returns. As the distilling sector continues its growth with more than 1,200 operating distilleries nationwide, lawmakers clearly appreciate the important role these distilleries play in creating jobs, boosting tourism and supporting agriculture. Passing this much-needed tax reform legislation will spur further investment and job creation by reducing the excessive tax burden on distillers small and large.

#### (iii) EU

##### *Relief Description*

*Article 22 of EC Directive 92/83* states that Member States may apply reduced rates of excise duty to ethyl alcohol produced by small distilleries within the following limits:

- the reduced rates, which may fall below the minimum rate, shall not be applied to undertakings producing more than 10 hectolitres of pure alcohol per year. However, Member States which applied reduced rates on 1 January 1992 to undertakings producing between 10 hectolitres and 20 hectolitres of pure alcohol per year may continue to do so,
- the reduced rates shall not be set more than 50 % below the standard national rate of excise duty.

##### *Examples of EU rebates for small distilleries <sup>(k) (l)</sup>*

**Albania** - A reduced rate of ALL65,000 per hlpa applies to quantities produced up to 20,000 hl per year. Raki, the local spirit, is subject to a reduced excise rate of ALL20,000 per hlpa.

**Austria** - A reduced rate, 54% (€648 per hlpa) of the standard rate, applies on the output of farm distilleries (less than 4 hlpa a year) and small commercial distilleries (max 1 hlpa a year) when sold direct to consumers/restaurants. For small distilleries' output between 1-2 hlpa a reduced rate of 90% of the standard rate (€1,080 per hlpa) applies.

**Germany** - Reduced rates apply to the production of small distilleries (€730 per hlpa/max 4hl per year) as permitted by *Directive 92/83*.

**Luxembourg** - A reduced rate of 50% applies to small distilleries producing no more than 20 hpa per year.

**Portugal** - Small distilleries pay a reduced rate of 50% (maximum quantity per year 10 hpa).

**Romania** - Small distilleries pay a reduced excise rate of RON1,653.49 per hpa (max quantity 10 hpa per year).

**Slovenia** - A reduced tax rate for stills with a capacity up to 40 litres - 0; from 40 to 100 litres - €12.5 per annum; from 100 -500 litres - €25 per annum.

**Spain** - For small distillers, with an annual output not exceeding 10 hpa, the excise tax in Spain is €839.15 per hpa and in the Canary Islands €653.34 per hpa.

**Switzerland** - 30% of the standard rate for < 30 litres pure alcohol per annum.

## APPENDIX 3 – DETAILS OF REFUND SCHEME FOR ALCOHOL MANUFACTURERS IN AUSTRALIA

### REBATE ELIGIBILITY & PROCESS

<https://www.ato.gov.au/Business/Excise-on-alcohol/Excise-refunds-and-drawbacks-for-excisable-alcohol/Excise-refund-scheme-for-alcohol-manufacturers/>

To be eligible for a refund, under the Refund scheme, you must:

- hold a manufacturer licence authorising you to manufacture alcoholic beverages
- have manufactured an alcoholic beverage and paid excise duty on it
- have fermented or distilled at least 70% of the alcohol content by volume of the alcoholic beverage
- be legally and economically independent of any other entity that has received a refund under the scheme – if you're not legally and economically independent of any other entity, only one manufacturer in your group is entitled to the refund.

Situations where an alcohol manufacturer is not legally and economically independent include where:

- it's a subsidiary of another alcohol manufacturer
- another alcohol manufacturer subsidises its operations
- one or two individuals or companies control or have majority shareholding in multiple excise licence holders.

### Additional requirements for distilled beverages

For refunds of excise paid for distilled alcoholic beverages, you must also:

- satisfy the still ownership test
- own one or more stills that
  - have a capacity of at least five litres
  - you install ready to use at the beginning of the financial year
  - you use to manufacture an alcoholic beverage during the financial year.

The above applies if the financial year is not the first or second financial year in which you are eligible to claim a refund under the scheme.

A still that you install ready to use at the beginning of the financial year doesn't have to be the same still that you use to manufacture an alcoholic beverage during the financial year.

### Still ownership test

The criteria for satisfying the still ownership test changes slightly depending on if you claim the refund before or after the end of the financial year in which you paid the excise duty.

If you claim the refund after the financial year in which you paid the excise duty, you need to have had sole ownership of at least one still for the whole of that financial year.

If you claim the refund before the end of the financial year in which you paid the excise duty, you need to have had both:

- sole ownership of at least one still for the whole of that financial year
- a reasonable expectation that you will continue to own the still for the remainder of that financial year.

### Exclusions

The scheme excludes:

- excisable goods entered for home consumption on or after 1 July 2021 – the Excise remission scheme for manufacturers of alcoholic beverages (Remission scheme) applies to goods entered on or after 1 July 2021
- products to which wine equalisation tax applies
- ready to drink (RTD) mixed spirits, where another manufacturer produces the spirit and you then blend that manufacturer's spirit with a non-alcoholic beverage to create an RTD product.

### What you can claim

From 1 July 2021 the *Excise remission scheme for manufacturers of alcoholic beverages* (Remission scheme) provides eligible alcohol manufacturers with a full (100%) automatic remission of excise duty, up to a maximum of \$350,000 per financial year, on alcoholic beverages they manufacture and enter into the Australian domestic market for home consumption.



## APPENDIX 4 – NOTES & REFERENCES

- (a) Coriolis report: Investment opportunities in the New Zealand Alcoholic Spirits industry. Part of the Food & Beverage Information Project May 2012 v1.00d  
<https://www.mbie.govt.nz/assets/f2a29d3c93/investment-opportunities-in-the-nz-alcoholic-spirits-industry.pdf>
- (b) Coriolis report: The Investor’s guide to the New Zealand Beverages Industry 2017. Part of the New Zealand Food & Beverage Information Project FINAL REPORT; v1.02; June 2017. Ministry for Business, Innovation and Enterprise, New Zealand Trade & Enterprise, Ministry for Primary Industries. <https://www.mbie.govt.nz/assets/2fd30de252/investors-guide-to-the-new-zealand-beverages-industry-2017.pdf>
- (c) *Spirits New Zealand* is the national trade organisation representing New Zealand’s leading producers, distributors, brand owners, importers and exporters of premium spirits and spirit-based drinks. Spirits NZ represents over 98% of spirit industry interests in New Zealand. Members include Bacardi New Zealand Holdings Ltd, Beam Suntory, Brown-Forman, Diageo, Hancocks, Independent Liquor, Lion, Moet-Hennessy and Pernod Ricard New Zealand, and three associate members: Lactanol (Anchor Ethanol), EuroVintage and Federal Merchants.
- (d) The Great New Zealand Juniper Hunt (<https://inaturalist.nz/projects/the-great-new-zealand-juniper-hunt>).
- (e) Australian Government, Department of Employment, Skills, Small and Family Business. Backing Small Business - Creating jobs, opportunity and growth April 2018.  
<https://docs.employment.gov.au/documents/backing-small-business-creating-jobs-opportunity-and-growth-april-2018>
- (f) Australian Distillers Association Inc. Submission to The Treasury, Langton Crescent, Parkes ACT 2600, May 2, 2017. Proposed Excise Rebate Regulations – Industry participation Submission.
- (g) The Effectiveness of Alcohol Pricing Policies; Ministry of Justice. 2014. White J, Lynn R, Ong SW, Whittington P, Condon C, Joy S.  
<https://www.justice.govt.nz/assets/Documents/Publications/effectiveness-of-alcohol-pricing-policies.pdf>.
- (h) New Zealand Government Tax Working group <https://taxworkinggroup.govt.nz/>
- (i) Corrective Taxes: Discussion Paper for Session 13 of the Tax Working Group. Information Release Document. September 2018 <https://taxworkinggroup.govt.nz/resources/twg-bg-3996870-corrective-taxes>. Future of tax <https://taxworkinggroup.govt.nz/resources/future-tax-interim-report>.
- (j) USA Tax Cuts and Jobs Act of 2017 - Craft Beverage Modernization and Tax Reform. Summary of Distilled Spirits, Wine, and Beer Excise Tax Provisions:  
<https://www.ttb.gov/alcohol/craft-beverage-modernization-and-tax-reform.shtml>
- (k) Tax table January 2017. Prepared for spiritsEUROPE by the Scotch Whisky Association, January 2017. Contact Tel: +44 (0)131 222 9223; e-mail: [jpark@swa.org.uk](mailto:jpark@swa.org.uk).  
<https://spirits.eu/policies/taxation-economy/key-data-1>
- (l) European Commission, 2019, excise duty tables  
[https://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/taxation/excise\\_duties/alcoholic\\_beverages/rates/excise\\_duties-part\\_i\\_alcohol\\_en.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/excise_duties/alcoholic_beverages/rates/excise_duties-part_i_alcohol_en.pdf)
- (m) New excise duty rates for alcohol from 1 July 2019 <https://www.customs.govt.nz/about-us/news/important-notice/new-excise-duty-rates-for-alcohol-from-1-july-2019/>

- (n) New excise duty rates for alcohol from 1 July 2020 <https://www.customs.govt.nz/about-us/news/important-notice/new-excise-duty-rates-for-alcohol-from-1-july-2020/>
- (o) New excise duty rates for alcohol from 1 July 2021 <https://www.customs.govt.nz/about-us/news/important-notice/new-excise-duty-rates-for-alcohol-from-1-july-2021/>