14 February 2025

To: **The National Treasury**
240 Madiba Street
Pretoria
Gauteng

**By Email:** 2024Alcoholreview@treasury.gov.za

**Re: SAIT submission in response to the Taxation of Alcoholic Beverages Discussion Paper**

Dear Colleagues,

Please see below comments and feedback on the *Taxation of Alcoholic Beverages Discussion Paper* (hereinafter referred to as the "Discussion Paper") published by the National Treasury on 13 November 2024. These comments have been prepared by the SAIT Customs and Excise Technical workgroup for your consideration.

Our commentary is set out below.

## Commentary

### 1. Other Considerations: Spirits

1.1. The Discussion Paper states the following:

> *"Currently, the spirits category is taxed much higher than other alcohol categories for well-known reasons, and the excise duty rate divergence from others has increased over the years. Hence, the consideration for adjustment on other alcohol categories will also narrow the divergence of excise duty rates. For now, no further adjustments are proposed for consideration for the spirit category. However, any new regulatory development as discussed above will be considered in the future in the same manner.*

1.2. We agree with the view expressed that *'the spirits category is taxed much higher than other alcohol categories for well-known reasons, and the excise duty rate divergence from others has increased over the years'*. We assume that the statement '*for well-known reasons*' refers to the fact that these so-called 'hard' liquor products (i.e. Brandy, Whisky, Cane, Gin, Vodka and Rum) are available in the market as products usually containing 43% alcohol by volume and, therefore, deemed more health hazardous than other liquor products.

1.3. Working upon the above assumption, we respectfully submit that this statement constitutes a substantial misperception. These 'hard' liquor products, although produced at 43% alcohol by volume, are not consumed at that alcohol percentage; these products are traditionally diluted with a 'mix' (e.g. sparkling or soda water, tonic water or other soft drink) by the consumer before consumption. This dilution breaks down the alcohol content of the consumed product to around 5% alcohol by volume, which is similar to the alcohol content of most malt beers and other fermented beverages (OFBs) but much lower than the alcohol content of most wines (which typically ranges between 11% and 14% alcohol by consumed volume).

1.4. Although these taxation proposals are driven by World Health Organisation (WHO) proposals to curb alcohol consumption globally, it must be borne in mind that that from a consumer health perspective 'alcohol is alcohol', irrespective of the source or specific product consumed. From this standpoint, all alcoholic beverages should be subject to a uniform excise duty rate, and the disparity in excise duty rates between these products and others should be significantly reduced.

1.5. Furthermore, the relatively high excise duty rate currently applied to these 'hard' liquor products, which directly impacts their selling price, may not necessarily be effective in reducing consumption of these products. Contrastingly these high excise duties are rather causing consumers to turn to the illicit / smuggle market where those products can be obtained at much lower and even at 'duty free' prices.

1.6. Consequently, we strongly recommend that the excise duty rate on spirits be capped and maintained at its current rate until the disparity between this rate and those applied to other liquor products is sufficiently narrowed and reduced.

## 2. Minimum Unit Pricing

2.1. The Discussion Paper states the following:

*The minimum unit price is not a tax instrument, but a pricing mechanism that sets the price floor below which no unit of alcohol should be sold. It prevents producers and retailers from absorbing some of the tax increases and reducing prices or offering massive, discounted prices on alcoholic products. Setting a minimum price per unit gram of alcohol reduces consumption of cheap alcohol and alcohol-related harm, and the WHO recommends its establishment and implementation, where applicable. There have been discussions and consideration of this policy instrument to complement the already existing policy interventions. Given the experiences of countries that have implemented it, National Treasury supports, in principle, the implementation of minimum unit pricing. Therefore, government collectively should seriously consider how such a mechanism, given our context and alcohol related problems, could form part of the package of interventions.*

2.2. The policy statement admits that implementing *minimum unit pricing* is not a tax instrument, but a pricing mechanism which will aim to prevent producers and retailers from, ad hoc, offering discounted prices on alcoholic products.

2.3. We submit that such a mechanism could be seen as government interference in commerce, which may conflict with established business principles that are recognised globally across all industries, not just the liquor trade. Therefore, we would suggest that it be carefully reconsidered as a potential option.

## 3. The Timing of Excise Adjustment

3.1. The Discussion Paper states the following:

*Several taxpayers raised an issue of the timing of excise duty rate*

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*adjustments and the administrative burden and compliance complexities it creates. The current system is such that the excise duty rate adjustments are effective from 14h00 on the day of the Budget as the Minister of Finance makes the Budget Speech. Before that time, taxpayers who are supposed to implement and comply with such changes would not have knowledge of the exact level of adjustment in excise rates prior to the announcement. Furthermore, taxpayers are expected to keep two sets of records for the month of February to account for before and after the rate adjustment.*

*To address this difficulty, an option for consideration is to implement the excise duty rates adjustments either on 1 March, or 1 April following the announcement in the budget to coincide with the tax year or government fiscal, respectively.*

3.2. We agree that future excise duty rate adjustments should be implemented from the 1st day of any given month following such an adjustment.

We thank you for the opportunity to provide this commentary. We remain at your disposal to provide further insights. Further engagement will be welcomed, where appropriate.

Sincerely,
**SAIT Customs and Excise Tax Technical Workgroup**

End.