DIGI Submission to Commission on Taxation and Welfare

About you, details of DIGI

The Drinks Industry Group of Ireland (DIGI) is the umbrella organisation for the drinks and hospitality industry. It is composed of manufacturers, distributors, and both on-trade retailers (pubs, hotels, and restaurants) and off-trade retailers (independent off-licences).

Its members include:

- Ibec's Drinks Ireland
- Irish Hotels Federation
- Licensed Vintners Association
- National Off-Licence Association
- Restaurants Association of Ireland
- Vintners Federation of Ireland.

DIGI is concerned with the taxation and economic development aspects of the drinks and hospitality industry and has produced a range of research reports on the economic role of the industry, taxation of alcohol, and on the structure and performance of the industry.

Through its Support Your Local campaign, DIGI seeks to highlight the significant financial and social contribution made by the industry and the negative effect of internationally very high alcohol excise tax; and work with stakeholders to create conditions that ensure the industry's continued growth and realisation of its full economic potential.

DIGI is mindful of its responsibility in relation to the issue of alcohol misuse in Ireland and our members play a meaningful role in addressing it. However, excise tax is an ineffective and unfair method as part of delivering responsible alcohol consumption. In addition, alcohol excise is a regressive tax.

DIGI members have pledged to work with Government to deal with the misuse of alcohol on a range of measures.

Chapter 1 General questions (4 questions)

Q1 What elements of the taxation and welfare systems do you feel are working well? (please elaborate)

The craft beer excise exemption scheme and its promised extension to cider in 2023 is critically important in supporting new enterprise development and job creation in micro-breweries and cideries, particularly in rural Ireland.

The reduced VAT rate of 9% for hospitality has been successful in generating employment and sectoral growth.

Q2 What elements of the taxation and welfare systems do you feel are not working well? (please elaborate)

While there is policy awareness of the negative competitiveness impact of direct personal and corporation tax, there is a complete lack of understanding of the negative effects of relatively high indirect tax rates such as alcohol excise, which, as shown below, is very high by EU standards.

There is much comment on the need to maintain income tax and corporation tax at internationally competitive levels, but there is no such awareness of the negative impact of high alcohol excise rates. DIGI research (International Comparisons of Irish Alcohol Excise Taxation in the European Union and the UK in 2021, A. Foley, DIGI 2021), which is also supported by the analysis of the Tax Strategy Group (TSG 21-11), has established that Ireland has a very high level of alcohol excise tax when compared with the large majority of the other 26 economies of the EU and the UK.

Ireland is out of step compared with most other European countries. This is a self-imposed competitive disadvantage and contrasts sharply with how many other EU countries support their indigenous drinks sectors.

On what is described as the “composite indicator” (average excise rates across the three beverages of beer, spirits and wine), only Finland has higher average alcohol excise than Ireland. Sweden is in third place with an average excise level that is lower than Ireland.
These three are followed by the UK, in fourth place, which is also a high alcohol excise economy. The UK level is 84.3% of the Irish level.

The rest of the EU economies have very much lower levels of excise than the top four of Finland, Ireland, Sweden, and the UK. The fifth-ranked economy is Estonia, which has a composite excise rate of 43.3% of the Irish level, substantially less than the highest four economies.

Ireland has, as of May 2021:

- The highest wine excise in the EU 27 and the UK.
- The second highest beer excise in the 28 countries behind Finland.
- The third highest spirits excise after Sweden and Finland.
- On an overall composite alcohol excise level (measured by the unweighted average of the different beer, spirits and wine excise rates), Ireland is the second highest behind Finland.

- Ireland's composite level is 130.8% higher than the fifth-ranked country of Estonia and is substantially higher than all those other EU economies which have lower excise levels than Estonia.

The magnitude of the differences in alcohol excise between Ireland and other EU economies is large. For example, Ireland's beer excise is 11.4 times that of Germany; Ireland's spirits excise is 4.4 times that of Spain. Fifteen EU economies do not impose any excise on wine, and France and Malta have very low wine excise.

Other comparative features of Irish alcohol excise are shown below:

- There is a substantial difference between the alcohol excise levels of the four highest alcohol taxed economies, Finland, Ireland, Sweden and the UK, and the remaining 24 countries.
- Finland's composite rate per HLPA (hectolitre of pure alcohol) is 22.5% higher than Ireland's, €4,237 compared to Ireland's €3,458. Sweden's composite rate is 9.6% below the Irish rate and the UK rate is 15.7% below the Irish rate.
- Estonia has the fifth-highest composite excise rate of €1,498 and is 56.7% below the Irish rate.
- Germany's composite alcohol excise per HLPA is €500 or 14.5% of the Irish level of €3,458.
- France's composite level of €869 is 25.1% of the Irish level.
- Spain's composite rate is €386 or 11.2% of the Irish level.
- Application of the German beer excise rate to Ireland would reduce the price of a pint of stout in a public house by 12.1%, the price of a glass of wine in a restaurant by 15.1%, and the off-licence price of a bottle of whiskey by 39.6%.
- Application of the German beer excise rate to Ireland would reduce excise on an on-licence pint of stout to 5 cents instead of 54 cents, a direct reduction of 49 cents. This increases to a reduction of 60 cents when VAT on the excise is included.
- In Spain, the excise on a bottle of whiskey is €2.69, which is €9.23 lower than in Ireland.
- If German alcohol excise rates were applied to Ireland, Irish annual excise revenue would total €178.7m instead of €1,232.6m. (Based on 2019 pre-Covid receipts). Ireland pays an estimated €1,053.9m more annually in alcohol excise tax than German rates produce.
- The tax burden on drinks enterprises and alcohol consumers is worsened by the VAT situation. Ireland, as shown below, also has a relatively high VAT on alcohol compared to the other EU 26+UK countries. Nineteen countries have a lower alcohol VAT rate than Ireland.

Full details of the ranking of EU countries and the UK on the composite alcohol excise rate are shown in Table 1.

Table 1: EU Alcohol Tax Rates (Excise) (Euro per HLPA), May 2021, composite level and rank in order of magnitude

	Composite level	Rank of composite level
	€ per HLPA	
Finland	4,237	1
Ireland	***3,458***	***2***
Sweden	3,127	3
UK	2,915	4
Estonia	1,498	5
Lithuania	1,411	6
Belgium	1,392	7
Denmark	1,349	8
Greece	1,267	9
Latvia	1,184	10
Netherlands	1,083	11
France	869	12
Slovenia	843	13
Poland	742	14
Malta	676	15
Portugal	602	16
Italy	597	17
Austria	567	18
Cyprus	519	19
Germany	500	20
Czech	498	21
Slovakia	480	22
Hungary	459	23
Croatia	441	24
Luxembourg	413	25
Spain	386	26
Romania	312	27
Bulgaria	251	28

Source: Source: Spirits Europe, Summary of EU Member States (and UK), Brussels (Excise rates as of May 2021), the exchange rates are those of Oct 2020 as used in the EU excise tables except for the UK and Sweden for which we use 2021 July monthly average rates. Composite level is the unweighted average of the three beverage specific rates.

The relative positions of Irish alcohol excise within the EU (and the UK) for the three beverages of beer, spirits, and wine are shown in Table 2.

Table 2: EU Alcohol Tax Rates (Excise) (Euro per HLPA), May 2021, three beverages and composite level and rank in country alphabetical order

	Spirits	Wine	Beer	Composite level	Rank of composite level
Austria	1,200	0	500	567	18
Belgium	2,993	681	501	1,392	7
Bulgaria	562	0	192	251	28
Croatia	793	0	529	441	24
Cyprus	957	0	600	519	19
Czech	1,198	0	297	498	21
Denmark	2,016	1,375	655	1,349	8
Estonia	1,881	1,344	1,270	1,498	5
Finland	5,035	3,827	3,850	4,237	1
France	1,803	36	768	869	12
Germany	1,303	0	197	500	20
Greece	2,550	0	1,250	1,267	9
Hungary	926	0	450	459	23
Ireland	***4,257***	***3,862***	***2,255***	***3,458***	***2***
Italy	1,036	0	755	597	17
Latvia	1,724	1,009	820	1,184	10
Lithuania	2,025	1,497	711	1,411	6
Luxembourg	1,041	0	198	413	25
Malta	1,360	186	483	676	15
Netherlands	1,686	803	759	1,083	11
Poland	1,396	352	477	742	14
Portugal	1,387	0	418	602	16
Romania	748	0	187	312	27
Slovakia	1,080	0	359	480	22
Slovenia	1,320	0	1,210	843	13
Spain	959	0	199	386	26
Sweden	5,066	2,334	1981	3,127	3
UK	3,357	3,160	2,229	2,915	4
Ireland's rank	***3***	***1***	***2***	***2***	***2***

Source: As for Table 1.

The detailed impacts of high Irish excise on the prices of individual drinks are shown in Table 3.

The features of the excise per drink data mirror, except for the rounding implication, the earlier comments related to league position and quantitative differences based on the excise per HLPA indicator. These excise amounts relate only to excise and do not include the VAT that would be charged on the excise.

The Irish wine position in the table stands out. Fifteen EU countries do not charge excise on wine. Ireland's rate per 187ml glass is 80 cents. As already shown, this is the highest in the EU. After Ireland the next three countries are Finland (79 cents), the UK (65 cents), and Sweden (48 cents). However, the next highest country, Lithuania is substantially lower at 31 cents. Denmark and Estonia follow with 28 cents. The other six countries which charge wine excise are each 20 cents or less per glass. As already noted, 15 EU countries have no excise on a glass of wine.

Every country charges a beer excise, but there is a large range from 94 cents on a pint of lager in Finland to 5 cents in several countries. 20 countries have a beer excise per pint of lager of less than 20 cents. The Irish level is 55 cents.

Every country charges an excise on spirits. The excise per half glass ranges from 71 cents in Sweden and Finland to 8 cents in Bulgaria. The spirits excise range is narrower than the beer range. The Irish level is 60 cents. 14 countries have a whiskey excise of less than 20 cents per half glass.

Excise charges on off-licence purchases of bottles of wine or whiskey are very large in Ireland. The whiskey excise per bottle ranges from €14.19 (Sweden) to €1.57 (Bulgaria). The wine off-licence excise per bottle ranges from €3.19 (Ireland) to zero in the many EU economies that do not impose excise on wine. In Spain, the excise on a bottle of whiskey is €2.69, which is €9.23 lower than in Ireland.

Table 3 Excise on various drinks, EU countries, € and €cent, May 2019

	Standard measure of whiskey in bar	Pint of lager in bar	Pint of stout in bar	Glass of wine in bar/restaurant (187ml)	Off-licence bottle of whiskey 70cl	Off-licence bottle of wine 75cl
	€cents	€cents	€cents	€cents	€	€
Finland	71	94	92	79	14.10	3.16
Ireland	***60***	***55***	***54***	***80***	***11.92***	***3.19***
Sweden	71	48	47	48	14.19	1.93
UK	47	54	53	65	9.40	2.61
Denmark	28	16	16	28	5.64	1.14
Belgium	42	12	12	14	8.38	0.56
Estonia	27	31	30	28	5.27	1.11
Greece	36	30	30	0	7.14	0
Netherlands	24	19	18	17	4.72	0.66
Slovenia	19	30	29	0	3.70	0
France	25	19	18	1	5.05	0.03
Latvia	24	20	20	21	4.83	0.83
Lithuania	29	17	17	31	5.67	1.24
Poland	20	12	12	7	3.91	0.29
Malta	19	12	12	4	3.81	0.15
Italy	15	18	18	0	2.90	0
Portugal	20	10	10	0	3.88	0
Austria	17	12	12	0	3.36	0
Hungary	13	11	11	0	2.59	0
Cyprus	13	15	14	0	2.68	0
Germany	18	5	5	0	3.65	0
Slovakia	15	9	9	0	3.02	0
Czech	17	7	7	0	3.35	0
Croatia	11	13	13	0	2.22	0
Luxembourg	15	5	5	0	2.91	0
Spain	14	5	5	0	2.69	0
Romania	11	5	4	0	2.09	0
Bulgaria	8	5	5	0	1.57	0

Source: As for Table 2. Derived as follows, the ratio of a country's excise per HLPA to Ireland's rate was multiplied by the Irish drink specific euro excise. The Irish excise was rounded to nearest cent and the individual country excise levels were also rounded.

Ireland also suffers from relatively high VAT rates on alcohol. Ireland's rate is 23%. Nineteen of the other EU 26+UK economies have a rate lower than 23%. Only six have rates which are greater than 23% and one other country has the same rate as Ireland. Portugal has a low rate on wine but 23% on beer and spirits.

In 2020 (before Covid, Jan 2020 prices), the Exchequer received in excise and VAT:

- €1.41 from every pint costing €4.67, or 30.2% of the price, consumed in bars.
- €1.81, or 34%, from every restaurant glass of wine costing €5.38.
- €16.81, or 64.3%, of the price of a €26.15 off-licence bottle of whiskey.
- €5.12, or 50%, of the price of a €10.30 off-licence bottle of wine.

This is an extraordinarily large alcohol indirect tax burden on consumers.

The law needs to be changed to ensure that the alcohol excise element of bad debts be allowed to be written off. Suppliers and distributors are encountering difficulties with regard to bad debts arising from the repeated closures and restrictions in the hospitality sector, arising from Covid-19.

While VAT on bad debts is recoverable by suppliers under the VAT Acts, unfortunately, as the legislation stands, excise is not. It is unclear whether the solution rests at Irish Government level or needs EU rule changes, in which case, the Irish government should lobby the EU to make that change.

In line with many other countries, the Government makes use of lower indirect tax rates to successfully stimulate labour-intensive sectors such as tourism. In recent times the Government has alternated between reduced VAT rates of 13.5% and 9% to stimulate tourism. The current temporary rate of 9% should be extended to assist in the recovery from Covid and to maintain international competitiveness. The use of reduced VAT rates is evidence that indirect tax reduction can be an effective and efficient instrument for stimulating economic development in specific sectors.

Irish Alcohol Excise Changes 2007 to date

The full details are shown in Table 4. The main features are:

- Compared with 2007 (before the recession), wine excise was increased by 20.2% in October 2008. The excise on other alcohol beverages was not increased.
- In December 2009, excise on all alcohol beverages was reduced (mainly because of the concern with cross-border shopping and also to boost confidence); the reductions were beer 21%, cider 21%, spirits 21%, and wine 20%.
- The excise rates were left untouched until Budget 2013 (December 2012) when beer was increased by 22%, cider by 22%, spirits by 18%, and wine by 41% as part of the public financial austerity programme.
- All rates were increased again in Budget 2014 (October 2013): beer by 18%, cider by 18%, spirits by 16%, and wine by 15%.
- There was no change in the rates in Budget 2015 or in following budgets, which means that the drinks industry and consumers continue to bear the burden of austerity period taxes while many of the other austerity measures have been reversed.
- **The current excise rates relative to 2007 are 13.5% higher in beer, 13.5% higher in cider, 8.5% higher in spirits, and a very large 55.6% higher in wine**.

Table 4 Excise Rates 2007 to Date, € rat

	2007	October 2008	December 2009	December 2012	October 2013	Current	% change 2007 to date
Beer, per hectolitre per cent of alcohol	19.87	No change (nc)	15.71	19.13	22.55	nc	13.5
Cider	83.25	nc	65.86	80.16	94.46	nc	13.5
Spirits, per litre of alcohol in the spirits	39.25	nc	31.13	36.85	42.57	nc	8.5
Wine, per hectolitre up to 15% abv	273.00	328.09	262.24	370.64	424.84	nc	55.6

Source: Revenue Commissioners

Q3 Good quality public services, welfare provision and infrastructure are financed mainly from taxation and PRSI. What are the features that you think our taxation and welfare systems should have in order to meet these needs? (please specify)

Q4 In your view, what main reforms are necessary so that the Irish taxation and welfare systems can embrace the opportunities and meet the challenges that Ireland may face over the next 10-15 years? (please outline your views)

Alcohol excise levels should be reduced to average EU levels through a medium-term programme of alcohol excise reduction. The 9% VAT rate for hospitality should be retained.

The law needs to be changed to ensure that the alcohol excise element of bad debts is allowed to be written off. Suppliers and distributors are encountering difficulties with regard to bad debts arising from the repeated closures and restrictions in the hospitality sector, arising from Covid-19. While VAT on bad debts is recoverable by suppliers under the VAT Acts, unfortunately, as the legislation stands, excise is not. It is unclear whether the solution rests at Irish Government level or needs EU rule changes, in which case, the Irish Government should lobby the EU to make that change.

Chapter 2 Fiscal Sustainability (3 questions)

DRINKS INDUSTRY GROUP OF IRELAND

Q1. What reforms to the taxation and welfare systems should be considered to ensure the system is sustainable and resilient and that there are sufficient resources available to meet the costs of public services in the medium and longer term? Please specify taxation reforms you consider important:

Alcohol excise should be gradually reduced to average EU levels over a period of several budgets.

Please specify welfare reforms you consider important:

Q2. Rate each issue below in terms of strategic importance to the taxation and welfare system over the next 10-15 years (1 being least important and 5 being most important):

	1	2	3	4	5
Achieving good public health outcomes for our people	○	○	○	○	○
Addressing the climate crisis	○	○	○	○	○
Adequate social transfers and benefits	○	○	○	○	○
Growing employment	○	○	○	○	○
Sustainability of public finances	○	○	○	○	○
Sustained economic growth	○	○	○	○	○

Q3. Given approaching demographic pressures and future uncertainties, future funding of public services is a critical issue. In order to meet these challenges, what is the appropriate balance between the taxation of a) earned income, b) consumption e.g. VAT and c) wealth e.g. capital acquisitions tax?

Chapter 3 Promoting Employment (4 questions)

DIGI notes that the drinks industry and wider hospitality sector is a major source of employment at both national, regional and local levels. We refer to this in Chapter 6. However, the issues in this chapter refer to the income tax and social welfare systems, which are outside the remit of DIGI.

Q1. What reforms to the taxation and welfare system should be considered to ensure that taxation and welfare work in tandem to support economic activity and promote employment while also supporting those most vulnerable in an equitable way?

Please outline what reforms should be considered:

Q2. Does Ireland's taxation and welfare system strike the right balance between maintaining the incentive to increase earnings and alleviating some of the risks of low income (poverty and deprivation)?

Yes No

Please explain your view:

Q3. Are income supports equitable in terms of how they treat people of working age?

Yes No

How is this balanced with the requirement to meet differing needs?

Q4. What changes to the social insurance system should be considered to ensure sustainability into the medium to longer term? (Please note the recommendations of the Pensions Commission and NESC Report 151 on the future of the Irish social welfare system) Please specify changes to be considered?

Chapter 4 Climate (3 questions)

Q1. As Ireland moves to a low carbon economy, what should be the role of the taxation and welfare system in:

a) taking advantage of opportunities?

b) mitigating the risks?

c) in meeting Ireland's emissions targets?

Q2. Are there existing taxation and welfare measures that are counter-productive to Ireland's climate change commitments?

Yes No

If yes, please specify:

To what extent are these justified in the Irish context and are any reforms necessary?

Q3. What changes should be made to the taxation system to ensure longer term fiscal sustainability given the expected impact of the continued decarbonisation of the Irish economy, in particular the impact of reducing tax revenues from energy, carbon and motor taxes?

Please detail the changes:

Chapter 5 Housing (4 questions)

1. Taking into account previous taxation related interventions in the housing market, what role do you think the taxation and welfare systems have to play in contributing to the long-term supply of housing?
2. Should the taxation system have a role in supporting or promoting any specific form of housing tenure (e.g. home ownership, rental), or should it remain neutral?
3. What in your view is the role that taxation should play in housing affordability?
4. Following the introduction and recent amendments to the Local Property Tax (LPT) and the commitment in Housing for All to introduce a new taxation measure to activate vacant land for residential purposes, do you consider there is a role for a Site Value Tax in Ireland?

Chapter 6 Supporting Economic Activity (3 Questions)

Q1. How can Ireland maintain a clear, competitive, sustainable, and stable taxation policy with regard to its attractiveness to Foreign Direct Investment (FDI) in light of the rapidly changing global environment?

DIGI recognises that the question is intended to focus on the role of corporation tax. However, it must also be acknowledged that existing Irish branches of drinks multinational producers compete with other international branches of the companies for investment, product development, and new projects.

The domestic alcohol policy attitude influences these decisions. The very high Irish alcohol excise tax is seen as punitive and anti-industry. Lower alcohol excise would improve the ability of Irish-located branches of drinks multinationals to attract additional investment and economic activity.

Q2. How can the taxation environment support indigenous enterprise, particularly small and medium sized enterprises (SMEs) to be productive, to innovate and be competitive internationally?

. With regard to starting, scaling or growing a business in Ireland:

a) what features of the current taxation system work well?

The on-trade drinks industry, composed of public houses, other bars, licensed restaurants, and licensed hotels, is a very labour-intensive service sector. As shown below, it accounts for a very high number and share of jobs. Compared to other sectors, it is very employment intensive relative to output or gross value added.

Relevant CSO sectoral comparative data are shown below for labour costs relative to gross value added and turnover. Gross value added (GVA) refers to the value added generated by the sector. In effect, it is turnover less bought-in materials. GVA is a more accurate measure of the economic contribution of a sector than turnover. However, the payroll to turnover ratio is also an important indicator of employment intensity.

Table 5: Labour Costs as percentage of Turnover and Gross Value Added

	Turnover	**GVA**
Food manufacturing	8.4	28.4
Beverages manufacturing	7.3	15.7
Chemicals	6.8	18.7
Pharmaceuticals	3.0	9.9
Computer electronic and optical products	9.9	41.7
Retail	14.1	67.0
Wholesale	4.0	41.4
Hotels	39.1	78.0
Restaurants	33.4	77.2
Beverage serving (mainly public houses)	29.4	70.2
Computer programming, consultancy	8.1	44.7
Accounting auditing	29.2	55.2

Source: CSO CIP and Annual Services Inquiry, all services refer to 2017, food refers to 2017and other manufacturing refer to 2014.

Within manufacturing, the chemicals sector pay bill as a percentage of turnover is 6.8%, the pharmaceuticals sector is 3.0%, the food sector is 8.4%, and the beverages sector is 7.3%. Within services the ratios also vary: wholesale is 4.0% and retail is 14.1%, with computer programming at 8.1%. Of the drinks-related sectors, hotels, at 39.1%, have the highest labour costs to turnover ratio; restaurants, 33.4%, and beverage serving (including pubs), 29.4% are also very high.

This conclusion is reinforced by the labour costs share of GVA. Labour costs amount to 9.9% of GVA in pharmaceuticals manufacturing compared to 78.0% in hotels, 77.2% in restaurants, and 70.2% in beverage serving. The manufacturing figure is, of course, influenced by the accounting practices of the inward multinational sector and also the additional measurement issues of 2015 and subsequently. The food manufacturing sector has a labour cost to GVA ratio of 28.4%. The on-trade drinks-related activities are very labour intensive.

The longstanding reduced rate of excise on small beer producers has worked very well and has generated very many new small beer producers (number of breweries increased from 3 to 125) and extensive product innovation. The recently announced equivalent support for small cider producers is expected to generate equivalent entrepreneurial and innovative activity.

b) what features do not work well and how can these be improved?

The Irish spirits sector has developed rapidly, with many new distilleries over recent years. However, these small distilleries face substantial barriers to achieving scale and developing exports, as is generally expected of small indigenous enterprises. Spirits producers face the additional burden of financing very large levels of excise tax.

A reduced rate of excise along the lines of the beer and promised cider measures would be a significant support to achieving scale and exports. To enable this, the Irish Government needs to lobby the EU Commission to change the EU Excise Structures Directive accordingly.

The very high rates of excise on Irish alcohol are a barrier to scaling small drinks manufacturing enterprises and to improving the quality of drinks enterprises in the hospitality and retail sectors. The high excise creates a substantial wedge between the expenditure by consumers on alcohol products and the receipts of alcohol enterprises. It diverts potential investment resources from the enterprises to the State.

Excise has a large detrimental effect on the cashflow of the off-licences and other small drinks businesses. These cashflow issues have major implications for small Irish businesses, which have had to delay investing in their companies as a result of government policy. An overview of how this impacts small businesses is shown below:

Table 6 Excise due on importation of 1,000 cases of wine per month

	% Increase	Duty per Case	Excise per 1000 Cases	VAT	Payable to Revenue
2012		€22.64	€23,640	€5,437	€29,077
2013	41%	€33.36	€33,360	€7,673	€41,033
2014	15%	€38.24	€38,240	€8,795	€47,035
Overall Increase	**62%**		**€14,600**	**€3,358**	**€17,958**

Source: DIGI

The total payment (incl. VAT) is now €17,958 higher per 1,000 cases than it was in 2012.

An aggregate indication of the higher alcohol excise tax impact in Ireland compared to Germany is the reduction in total alcohol excise receipts if Ireland operated the German rates. As noted above, the German composite average excise rate is €500 per HLPA compared to the Irish rate of €3,458. The German rate is only 14.5% of the Irish rate. This would indicate that if German rates were applied to Ireland, Irish excise revenue would total €178.7m instead of €1,232.6m (the 2019 pre-Covid total). Ireland pays about €1,053.9m more annually in alcohol excise tax than German rates would imply.

This is money which could be shared between additional investment in the sector and reduced prices for consumers. This estimate is approximate because it does not take into account the differences in consumption mix between the two countries.

Excise is an additional cost on the many thousands of drinks enterprises and millions of consumers. It significantly worsens the business model for drinks enterprises compared to what would occur in most of the other EU economies.

The tax burden on alcohol enterprises and consumers of alcohol products is increased by the fact that VAT is charged on the excise.

It is important to note the substantial contribution of the drinks and wider hospitality sectors to employment and economic activity. The scale of this contribution is so large as to warrant serious consideration of the negative impacts of excise tax. The main features of the employment impact of the drinks and hospitality sectors are:

- There were 179k jobs in hotels, restaurants and pubs (the 'accommodation and food services' (AFS) sector) in the last quarter of 2019, which is the latest set of pre-Covid statistics. This was 7.6% of total employment. One in every thirteen jobs nationally was in the hospitality sector.

- CSO data from the 2018 Annual Services Inquiry gives a larger hospitality employment figure of 194.9k persons engaged. This was divided between restaurants, 74.3k, other food services, 13.5k, hotels and similar accommodation, 57.9k, other accommodation, 5.8k, and beverage services, 43.4k.

- The hospitality sector makes notable contributions to total employment, regional employment, employment growth, female employment, part-time employment, and youth employment.

- Hospitality employment is more female intensive than total employment. 46% of total national employment is female compared to 54.5% in the hospitality sector.

- The part-time share of total national employment was 20.9% in 2019. The hospitality or AFS sector is much more part-time intensive with a part-time share of 41.8%.

- The availability of part-time work opportunities is a desirable element of the labour market. Only 13.7% of those who worked part-time were part-timers because they could not find full-time employment. Significant reasons include education participation, childminding, and other carer activities.

- The AFS reasons for part-time employment in Q4 2019 were school, education, and training, 50.7%, and other reasons 48.6%.

- AFS employment is relatively young. The 15-24 years age group is 31.8% of AFS employment compared to 11.2% in total employment.
- The AFS 15-24 years' age group is 16.5% of AFS full-time employment and 53.1% of AFS part-time employment.
- The sector can make a substantial contribution to the reduction of youth unemployment.
- Through its substantial purchases and wages generation the hospitality sector makes a substantial contribution to indirect and induced employment.
- The accommodation sector purchased €2.019 billion in goods and services in 2018. Restaurants purchased €2.498 billion. Beverage serving activities purchased €1.608 billion.
- The wages and salaries for the hospitality sector are large. Accommodation generated €1.270 billion in annual wages and salaries in 2018. Restaurants generated €1.281 billion annually.Beverage serving activities generated €696 million. The total AFS sector had a 2018 wages bill of €3.520 billion.
- There are other economic activities which are directly related to what could be regarded as 'drinks-based employment', which are not part of hospitality or AFS, including brewing and distilling, off-licences, wholesalers, and visitor attractions such as the Guinness Storehouse and the Jameson Whiskey Experience.
- The drinks manufacturing employment was 7,300 in Q4 2019, which includes soft drinks as well as alcohol. Off-licences are a substantial employer, with 2,004 beer off-licences, 1,990 spirits off-licences, and 3,324 wine off-licences. Allowing for overlap, there are about 2,000 full off-licences and 1,300 wine-only off-licences geographically spread around all areas of the country. These employ about 5,500 persons.

Chapter 7 - Tax Expenditures (4 questions)

1. How do you think the process of reviewing taxation measures and taxation expenditures is currently functioning?
2. How do you think the process of taxation expenditure review could be improved?
3. 3. Please give examples of taxation expenditures that you believe run counter to public policy/are badly designed?
4. Please provide examples of taxation expenditures that you believe work well, either in Ireland or internationally?

Chapter 8 - Public Health (2 questions)

Q1. How well do the taxation and welfare systems support good public health outcomes, addressing health challenges including but not limited to those caused by or related to tobacco and alcohol use, obesity, poverty and/or environmental issues? Please outline your views:

DIGI believes that the primary purpose of alcohol excise is revenue generation and that it is an ineffective instrument for the promotion of public health. According to HRB research, Ireland's average consumption of 11lpa in 2018 was lower than Austria, France, and Luxembourg, among others, and was similar to Germany. All of these countries had much lower excise tax rates than Ireland.

DIGI accepts the need to reduce the societal and health impact of misuse of alcohol and our members actively contribute to initiatives in this area. However, there is too much focus on the role of excise tax and insufficient emphasis on other public health measures, such as education and health promotion. Average consumption of alcohol has been declining over the long term as shown in Table 7 and Diagram 1.

From a peak of 14.4lpa per adult in 2001, it stands at 10.1lpa in 2020, a decline of almost 30%. Over the past ten years, average consumption of alcohol per adult declined from 12.5lpa to 10.1lpa. This decline is driven by a range of factors including demographic change, health awareness, growth of low and no-alcohol products, other consumer behaviour changes, and entertainment changes.

Of course, DIGI as business operators also recognise that price matters. However, it must be recognised that reducing the impact of alcohol misuse should be focused on those who are misusing the product and who are less sensitive to price. It must also be recognised that Irish consumers have access to legal and illegal sourcing of alcohol from outside the state. In normal times, Irish consumers take many trips to low-excise economies such as Spain and Portugal. The new availability of duty free between Ireland and the UK increases the option of out-of-state sourcing.

When exchange rates and excise and other indirect tax are in particular positions, there is also a substantial incentive for cross-border shopping. In addition, the introduction in January 2022 of minimum unit pricing for alcohol clearly removes any justification for using excise to force alcohol price increases.

The market for alcohol is divided between consumption in licensed premises (on-licence sales) and home consumption (off- licence sales). The price per unit of alcohol is substantially higher in the on-licence sector, reflecting the service element of the provision of the product. Off-licence alcohol prices are much lower.

In particular, the large multiple chains have implemented substantial price discounting and special offers for alcohol, which resulted in very low prices for some alcohol products. Increases in excise can be absorbed by the large multiple chains and are not necessarily passed on in price increases. Minimum unit pricing is intended to ensure a price floor for off-licence alcohol products and is a more effective targeted price setting mechanism. Large off-licence operators cannot sell below the legal minimum. The main public health price-related issue with alcohol is the low price of alcohol in the large multiples. On-licence prices are, as noted above, much higher and greatly exceed the minimum price.

Minimum unit pricing, unlike excise, is a targeted alcohol pricing policy, which sets the minimum price per gram of alcohol at €0.10. DIGI does not believe excise is an effective consumption control measure and should not be used as a fiscal tool to support public health policy on alcohol.

The Tax Strategy Group papers, published in September 2021, state that: “Ireland has some of the highest rates of excise duty on alcohol products in the EU. This reflects a long-standing policy to support public health objectives.” This assertion is no longer valid following the introduction of minimum unit pricing, which is a targeted public health policy.

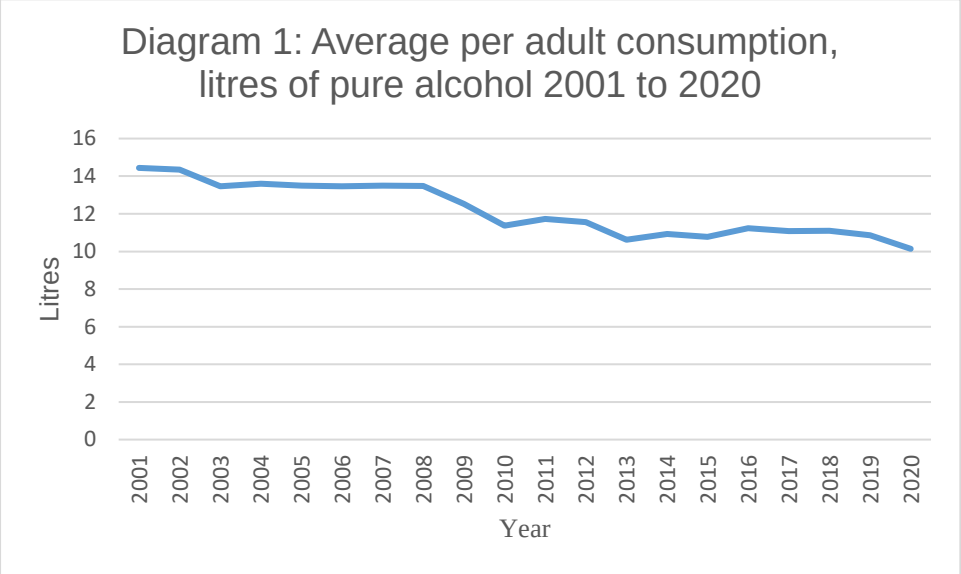
A reduction of excise duties would also not impact on public health policies, as they would now be in conjunction with minimum unit pricing, given that any price reductions will not be possible on cheap alcohol. It is clear that high levels of excise are both unfair to many consumers and are not needed in a regime of minimum unit pricing.

Minimum unit pricing means that a 500ml can of 4.2% stout will cost at least €1.66 (it would have been available under certain conditions for around €1 before minimum unit pricing), a 14% bottle of wine will not be sold for less than €8.28, a bottle of 37.5% sprits will not be sold for less than €20.71, and a bottle of 43% spirits will not be sold for less than €23.75. The change represents substantial price increases for lower priced off-licence alcohol products. The higher retail prices increase the exchequer VAT take per unit.

Table 7 Trends in Alcohol Consumption 2001 to 2020

	Average per adult consumption, litres of pure alcohol
2001	14.44 (rounded to 14.4)
2002	14.34
2003	13.46
2004	13.60
2005	13.505
2006	13.465
2007	13.495
2008	13.488
2009	12.520
2010	11.370
2011	11.727
2012	11.566
2013	10.625
2014	10.921
2015	10.773
2016	11.240
2017	11.080
2018	11.094
2019	10.856 (rounded to 10.9)
2020	10.139 (rounded to 10.1)

Sources: CSO Population and Migration Estimates, various years. Revenue Commissioners' alcohol clearances, various years. Adult defined as population aged 15 years and over. Provided by A Foley, Dec 2021.



Q2. What changes would you like to see to better promote the goal of good public health?

An increased reliance on non-price measures should be used, with increased budgets for education and health promotion and a more targeted approach on the problem areas and groups.

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Chapter 9 – Administration (2 questions)

1. How can modernisation of the taxation and/or welfare administrations evolve to best meet customer needs in a satisfactory manner while respecting data rights and ensuring secure and reliable tax collection?

Please outline your views:

What do you see as the implications of modernisation for taxpayers

either positive or negative?

2. What improvements in service quality and delivery could be achieved by integrating (elements of) the taxation and welfare administrations?

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Chapter 10 - Submit Your Ideas

Q1 Taking into account the Terms of Reference, submit any other thoughts, ideas or feedback on taxation and welfare in Ireland:

DIGI's primary focus is on alcohol excise tax. We want it reduced to the lower average EU levels. There is much focus on having an internationally competitive tax regime, and the focus is generally on income tax and corporation tax. There is insufficient attention given to the competitiveness impact of indirect taxes, such as alcohol excise.

High excise diverts potential investment resources from the enterprise sector and diverts purchasing power from consumers. Irish alcohol excise is very high by EU standards. For an economy which has a large tourism sector, this is a self-imposed competitive disadvantage. DIGI proposes that there should be a medium-term programme of annual excise tax reductions to move towards the average EU levels. We need an internationally competitive alcohol excise tax regime.

The introduction of minimum unit pricing removes the case for using excise as a public health measure. Consequently, public health concerns should not a barrier to reducing Ireland's very high alcohol excise levels. Irish and international experience has shown the economic benefits of lower indirect tax on employment and output in specific industries such as tourism.

The hospitality sector has experienced severe economic hardship from Covid-19 and its associated restrictions and closures. The Commission should consider how the tax system could be used to support the longer-term recovery of businesses and employment in the sector. Specifically, this should include the reduction of the current high levels of alcohol excise and the extension over the medium term of the 9% VAT hospitality rate. With the introduction of minimum unit pricing, which targets and prevents low alcohol prices, the reduction in alcohol excise would not generate any public health concerns. These tax reduction measures would significantly enhance the business model of the sector's enterprises and promote employment and output recovery.

In summary:

- Irish alcohol excise is very high by EU standards.
- Irish alcohol excise is a self-imposed competitiveness burden on Irish tourism and on Irish drinks manufacturing, which is a long-established indigenous industry.
- The role of indirect taxation, excise, and VAT, in competitiveness should be recognised.
- Alcohol excise is an ineffective public health policy instrument and, in any event, has been supplanted by the introduction of Minimum Unit Pricing as a public health policy instrument.
- A reduction in alcohol excise would not generate any public health concerns.
- The drinks and hospitality sectors generate substantial employment and provide a range of flexible employment opportunities.
- The Commission should consider how the tax system can be used to assist the hospitality sector to recover from the severe economic damage caused by Covid-19. Specifically, this should include the retention of the 9% hospitality VAT rate and the reduction of alcohol excise to lower EU norms over a multi-year period.