



International Comparisons of Irish Alcohol Taxation within the European Union in 2011

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Introduction and Objectives

This paper examines the comparative international position of Irish alcohol taxation within the EU. It also identifies the influence of excise and VAT on the price of alcohol.

Following the reduction in Irish alcohol excise in December 2009 and a range of changes in other countries the objective of the paper is to assess the post reduction and current position of Irish alcohol excise relative to other countries within the EU. As is shown by the data presented in the report despite the 2009 reduction Ireland continues to have relatively high alcohol excise taxes in 2011 when compared with the majority of other 27 EU economies of the EU.

On a general basis Finland and Sweden have the highest alcohol excise levels. These are followed by Ireland and the UK which also are high alcohol excise economies. The rest of the pre-accession (15 member) EU economies have much lower levels and the newer 12 members usually have relatively low levels.

As shown in the report, even after the 2009 reductions, Ireland has, as of May 2011:

- The fourth highest beer excise in the EU 27 behind Finland, UK and Sweden
- The third highest wine excise in the EU 27 after Finland and the UK
- The third highest spirits excise in the EU 27 after Sweden and Finland

On an overall composite alcohol excise level, Ireland is the fourth highest behind Sweden, Finland and the UK. Ireland's level is over twice that of the fifth ranked country Denmark and substantially higher than all other EU economies.

Based on different and less comprehensive data source relating to 2009 Ireland has the second highest cider excise of a sample of nine EU15 countries. Some EU countries do not impose excise on cider.

The magnitude of the excise differences between Ireland and other EU economies is large. For example, Ireland's beer excise is almost eight times that of Germany. Many EU economies do not impose any excise on wine. This has a direct impact on alcohol prices in Ireland. Applying the German beer excise to Ireland would reduce the price of a pint by 8%.

Data

The data are from the excise tables compiled by the European Spirits Association which are themselves derived from the excise tables of the EU Commission. The main indicator used is excise per hectolitre of pure alcohol (HPLA). The data cover beer, wine, spirits and intermediate products.

Comprehensive data is not available in these sources for cider. Consequently the main discussion focuses on beer, wine and spirits. The excise levels are available for the three different beverages. There is no single composite comparative excise rate for alcohol as a whole. Such an indicator would be useful for summary comparisons.

For example Ireland's spirits excise is about 50% higher than Denmark's. In wine Ireland's excise level is over three times the Danish level and in beer Ireland is over twice the Danish level. There is no overall total alcohol excise rate with which to compare the two countries.

One such indicator is a weighted average of the different beverages excise level (weighted by the share of each beverage in overall national alcohol consumption). Detailed comparable information on consumption mix is not readily available. For this report a composite alcohol excise level has been calculated using the arithmetic average of the excise levels of the three beverage groups. While inexact, it gives a useful indication of the relative national overall alcohol excise level.

The European Cider Association has a cider excise database for nine EU15 countries relating to 2009 and 2010. This is used to provide an overall picture of cider excise.

Type of alcohol Taxation

Alcohol is subject to two types of expenditure tax, VAT and excise. The VAT is an ad valorem tax which is charged as a per cent (currently 21%) of the selling value or price. As the price of alcohol increases the absolute amount of the VAT rises automatically as VAT is levied on the value/price of the product. All the different types of beverages are charged the same VAT rate.

Excise tax is a specific tax which is based on the quantity of alcohol in the beverage. It is an absolute amount of money per unit of alcohol contained in the beverage. It is not affected by the price of the product.

For example the same quantity of a beverage attracts the same excise charge whether sold in an off-licence or consumed within a public house or other bar. VAT is charged on the excise amount. Consequently an excise increase causes price to rise by the excise and a further 21% of the excise increase.

There are different excise levels for the different beverages categories. In all 27 EU countries except for Slovenia, the spirits excise per HPLA is the highest of the three categories. In Slovenia, the spirits excise per HPLA is €1000 which is the same as the beer excise. Slovenia has no excise on wine.

VAT Level

The Irish VAT on alcohol is 21%. Nine of the EU 27 countries have higher rates, Denmark 25%, Finland 23%, Greece 23%, Hungary 25%, Latvia 22%, Poland 23% and Portugal 23% for some categories, Romania 24%, and Sweden 25%. Belgium and Lithuania have the same rate as Ireland. The other fifteen members have lower rates than Ireland ranging from 20% (8 members), 19.6% (one member, France) 19% (2 members), 18% (2 members) to below 18% (2 members). The two with rates below 18% are Cyprus and Luxembourg.

Table 1: EU VAT rates on Alcohol

Above 21%	9 Members
21%	3 Members, Ireland, Belgium and Lithuania
20%	8 Members, Austria, Bulgaria, Czech Republic, Estonia, Italy, Slovakia, Slovenia, UK
19.6%	1 Member, France
19%	2 Members, Germany and Netherlands,
18%	2 Members, Malta and Spain
below 18%	2 Members, Cyprus and Luxembourg

Ireland has the joint tenth highest VAT on alcohol in the EU. Fifteen member states have lower VAT rates.

Ireland's Comparative Ranking in Excise

The comparative position of Ireland relative to the EU 15 is examined first. An assessment of the position relative to the twelve relatively new entrants is then presented. The only countries comparable to Ireland in terms of high alcohol excise are the UK and the two Nordic countries, Sweden and Finland.

The very high level of Irish alcohol excise is shown in Table 2.

Table 2: EU Alcohol Tax Rates (Excise) (Euro per HLPA), 2011, three beverages and composite level

	Spirits	Wine	Beer	Composite level (average of three beverage levels)	Rank of composite level	Countries in order of composite level
Austria	1000	0	520	507	10	1. Sweden 3123
Belgium	1752	428	428	869	8	2. Finland 3038
Denmark	2013	749	683	1148	5	3. UK 2536
Finland	3940	2573	2600	3038	2	4. Ireland 2356
France	1514	32	271	606	9	5. Denmark 1148
Germany	1303	0	197	500	11	6. Greece

						1067
Greece	2550	0	650	1067	6	7. Netherlands 876
Ireland	3113	2384	1571	2356	4	8. Belgium 869
Italy	800	0	588	463	12	9. France 606
Luxembourg	1041	0	198	413	14	10. Austria 507
Netherlands	1504	623	502	876	7	11. Germany 500
Portugal	1031	0	349	460	13	12. Italy 463
Spain	830	0	199	343	15	13. Portugal 460
Sweden	5439	2128	1801	3123	1	14. Lux 413
UK	2941	2528	2140	2536	3	15. Spain 343
Ireland's rank	3	3	4	N/A	4	4

Source: CEPS, Summary of EU Member States, Brussels (Rates as of May 2011), the exchange rates are those of Oct 2010 as used in the EU excise tables.

The Irish relative position was worsened by the arrival of the additional twelve new EU members. Eight of the twelve do not have excise on wine. The exceptions are the three Baltic states of Estonia, Latvia and Lithuania and Hungary. Eleven of the twelve have beer excise levels of less than €600 per HPLA compared to Ireland's level of €1571. The one country of the twelve relatively new members with beer excise above €600 is Slovenia which has a rate of €1000.

The highest spirits excise of the twelve is in Estonia at €1420 per HPLA compared to €3113 in Ireland. The lowest spirits excise is in Romania at €550 per HPLA.

The details are in Table 3.

Table 3: EU Alcohol Tax Rates (Excise) (Euro per HPLA), 2011, three beverages and composite level, 12 new members

Country	Spirits	Wine	Beer	Composite level (average of three beverages)
Bulgaria	562	0	192	251
Cyprus	598	0	478	359
Czech Republic	1167	0	328	498
Estonia	1420	665	543	876
Hungary	1008	0	578	529
Latvia	1255	513	307	692
Lithuania	1279	521	246	682
Malta	1250	0	186	479
Poland	1260	365	436	687
Romania	550	0	185	245
Slovakia	1080	0	412	497
Slovenia	1000	0	1000	667
Ireland	3113	2384	1571	2356

The ranking position of Ireland is summarised in Table 4. Ireland has the third highest wine excise of the 27 EU members. Ireland has the fourth highest beer excise and

the third highest spirits excise. On the composite indicator Ireland has fourth highest alcohol excise of the 27 EU members behind Sweden, Finland and the UK.

The UK comparison is sensitive to the value of the exchange rate. As already noted the excise tables are based on exchange rates as of October 2010. The Euro/Sterling exchange rate was 86.76p.

In end May 2011 it was 87.205, a difference of less than 1%. This makes no material difference to the comparisons of the Irish and UK excise levels. However in early May the exchange rate was 89.99p, a difference of almost 4% with October 2011. The gap between Irish and UK excise rates is narrowed as the Euro strengthens against Sterling.

Table 4: Ireland's High Alcohol Taxation

Category	Position
Wine	Third Highest in EU27
Beer	Fourth Highest in EU27
Spirits	Third Highest in EU27
Composite indicator	Fourth Highest in EU27

As noted in the data section the international sources on alcohol excise such as the EU excise Tables and the European Spirits Association do not specifically include cider for the 27 countries of the EU. In the EU tables only the UK and Ireland have cider data and there are no cider data in the other source.

Previous research by DIGI identified that Irish cider excise was also very high by international standards. The following data for cider refer to Ireland and the UK. The excise in both countries is levied by hectolitre of product depending on different alcohol strength bands.

The 2011 UK rate per hectolitre of product for still cider and perry up to 7.5% abv is £35.87 or €41.34 at the EU Excise Tables Oct 2010 exchange rate. The 2011 Irish rate per hectolitre of still cider and perry product is €65.86 for abv between 2.9% and 5.9% abv. Consequently for cider in the 4.5% to 5% abv category the Irish excise rate is 59% greater than the UK rate.

Additional cider data is available from the European Cider Association covering nine of the EU15 countries and relating to 2009 or 2010. Based on this Ireland has the highest cider excise on alcohol strengths up to and including 4.5% (although almost the same as Sweden) and the second highest rate for higher alcohol strengths after Sweden. Of the nine Spain and Germany have no excise on cider.

When the 2009 excise reduction is taken into account Ireland would have the second highest cider excise of the nine countries. The nine were UK, Ireland, Belgium, Spain, Netherlands, Germany, France, Denmark and Sweden.

Quantitative Differences in Excise

The previous section identified Ireland's high placing in the EU alcohol excise league table. The high Irish alcohol taxation levels compared with the majority of the EU27 members are more starkly illustrated when comparing the levels between the different economies instead of the ranking. We focus the analysis on the pre-accession 15 EU members. As already noted the excise levels of the new 12 countries are generally low.

For example:

- Ireland's beer tax is over three times the level of Austria and almost eight times the level of Germany;
- Ireland's wine tax is over five times the level of Belgium and over three times the level of Denmark;

- Ireland's spirits tax is over twice the level of France and almost four times the level of Italy

Table 5: EU Alcohol Tax Rates (Excise) (Euro per HLPA), 2011, composite level

	Composite excise level (average of three beverage levels)	Relative position, Ireland= 100	Position of Ireland relative to each country, country =100
Austria	507	22	465
Belgium	869	37	271
Denmark	1148	49	205
Finland	3038	129	78
France	606	26	389
Germany	500	21	471
Greece	1067	45	221
Ireland	2356	100	n/a
Italy	463	20	509
Luxembourg	413	18	570
Netherlands	876	37	269
Portugal	460	20	512
Spain	343	15	687
Sweden	3123	133	75
UK	2536	108	93
EU14 average	1139	48	207

As already noted three countries have higher composite tax rates than Ireland. After these three and Ireland the highest country is Denmark at an average composite rate of €1148 per HPLA, which is only 49% of the Irish level, less than half. This is a substantial quantitative gap. Several countries are at less than 25% of the Irish composite rate including Austria, Germany, Italy, Luxembourg, Portugal and Spain. Presented alternatively, the Irish composite excise rate is lower than the three already mentioned countries of UK, Sweden and Finland.

After these Ireland is more than twice the next highest country. Consequently, even after the 20% excise reduction Ireland's alcohol excise is still substantially higher than all except the UK, Sweden and Finland.

The average composite rate for the 14 countries excluding Ireland is €1139 per HPLA which is 48% of the Irish level. Ireland's composite excise level is over twice the average EU14 level. The quantitative gaps which arise with the individual beverages are shown below, starting with spirits.

Table 6: EU Alcohol Tax Rates (Excise) (Euro per HPLA), 2011, Spirits

	Spirits excise € per HPLA	Relative position, Ireland = 100
Austria	1000	32
Belgium	1752	56
Denmark	2013	65
Finland	3940	127
France	1514	49
Germany	1303	42
Greece	2550	82

Ireland	3113	100
Italy	800	26
Luxembourg	1041	33
Netherlands	1504	48
Portugal	1031	33
Spain	830	27
Sweden	5439	175
UK	2941	94
EU14 average	1976	63

As already identified Ireland's spirits excise is lower than Finland and Sweden. It is 6% higher than the UK. The next highest is Greece which is 82% of the Irish level. The next highest is Denmark which is 65% of Ireland's level. The EU14 average spirits excise is only 63% of the Irish level.

Table 7: EU Alcohol Tax Rates (Excise) (Euro per HLPA), 2011, Wine

	Wine	Relative position, Ireland= 100
Austria	0	zero
Belgium	428	18
Denmark	749	31
Finland	2573	108
France	32	1
Germany	0	zero
Greece	0	zero
Ireland	2384	100
Italy	0	zero

Luxembourg	0	zero
Netherlands	623	26
Portugal	0	zero
Spain	0	zero
Sweden	2128	89
UK	2528	106
EU14 average	647	27

Seven of the EU15 do not charge excise on wine. Of the countries which do, only Sweden, Finland and the UK are at comparable levels to Ireland. The next highest country is Denmark which is only 31% of the Irish level.

The beer details are shown in Table 8.

Table 8: EU Alcohol Tax Rates (Excise) (Euro per HLPA), 2011, Beer

	Beer	Relative position, Ireland= 100
Austria	520	33
Belgium	428	27
Denmark	683	43
Finland	2600	165
France	271	17
Germany	197	13
Greece	650	41
Ireland	1571	100
Italy	588	37
Luxembourg	198	13
Netherlands	502	32

Portugal	349	22
Spain	199	13
Sweden	1801	115
UK	2140	136
EU14 average	795	51

Ireland's beer excise is lower than the three countries of UK, Finland and Sweden but is much higher than all the other countries. After Ireland the next highest country is Denmark which is only 43% of the Irish level. The average EU14 beer excise is only 51% of the Irish level.

Comparisons with Selected Economies

In this section Ireland is compared with several illustrative EU economies to highlight the differences in alcohol excise. We have chosen countries on the basis of tourism patterns, countries which supply large numbers of tourists and countries which attract large numbers of Irish tourists.

The latter affects out of state sourcing and tourism competitiveness is important in the former group. The countries selected are, France, Spain, Germany and the UK.

Ireland and France (France = 100), Excise

	Ireland	France
Spirits	206	100
Wine	7450.0	100
Beer	580	100

Ireland is far out of line with Frances excise taxes. The spirits excise is twice the

French level. The Irish wine excise is seventy times the French level. The beer excise is almost 6 times the French level.

Ireland and Germany (Germany = 100), Excise

	Ireland	Germany
Spirits	239	100
Wine	n/a (no German wine excise)	n/a
Beer	797	100

Ireland's excise is substantially higher than the levels in Germany. The Irish spirits excise is over twice the German level. Germany has no excise on wine. The Irish beer excise is almost eight times the German level.

Ireland and Spain (Spain = 100), Excise

	Ireland	Spain
Spirits	375	100
Wine	Spain has no wine excise	n/a
Beer	789	100

The Irish excise tax is very much higher than the levels in Spain. Ireland's spirits

excise is almost four times the Spanish level level. There is no excise on wine in Spain. The Irish beer level is almost eight times the Spanish level.

Ireland and the UK (UK = 100), Excise

	Ireland	UK
Spirits	106	100
Wine	94	100
Beer	73	100
Cider	159	100

The Irish spirits excise is 6% above the UK. Wine excise is 6% below the UK. Irish beer excise is 27% below the UK level. The 20% reduction has eliminated most of the excise disadvantage which had existed relative to the UK. This has greatly reduced the level of cross border sourcing of alcohol. Cider excise is still much higher in Ireland than in the UK.

Impact on Price

The impact of excise on price of alcohol is outlined below.

Table 9: Tax Impact on Price of Alcohol: Two Products 2011

	Stout (Pint) on licence	Whiskey (Bottle) off licence
Price (€)	3.95	21.95
Excise (€)	.37	8.72
VAT (€)	.69	3.81
Total Tax (€)	1.06	12.53
Tax as % of Price	26.8	57.1

Source: CSO and DIGI

The exchequer receives €1.06 from every pint of stout or 27% of the price and a large €12.53 or 57% from an off-licence bottle of whiskey.

The Irish/EU excise gap is very wide as has been shown in the report. Application of the German beer excise rate would reduce excise on a pint to 5 cent instead of 37 cent, reducing the price by 8% excluding the VAT impact. Application of the French spirits excise rate to Ireland on a bottle of whiskey would reduce excise to €4.24 from €8.72 giving a price a reduction of 9% excluding the VAT impact. The high level of Irish alcohol excise has a substantial effect on price relative to lower excise EU countries.

Summary

The analysis shows that Ireland has very high alcohol excise rates even after the 20% reduction in the December 2009 budget.

On the “league table” basis Ireland has the third highest spirits and wine excise rates and the fourth highest beer rate in the EU. On the composite indicator Ireland has the fourth highest alcohol excise.

More importantly, the quantitative gap between Ireland and other EU economies on excise is substantial. Fifteen EU economies have no excise on wine. The Irish beer excise is almost eight times the level of Germany’s. Ireland’s spirits tax is almost four times that of Italy. On the composite alcohol excise Ireland is over twice the average level of the 14 pre accession countries. Cider excise in Ireland is the second highest in the EU and is 59% above the UK level.

Apart from the excise levels in Sweden, Finland and the UK, Ireland is far out of line with EU alcohol excise levels. The Irish VAT rate is higher than fifteen of the 27 EU members. The relatively high VAT and high excise rates directly contribute to Ireland’s high alcohol prices.

For example applying the German excise rate to beer would reduce the Irish price by 8%. Ireland, along with Sweden, Finland and the UK are high alcohol excise countries by EU standards.

The size of the excise gap is substantial relative to most EU countries. Ireland continues to be a high alcohol tax economy in 2011 compared to the large majority of EU member states.