

Above-inflation increase to excise tax troubles SA alcohol industry

The South African alcohol industry says it's gravely concerned that [excise tax](#) will be increased by 8%, which will exceed the targeted excise duties for wine, beer and spirits set by Treasury itself, at 11, 23 and 36% respectively.



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The Beer Association of South Africa (Basa) – comprising the Craft Brewers Association, Heineken South Africa and South African Breweries – calls the announcement by Finance Minister Tito Mboweni "a kick in the teeth for everybody in the beer value chain, and especially small craft brewers whose businesses have been shattered by 19 weeks of restricted trade".

"Minister Mboweni's announcement to increase excise taxes by 8% for the forthcoming financial year will be truly detrimental to our efforts to save jobs and livelihoods within the beer industry. This outrageous increase, set at 3.8% above inflation, will destroy the few businesses left standing. It is absolutely abhorrent that a government can choose to shut down an entire industry, repeatedly, with no prior communication to businesses within the sector and with no relief measures in place to soften the blow to jobs and livelihoods," says Basa.

Kurt Moore, CEO of the South African Liquor Brandowners Association (Salba), says, "With thousands of businesses across the value chain looking into the financial abyss due to the three sales bans over the past 12 months totalling R36bn in revenue losses, there is no contingency for tax increases forcing further drastic action to cut costs. We will see tens of thousands of job losses within the sector whose livelihoods cannot be sustained."

Salba made submissions to Treasury and SARS, reflecting its assessment of the economic situation currently facing the industry due to the bans of alcohol sales during the lockdowns. Treasury itself forecast a 28% decline in tax revenue contribution from alcohol excise tax, with a three-year loss of R35bn. This was due to a volume drop ranging from 21-24% for wine, spirits and beer categories.



Excise duties shoot up

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The alcohol industry says that a less than inflation adjustment for 2021 would have delivered a better and quicker recovery to pre-Covid-19 volume and tax contribution numbers – R46,8bn in 2019 versus R33,7bn projected in the Mid-term Statement, excluding the effect of the third ban where there were five additional weeks without sales.

Moore adds, “Tax adjustments needed to take into consideration a significant increase in the size and efficiency of the illicit market that has grown during the sales bans, and we note the SARS Commissioner’s acknowledgement of the challenges posed by these syndicates in worsening tax leakages. The 8% tax increase on legal alcohol gives an opportunity for further growth in illicit trade competitiveness as more consumers are less able to afford legal, tax-paying alcohol products.”

The alcohol industry highlighted in a press statement that it pays SARS an average of R2.5bn per month in excise tax contributions and contributes R172bn or 3% of GDP to the South African economy. The three alcohol bans led to R36.3bn in lost revenue and a loss to GDP of more than R51.9bn – 1.0% of the total GDP measured at market prices.

“We therefore implore the government not to impose any future alcohol bans as they will cause contributions to plummet further, creating catastrophic damage not only to the fiscus but the country’s socio-economic situation and the long-term survival of the industry,” adds Moore.

Call for policy certainty and financial dispensation

Vinpro MD Rico Basson comments, “We are extremely disappointed that government has once again not heeded the call of our industry. We have emphasised the plight of the South African wine industry in discussions with Treasury over the past few months and requested that excise duty be raised by no more than 50% of the consumer price index (CPI). The above-inflation excise tax increase follows on the back of a 16% wage and 15% electricity increase that will have to be absorbed at farm level.”

“In light of the serious financial position in which our industry finds itself, we now need stability, policy certainty and financial dispensation. The higher than expected excise increases detract from this and could inflict a final blow to many businesses that are already on their knees, which will, in turn, contribute to the already large number of job losses and exacerbate the socio-economic challenges in these communities,” added Basson.



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Basa says that the above-inflation increase in excise taxes places further strain on an industry "stretched to its limit" and places over 200,000 jobs in the beer sector at risk.

Basa states, "We now call on Minister of Trade, Industry and Competition, Ebrahim Patel to intervene immediately and tell

us what he is going to do to save an industry that has been all but destroyed by government bans.

"While Basa remains committed to working openly and transparently with government, we cannot continue to keep businesses alive as an industry association alone. National government needs to come to the table, and fast, if we are to prevent any further job losses and business closures within the sector."

"The increase in excise taxes and its impact on livelihoods will only be further compounded by surges in the illicit trade of alcohol and the impact this will have on our economy. The illicit trade not only poses an immediate threat to the health of our communities as it is unregulated, but it also translates directly into a loss in excise taxes for the fiscus. An increase in the price of alcohol will not deter binge drinkers, those who abuse alcohol will simply turn to the illicit market for cheaper alcohol," Basa concludes.

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