To alter the sales tax treatment of certain alcoholic and non-alcoholic beverages; to restore an exemption from sales tax for film stock used in making commercial films; and to prevent sales tax avoidance by export and re-import of goods.

Background

An excise is a tax on domestic production of a good and is quoted at a rate per quantity of the good produced. A customs duty is a tax applied to imports of the good and is usually levied on an ad valorem basis. Sales taxes are levied on the value of the goods when they are sold by a wholesaler to the retailer, that is, at a later point in the production and distribution chain than excises or customs duties. The goods then have a higher value added, so that a sales tax of a given percentage would have the same effect on final price and revenue yield as a customs or excise duty of a higher rate.

Beer produced in Australia with an alcohol content greater than 1.15 per cent is subject to excise. Australian beers are not subject to sales tax, but brewed soft drinks are subject to sales tax at a rate of 20 per cent. Very low alcohol beers (1.15 per cent or less in alcohol content) are exempt from both excise and sales tax. The Bill would apply a sales tax to these beers at 20 per cent. A sales tax of 20 per cent already applies to imported very low alcohol beers.
The sales tax legislation specifies goods which are taxable at 7.5 per cent and 32.5 per cent, and goods which are exempt. Other goods, not mentioned in the sales tax legislation, are taxable at the "general rate" of 20 per cent. The Bill introduces a fourth rate of 10 per cent, and adds a Sixth Schedule to the Principal Act classifying those goods which are to be subject to the new rate. The sales tax is imposed on wines and other fermented alcoholic beverages, but excluding spirits, beer and very low alcohol beverages.

Wine produced in Australia is now exempt from sales tax. The wine industry and the wine grapes growing industry have been considered together in several investigations and reports, including the Report of the Senate Standing Committee on Trade and Commerce in 1977[1] and the Industries Assistance Commission Report in 1979.[2]

The Senate Report in 1977 recognized there is a need to have regard to the efficiency of taxation on alcoholic beverages, and to balance social and revenue-raising considerations. However, it considered the wine and grape industries "delicately placed" at that time, particularly in view of the contemporaneous repeal of section 31A of the Income Tax Assessment Act 1936. This section had permitted winemakers the option of valuing wine stocks for taxation purposes at constant nominal values rather than cost or market value.[3]

The Industries Assistance Commission (IAC) Report in 1979, examined customs duties and sales taxes from which locally produced wines were exempt, providing a protective margin for local producers in respect of 1977-78 clearances of between 30 per cent and 75 per cent according to category of wine. The average margin was about 40 per cent. The IAC proposed a reduction over several years to a tariff assistance level of 25 per cent, to apply across all wine partly for greater consistency of treatment between wine and other beverages.[4]

The Bill makes two other changes. Item 116 of the First Schedule is redrafted to exempt from sales tax goods which are imported but which were produced in Australia, have not been altered while out of Australia, and which were either exempt from tax (sub-item (1)) or, if the goods were liable to sales tax, that tax has been paid, and was not refunded as, for example, on export (sub-item (2)). The item is designed to prevent certain tax avoidance practices involving the export from and later import of goods to Australia. The change was announced on 6 May 1984.[5]
Secondly, the Bill exempts from sales tax as "aids to manufacture" cinematographic film other than film to be used as an exhibition copy. Even when there is no chemical difference between film stock used to make a film and film stock used to make exhibition copies from the master print, the former falls within the category of an "aid to manufacture" of the copies finally sold. Film stock usage in film making is increased by the practice of shooting a number of takes of each scene.

Main Provisions

The Sales Tax (Exemptions and Classifications) Act 1935 specifies in Schedules goods which are exempt from tax (the First Schedule) and those taxable at rates of 7.5 per cent, 20 per cent and 32.5 per cent. All goods not falling within a Schedule are taxable at the general rate of 20 per cent.

The Bill amends several Schedules and adds a new Sixth Schedule for goods taxable at 10 per cent, with associated introductory provisions.

Very low alcohol beer and cider (content of 1.15 per cent or less) is no longer exempt following redrafting of item 36 to the First Schedule. Conversely, very low alcohol wine and similar beverages, and wine for use in church services, are exempted (subclause 4(2)).

Wines of alcohol content over 1.15 per cent are specified in the new Sixth Schedule (sub-clause 4(3)).

Both these subclauses are to be deemed to have commenced at 8pm on 21 August 1984 (Budget night). Clause 3 makes provision for the definition of beer and for the measurement of alcohol content.

Sub-clause 4(1) introduces amended exemption provisions in the First Schedule to the Act for goods exported and then imported or re-imported into Australia. It is to be deemed to have commenced on 8 May 1984.

Sub-clause 4(4) introduces exemption for film stock used as an aid in manufacture of motion picture films.

Sub-clause 5(2) makes particular transitional provision in respect of sales tax treatment accorded alcoholic beverages. For such goods sold by retail after the time of commencement but purchased or imported as exempt goods prior to commencement, a special exemption is granted except in one case where a sales tax exemption certificate
should have been quoted, was not, and the retail sales value exceeds the fair market value which would have been assessed had the changes not occurred.

For further information, if required, contact:

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Economics and Commerce Group
LEGISLATIVE RESEARCH SERVICE

References


4. IAC Report, pp.31-36.