Publication: Farmer's Weekly
Page: 13
Title: Proposed changes to tax on alcoholic beverages will harm the industry
Publish Date: 03 January 2025
AVE: 21550
Author: Theo Boshoff

Proposed changes to tax on alcoholic beverages will harm the industry

POLICY PERSPECTIVE by **Theo Boshoff**

National Treasury recently published a paper proposing changes to the excise policy on alcoholic beverages. At present, customs and excise on alcohol is levied at a percentage point based on the estimated retail price. For years, the rate has outstripped inflation. In the latest discussion paper, National Treasury proposes a different methodology that taxes categories of beverages according to their alcohol content, thereby distinguishing between wine with less than 0,5% alcohol, 0,5% to 4,5%, and 4,5% to 9% and 9% to 16,5%.

The proposal is to allocate the current excise rate to the second category, with 4,5% to 9% paying 1,4 times the current rate and 9% to 16,5% 1,8 times the current rate. The current rate could then apply to fermented beverages with a lower alcohol content but most premium, South African wines will be in the higher of the two brackets and this implies a potential increase in taxes of between 40% and 80%.

The logic, according to the policy proposals, is to promote public health by increasing the cost of beverages with a higher alcohol content. Astoundingly, the proposals fail to fully consider the implications that this could have on the sector, with the wine industry alone contributing R56 billion to the economy and providing an income to 270 000 people across the wine value chain, according to South Africa Wine.

The apple and pear industry, which delivers concentrate for the cider market, employs 68 000 workers at the primary level and another 6 000 at the secondary level in packing, cold storage and processing of fruit.

What will the impact be on producers, co-operatives and wine tourism? Will the taxes actually lead to lower rates of alcohol abuse or will the illicit market simply take over? Will the income be ring-fenced to support the fight against alcohol abuse? How will this affect investments and job creation targets set out in official government policies such as the National Development Plan and the Agricultural and Agro-processing Master Plan?

To answer these questions, you need to conduct thorough consultation and multi-disciplinary research.

Unfortunately, National Treasury does not have a great track record when it comes to consultation on tax laws. To quote a former minister who will remain unnamed, consulting on tax law is akin to "consulting turkeys about Christmas".

Ignoring the socio-economic impacts of tax law can have devastating consequences. Just take the sugar industry as an example. In 2018, the Health Promotion Levy (HPL), commonly known as the sugar tax, was introduced as a levy on sugar-sweetened beverages. The levy was brought in to reduce excessive sugar intake and combat obesity.

WARNINGS IGNORED

From the outset, the industry warned about the potential impact it could have on the sector but regulators chose to ignore warnings from business and push on based on research conducted in other countries.

In the past six years since its introduction, it is unclear whether the HPL has had any impact on lowering obesity, but the impact on industry is clear to see.

According to SA Canegrowers, the industry's volumes declined from 551 727t in 2016/17 (pre-HPL) down to 298 524t in 2021/22. The decline constitutes 250 000t, or roughly one-third of pre-HLP production.

In the process, two sugar mills closed and roughly 10 000 jobs have been lost. International literature may suggest that these jobs lost can simply be taken up elsewhere but that is far from the truth in rural South Africa. For several areas, agriculture is the only economic opportunity and diversifying into other agricultural commodities is not as simple as it sounds. Even where it is possible, few, if any alternatives have the same impact on job creation.

THE WINE INDUSTRY ALONE CONTRIBUTES R56 BILLION TO THE ECONOMY AND GIVES JOBS TO 270 000 PEOPLE

The best potential is of course for the industry to pivot towards biofuel production but this comes with significant risks. As the SA Canegrowers will tell you, legislative interventions are needed to secure a market and buffer against the volatility inherent in the global oil price. Until that time, the sugar industry is deadlocked in a stalemate where investments are curtailed by state policy decisions. The new customs and excise proposals risk pushing the wine sector into the same conundrum.

They say nothing in life is certain except for death and taxes. This might be true, but where new taxes pose socio-economic questions of this magnitude, then we have the obligation to exercise our democratic right and have our voices heard. The comment period has fortunately been extended to 14 February 2025 and I would urge all interested parties to raise their objection.

Theo Boshoff is the CEO of Agbiz, but writes in his personal capacity. Email him at theo@agbiz.co.za.