

Tax Working Group Public Submissions Information Release

Release Document

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From: David Sax [1]
Sent: Wednesday, 3 October 2018 10:11 AM
To: TWG Submissions
Subject: Feedback from Fruit Wine & Cider Makers Association of New Zealand
Attachments: Tax Working Group Feedback - Fruit Wine & Cidermakers - October 2018.pdf

Please find attached feedback from the Fruit Wine & Cider Makers Association of New Zealand.

We request that the Tax Working Group also considers the anomalies in excise currently applying to Cider. The existing break point at 6% ABV significantly impacts on a product that naturally ferments to a range of 5.5-7.5% ABV.

Many thanks.

Best regards,

David Sax
Chairman
FWCMA

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Tax Working Group Feedback – October 2018
A submission from The Fruit Wine & Cider Makers Association of New Zealand

I write on behalf of the Fruit Wine & Cider Makers Association of New Zealand. The Association represents all producers

I have been asked by some of our craft producers to open up a dialogue on the duty rates for cider, and how these might be amended. We have since contacted the Treasury and have been advised to make a submission to the Tax Working Group.

I note that Chapter 10 (Corrective Taxes) covers some of the anomalies seen in alcohol taxation. The chapter however does not include the cider and fruit wine situation – which is also very complex.

The rates of excise duty are made up as follows.

Excise item number	Goods	Unit	Rates of duty
99.30	Other fermented beverages (for example, cider, perry, mead, saké) which, if imported, would be classified within Tariff item 2206.00.08, 2206.00.17, 2206.00.28, 2206.00.37, 2206.00.47, 2206.00.57, 2206.00.68, 2206.00.78, or 2206.00.89:		
● 99.30.21D	– Containing more than 1.15 % vol., but not more than 2.5 % vol.	per l	44.140¢
● 99.30.26E	– Containing more than 2.5 % vol., but not more than 6 % vol.	per l al	\$29.432
● 99.30.32K	– Containing more than 6 % vol., but not more than 9 % vol.	per l	\$2.3545
● 99.30.47H	– Containing more than 9 % vol., but not more than 14 % vol.	per l	\$2.9432
● 99.30.59A	– Containing more than 14 % vol., but not more than 23 % vol.	per l al	\$53.605
● 99.30.62A	– Containing more than 23 % vol.	per l al	\$53.605

Up to 6% ABV the excise is based on actual alcohol in the cider.

Above 6% ABV the excise dramatically increases to a flat rate of \$2.3545 per litre.

The issue we have with cider is that apple juice will naturally ferment to an ABV of between 5.5% and 7.5%.

Therefore craft producers striving to produce a high quality cider face a conundrum.

At 5.9% ABV they pay an excise duty of \$1.74 per litre. But at 6.1% ABV they pay an excise duty of \$2.35 per litre. An increase of 61 cents per litre.

Most craft producers are therefore choosing to add water to their product, to ensure a finished ABV below 6.0% ABV. Whilst this is permissible, it is far from ideal for these producers aiming for the best possible end product.

The Association is seeking for an amendment in Excise item number 99.30.32K to replicate 99.30.26E (in other words excise duty to be charged at \$29.432 per litre of alcohol through the range 2.5% to 9% vol.).

This change would greatly aid in maximising the quality of craft cider in New Zealand.

In terms of government revenue, I see no implication across the cider/fruit wine industry.

Of note:

- The majority of craft producers are currently avoiding the higher duty rate via dilution. The change would actually see an increase in duty revenue from these producers, as craft producers will choose to leave their product undiluted to maximise quality. In my example above the 6.1% cider would pay just 6 cents more than the 5.9% cider. Not 61 cents extra.
- The commercial producers currently avoid the 6% to 8% range of ABVs. A “no man’s land” as the excise duty is constant. There are a number of Scrumpy style ciders that sit between 8% and 8.3% ABV. These currently attract a duty rate of \$2.3545 per litre. Under the proposed change they would attract duty at the rates of \$2.3546 and \$2.4429. So again, revenue to the government is likely to increase slightly through this change.
- It is worth noting that producers are either targeting below 6% ABV or above 8% ABV specifically because of how the existing duty rates are defined. With a change to 99.30.32K we may well see producers of high ABV ciders reduce their alcohol levels – which can only be good for supporting sensible/moderate drinking amongst consumers.
- It is interesting that beer has no upper limit. Above 2.5% ABV it attracts excise at exactly the same rate as <6% cider (\$29.432 per litre of alcohol). This supports the concept that cider and fruit/cider blends should match beer excise methodology - through to 9%, at which point they should rightly attract a wine rate, as existing (99.30.47H).

In conclusion, I kindly ask that the Tax Working Group also considers cider producers in its recommendations.

New Zealand’s cider producers would commend a simplification that taxed on a *per litre of alcohol* basis, through to 9% ABV.

David Sax
Chairman
Fruit Wine & Cider Makers Association