Memorandum for Cabinet by the Hon. Minister of Finance Customs and Port on the subject of Excise Duty on Wine

The Finance point of view on the proposals made on this subject by the Hon. Minister of Trade, Industry and Agriculture is that it has to be admitted that the imposition of the excise dutyon wine has proved a failure. It has allegedly affected adversely the industry and has just about only realized fifty per cent of the estimated revenue yield. On these grounds alone a case would exist for removing the duty altogether the more so when it is kept in mind that the excise duty in question was meant merely as a fiscal measure for the purpose of raising additional revenue.

Other considerations apart, a loss to revenue however slight cannot of course be viewed with equanimity by Finance. In this regard the proposals put forward by the M.T.I.A. in a memorandum to Cabinet dated 29th March, 1967 would be worthy of study in that they produce the same amount of revenue originally catered for.

One consideration which cannot be overlooked, however, is that the proposals put forward by the M.T.I.A. would limit the sales of bulk wine to licensed wine-shops for retailing by them solely to customers consuming the wine on the premises. This would mean that the sale of wine in bulk would be largely prohibited and this would run counter to the original concept of excluding the lower income-groups from taxation.

On the other hand, however, it is difficult to justify the exemption of wine from any tax when imported spirits, local beer and soft drinks are taxed, and now that Government has introduced the concept of taxation on wine there would seem to be no reason why it should go back on it. This is the view held by the Tax Policy Adviser who has produced a very comprehensive report on the subject of wine taxation and what is for consideration is not the removing of the present excise duty but rather to change it so that it will become an effective tax. This can be done by introducing a turnover tax which is suggested at 15% on the wholesale price (10% in the case of vintner-retailers). As the tax would be based on the selling price, it would fall lightest on the cheap wine and heaviest on the dearest type of wine. The cheapest wine sells at 8d a bottle so that the tax would begin at less than 1¼d a bottle which would be slightly less than the total tax on a bottle of lemonade or cola and a great deal less than that on local beer and on spirits and could not be considered a heavy burden even on the poorest consumers. The tax would fall evenly on the different sections of the wine industry and as it would materially be less on the cheapest and more on the dearest type of wine it would also be socially defensible.

Cabinet may wish to consider the matter in this light, as for obvious reasons it would be better if the tax were not entirely removed.

The proposed alternative of a turnover tax is considered preferable to the proposals put forward by the M.T.I.A. broadly because:

(a) it would be difficult to administer prohibition of bulk sales on a partial basis and ensure that the supplies exempted reached only those for whom they were intended;

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(b) total prohibition of bulk sales is not feasible or desirable. It would have an adverse effect on the small vintners and for commercial and touristic reasons the supply of wine to bulk users such as hotels, restaurants, bars and religious and other communities should be allowed to be made in containers larger than bottles;

(c) a graduated tax would provide incentives for keeping the price of wine at the lowest mark and this would reduce the quality of the wine contrary to the interests of the industry.

An extract from the Second Interim Report by the Tax Policy Adviser bearing on this subject is attached.

24th April, 1967.

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Extract from the Second Interim Report
by the Tax Policy Adviser

The advantages of a turnover tax are as follows:-

(a) since all wine would be taxed there would be no interference with trading practices. Traders would be free to sell in whatever containers produced the best results for them in terms of profits and convenience;

(b) because of the small number of taxpayers involved, administration would be relatively inexpensive;

(c) the effect of taxing sales would be that the tax would be payable at the time the money was actually coming in (from sales) with which to pay it;

(d) because it is based on the selling price of wine the tax falls lightest on the cheap wine and heaviest on the dearest type of wine. The cheapest wines sell at 8d a bottle so that the tax would begin at less than 1½d per bottle;

(e) the need for crown cork or banderole sealing would disappear with consequent administrative savings both to the industry and the Customs and Excise (including the cost of printing banderoles) and the possibility of improving the appearance of Malta bottled wine;

(f) for reasons given elsewhere Malta will probably in future have to turn more from external taxation (i.e. taxes on imports) to internal taxes such as turnover tax. A start with such a tax on wine would not only build a groundwork for the future in this sector of the economy but provide useful experience of the operation of this kind of tax;

(g) turnover tax at the source, involving no banderoles, would have the advantage, to which the Federal German tax authorities attach so much importance of unmerklichkeit i.e. there would be no outward indication that tax had been paid to remind those having strong objections to such taxation;

(h) the change in basis would materially reduce the tax on the cheapest wine and increase it on the dearest so that it would be more defensible in social terms and make it easier to gain acceptance of the principle that some taxation of a non-essential, though customary beverage was justifiable on its relativities with other non-food beverages;

(i) The change proposed is materially different from anything proposed by the Opposition on the introduction of the tax and fulfils the promise that the tax's impact would be studied and any necessary changes made so that there is in no sense any mind of Parliamentary retreat involved in making the change;

(j) administration of a turnover tax (preferably by the Customs and Excise Department who would probably operate the system of "invoices" they use in the connection with control of trade in spirits) would have beneficial cross-effects on income tax enforcement by the Inland Revenue Department who are also interested in the accuracy of traders' turnover figures.

Ministry of Trade, Industry
and Agriculture,
Cavalier House,
Old Mint Street
Valletta.

Confidential

Hon. Minister of Finance, Customs and Port

We have studied the turnover tax which your Ministry is proposing as an alternative to the proposals put forward by this Ministry for a revision of the excise duty on the sale of bottled wine. Conceptually we endorse the idea. This is of course the type of tax that has to be introduced as the replacement of imported products by local products gathers momentum. The system should, however, be introduced indiscriminately and not in respect of a specific instance, and particularly for such a highly sensitive item as wine.

When the excise duty of 3d on bottled wines was introduced, vintners made very strong representations to this Ministry as they alleged that this duty was going to disrupt their industry to such an extent that they were considering reducing their production with a consequential reduction of personnel. At the time of the 1966 vintage they informed this Ministry that unless an assurance was given to them that Government would be considering favourably their recommendations for a revision of the tax and for the prohibition of the sale of wine in bulk, they were not prepared to purchase from the farmers all their produce. A number of meetings were held by the Minister with these producers and on being given an assurance that Government was actively considering their request and that action was being taken to amend the tax, they agreed to take over the grapes from the farmers. Government cannot now go back on this assurance.

The proposals made by this Ministry were meant to limit the sale of bulk wine and to restore the sales pattern to the position existing immediately before the introduction of the 3d excise duty. As rightly put by the Secretary to your Ministry, the turnover tax would not achieve this end and cannot, therefore, from an industry point of view have the support of this Ministry.

The proposed turnover tax would, in fact defeat the very purpose of our recommendation, as it will not only not reduce, or limit in any way the sale of wine in bulk but it might even encourage it further. Obviously the retail price of wine in bulk would be lower than that of the same grade of locally bottled wine even though it will carry a tax at the rate of 1¼d per bottle. The retail price difference as between bulk and bottled wine of the cheapest class already ranged between 2d and 3d per bottle before the current tax was introduced.

The turnover tax would perpetuate the situation existing at present in so far as the production of bottled wine is concerned and this will lead to the closing down of one or more of the more progressive wine producers with a consequential discharge of personnel. It would also affect the cultivation of grapes to the detriment of the farming community.

In view of these considerations this Ministry cannot but strongly insist on the revision of the excise duty tax as already proposed.

(A. Wirth)
Secretary

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