

WATCHDOG

Muddle-headed alcohol tax is due for a long overdue overhaul

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Thailand should consider overhauling its tax regime on alcoholic beverages, especially in view of freer trade within Asean countries and with major trading blocs such as European Union.

At present, Thailand does not tax alcoholic beverages according to their alcohol content, so different products are subject to different tax rates.

A study by Dr Pongsak Hoontrakul and Dr Banchorn Songsamphun shows that Thais consumed a total of 260 million litres of pure alcohol in 2010. The products were mostly beer (fermented alcohol) and white spirits as well as whiskies (distilled alcohol), accounting for about 75 per cent of the total consumption.

According to 2009 tax figures, the brewing industry paid a total of Bt58.7 billion in taxes, accounting for 62 per cent of total tax collection on alcoholic beverages. However, tax revenues on white spirits and whiskies were only Bt16.1 billion (17 per cent) and Bt2.6 billion (3 per cent), respectively.

This shows that the tax system is biased in favour of heavy drinkers, since distilled alcoholic beverages are subject to lower tax rates when compared to fermented products, especially beer. In other words, the current tax regime promotes consumption of beverages with high alcohol content, especially white spirits and whiskies, which have long been widely popular among the rural poor.

While the amount of tax revenue on these beverages is huge, the cost of public healthcare for heavy drinkers is not small either. As a result, the tax regime should be overhauled to tax these beverages based on their alcohol content. In other words, higher alcohol content must be subject to higher taxes. This will help slow the growth rate of pure alcohol consumption in this country, thus lowering the longer-term expenditure on public healthcare.

In addition, the government is expected to benefit from more tax collection if these products are taxed according to alcohol content. For example, the white spirit tax is currently Bt157 per litre for 28-40 degree products, compared to Bt630 for beer, whose alcohol content is lower.

The tax overhaul is also necessary due to the liberalisation of trade and investment. The Asean Free Trade Area (Afta) is a good example of conditions under which imported products via other Asean member countries can be sold relatively cheaply in Thailand's domestic market.

Scotch whiskies, for instance, are imported into the Philippines, an Asean member, and then repackaged for other markets in the regional grouping, such as Thailand. Once the products are regarded as Asean products coming from the Philippines, they are subject to zero duty when imported into Thailand, making lower-end whiskies with high alcohol content available at a very low price to Thai consumers.

Another similar business strategy is to set up a large-scale brewery in Laos, for example, then export the products into Thailand to benefit from zero import duty, as Laos is also a member of Asean.

As a result, the government should modernise the tax regime on alcoholic beverages in preparation for freer trade with other countries by taxing these products properly. Previously, it was argued that such a change would hurt low-income earners who are among the major consumers of white spirits with high alcohol content. Now, such an argument is not valid, as beer consumption has also been rising rapidly among lower-income groups due to its relatively low price.

If alcoholic drinks cannot be banned, it's better to use the tax rates and pricing of products to discourage people from consuming products with high alcohol content, which undoubtedly damages their health.



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