national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA RELEASE
PROPOSAL TO PROVIDE EXCISE RELIEF FOR BRANDY AS ANNOUNCED IN BUDGET 2015: REQUEST FOR PUBLIC COMMENT

Following a review of the Taxation of Alcoholic Beverages in 2014 and an announcement in Budget 2015, the National Treasury is considering to provide excise duty relief for brandy.

In May 2014, National Treasury published "*A Review of the Taxation of Alcoholic Beverages in South Africa"* discussion paper for public comment and held various stakeholder consultations culminating in a workshop held in September 2014.

Historical excise duty rebate

Historically, brandy under tariff subheading 22.08 received preferential excise duty treatment in the form of an excise duty rebate. The abolishment of the excise duty rebates in 2006[1] terminated the differential approach to setting excise duties for spirits.

Regulatory requirements for brandy production

The Liquor Products Act (LPA) administered by the Department of Agriculture, Forestry and Fisheries (DAFF) stipulates the requirements for the manufacturing of all liquor products. Brandy is subject to stringent requirements in terms of raw material used, distillation process (pot-still component distilled in smaller copper stills) and maturation (use of smaller oak casks and minimum maturation period).

It has been argued that these stringent regulatory requirements for brandy production put it in a competitive disadvantage compared to other spirits. It takes approximately 5 litres of wine to produce 1 litre of brandy. It follows that the backward linkages with the wine sector is quite significant.

Arguments for a differentiated excise regime for brandy

In the absence of similarly stringent regulatory requirements for other spirits products, it is argued that brandy is currently at a regulatory and cost disadvantage compared to other spirits such as whiskey, gin and vodka. During the past decade brandy sales volumes, due to various reasons, have declined significantly, resulting in a reduced demand for distilling and rebate wine.

Demand side dynamics, marketing and changing consumer preference contributed to the decline in the brandy market. The proposed excise duty relief for brandy aims to level the

[1] The relative values of the excise duty rebates were eroded over time as they were not periodically adjusted for inflation, and finally abolished in 2006.

playing field within the broader spirits category in terms of regulatory burden and intrinsic cost of production that prevails.

It is proposed that a 10 per cent lower excise duty rate (based on litre of absolute alcohol) be introduced for brandy, to be phased in over the next two years.

Comments on the merits and potential unintended consequences of this proposal are hereby requested.

Comment period

Written comments should be submitted to Riaan Labuschagne, email: Riaan.Labuschagne@treasury.gov.za, by the close of business on 15 January 2016.

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