

Alcohol industry welcomes inflationary hike on excise duties

South African associations representing the alcoholic beverages industry have welcomed the [inflation-linked excise tax increases](#), following years of above-inflation hikes.



Source: [Pexels](#)

Finance Minister Enoch Godongwana announced during the Budget Speech that excise duties on alcohol increased in line with expected inflation of 4.9%, with the rate for sparkling wine pegged at 3.2 times that of natural unfortified wine.

The Beer Association of South Africa (Basa) said the inflationary hike reflects that National Treasury has indeed recognised the increased pressures faced by businesses. It added that the beer industry (particularly the craft sector) is still trying to recover from the Covid-19 national lockdown and associated four alcohol bans, while at the same time trying to survive the devastating impact of severe load shedding.

"Any increase in excise thus places enormous pressure on an industry that is a major contributor to the South African economy, with 1 in every 66 jobs in the country sustained by the sector. Furthermore, R1 for every R79 of the country's GDP is attributable to beer-related economic activity, which means the beer industry makes up roughly 1.3% of the country's GDP," Basa said.



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The South African Liquor Brandowners Association (Salba) also welcomed the news, and noted that the increase will enable the alcohol industry to live up to its potential to contribute to economic growth. Salba chairperson Pamela Nkuna said, "Salba made submissions to Treasury and Sars, proposing a moderate excise tax adjustment that was not higher than inflation, and we welcome the minister's decision."

Salba said the alcohol industry is a significant contributor to the fiscus through the number of people it employs who pay tax to the proceeds paid to the government from excise taxes. The industry also enables an estimated 100,000 licensed independent SMME alcohol traders to continue trading, earning a livelihood and providing much-needed jobs, it said.

Nkuna added that the sector was committed to playing a significant role in the nation's economic recovery. "We believe that private business – from corporate through to small to medium enterprises (SMEs) – has a vital role to play in alleviating poverty through job creation and encouraging business expansion. We are pleased that the minister's announcement on excise rates is in line with inflation. This will allow businesses to contribute at their full potential in terms of their ability to create jobs, encourage the growth of SMEs, attract foreign investment, and contribute to the fiscus."



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Levelling playing field with illicit trade

Salba CEO Kurt Moore said that the decision to increase excise on spirits in line with inflation will help to curb the rampant growth of illicit traders, who pay little or no excise, to profit at the cost of the legal sector.

"Continued above-inflationary excise increases over a number of years – particularly on spirits, which carries a high excise duty and is most prevalent in the illicit trade – have contributed to the situation where legal alcohol prices now exceeded those of illicit alternatives by 43% on average. The decision to increase excise in line with inflation recognises this and starts to level the playing field, disincentivising illicit traders by reducing their competitive advantage."

Illicit traders seized the opportunity created by high excise on the legal market to provide cash-strapped consumers with easy access to cheaper alternatives, almost doubling their market share in less than a decade. By volume, it currently represents 22% of the South African alcohol market.

In contrast, the legal alcohol industry value chain in 2019 supported almost a million livelihoods, contributed R173bn at market prices to GDP, including the payment of R72bn to the fiscus in indirect taxes alone.