Example 18.1
Taxation and Alcohol Sales in Ireland*

Between 1997 and 2004, real Irish per capita GDP increased from €24,579 to €35,936, i.e. an annual growth rate of just over 5.5%. The consumption of alcohol increased as GDP increased. Table E18.1a presents the quantities of alcohol consumed in Ireland for the period 1995 to 2004. In Ireland the Revenue Commissioners classify alcoholic drinks under four headings: Beer; Cider and Perry; Spirits; and Wine. Cider and Perry are beer-type products made from apples and pears, respectively.

Table E18.1a: Quantities of Beer, Cider & Perry, Spirits and Wine Consumed in Ireland, litres, 1995-2004

	Beer	Cider & Perry	Spirits	Wine
1995	496,200,000	37,866,187	5,777,690	23,048,896
1996	524,000,000	42,298,004	6,354,373	27,851,790
1997	542,300,000	48,326,662	6,679,238	30,228,578
1998	564,100,000	55,149,347	6,998,984	35,142,915
1999	573,400,000	64,457,638	7,995,524	40,101,911
2000	569,000,000	74,563,977	8,994,007	44,295,438
2001	571,200,000	82,663,164	9,311,875	49,793,254
2002	569,800,000	73,358,872	9,792,174	56,178,409
2003	555,700,000	74,169,162	7,826,467	60,713,826
2004	550,800,000	75,636,416	8,049,499	69,393,852

Notes
- *Spirits are given in terms of pure alcohol.*
- *The year 2001 was a 'short' fiscal year as there was a change in the fiscal year from 5 April to 4 April to make it coincide with the calendar year.*

Source: Revenue Commissioners' Annual Reports (Government Stationery Office; available to download at www.revenue.ie)

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The data in Table E18.1a suggest that Ireland is moving towards European consumption patterns, with the increase in wine consumption relative to other alcoholic products.

At the turn of the millennium it was believed that the increase in alcohol consumption was contributing to increases in social order offences. There was also a perception that there was an increase in the consumption of alcohol by under-18s. One policy response by the government was to increase the excise duties on specific products that it believed were favoured by those underage drinkers.

Prior to 2002, excise duty rates for Cider and Perry were approximately half those of Beer. In Budget 2002 the Minister for Finance increased the excise duty on Cider and Perry to bring it into line with Beer. The following year the Minister for Finance increased the excise duty on what was believed to be another favourite drink of younger drinkers – Alcopops. Alcopops are low-strength, spirit-based beverages that have a 'soft-drinks' quality to them and are sold in ready-to-drink bottle format. The increase in the excise duty on Alcopops brought them into line with the duty paid on full-strength spirits (rather than Beer). The excise duties on the relevant products in 2004 are provided in Table E18.1b.

Table E18.1b: Relative Taxation of Alcoholic Drinks in Ireland, 2004

	Alcoholic Strength %	Excise Per Litre
Beer	4.3	0.199
Cider	4.5	0.185
Low-strength Wine based beverages	5.5	0.165
Low-strength Spirit-based beverages	5.5	0.392
Wine	12.5	0.218
Spirits	40.0	0.392

Note: Some sparkling wines attract the 0.392 excise rate.
Source: Department of Finance: Tax Strategy Group 2004 Papers

Both increases in excise duties reduced the quantities consumed. In the case of Cider and Perry, the increase in the excise duty reduced the quantity consumed from 82,633,164 litres in 2001 to 73,358,872 litres in 2002. In the case of Alcopops, the increase reduced the quantity of spirits consumed from 9,792,174 litres in 2002 to 7,826,467 litres in 2003.

The increase in excise duties resulted in higher revenues overall. The Net Receipts on the alcoholic products are produced in Table E18.1c. While the doubling of the excise duty on Cider and Perry resulted in a reduction in quantity consumed, it did produce an increase in the Net Receipts collected by the Revenue Commissioners. Net Receipts on Cider and Perry increased from €36,118,748 in 2001 to €62,147,264 in 2002. It is more difficult to disentangle the implication of the increase in excise duty on Alcopops because the change gets included in the Spirits category (which includes Alcopops together with other Spirits not falling into the Alcopops category).

Table E18.1c: Net Receipts from the Excise Duty on Beer, Cider & Perry, Spirits, and Wine, 2001-2003 (€)

	Beer	Cider & Perry	Spirits	Wine
2001	435,645,313	36,118,748	220,918,042	120,882,567
2002	477,361,327	62,147,264	266,461,434	152,153,947
2003	455,390,018	60,387,040	305,025,639	167,822,409

Note: Totals are for both imported and domestically produced products.
Source: Revenue Commissioners' Annual Reports.

Taxes on products such as alcohol and cigarettes are referred to as sin taxes because they are meant to reduce the consumption of these 'sinful' products. As such, increases in sin taxes can pose a bit of a dilemma for governments. On the one hand, they would like the demand for the product to be highly elastic so that the tax-induced increase in price elicits a large reduction in quantity demanded. On the other hand, they are often strapped for cash, and they therefore generally want any increase in tax rate to bring in more revenue – but tax revenues increase only if the demand is inelastic, which limits the reduction of the sinful activity. The increase in tax revenues following the increase in the tax on Cider and Perry shows that the demand for Cider and Perry is inelastic, as one would expect the demand for most alcoholic beverages to be, because of the addiction factor associated with alcohol. Fortunately for the government, however, there was still enough elasticity to reduce the consumption of Cider and Perry by 11% – not an inconsequential amount. So in this case, the Irish government may well have achieved a reasonable compromise between the conflicting goals of reducing alcohol consumption of under-18s and raising revenues to finance government services.

A final issue with sin taxes is their incidence. Since demand for 'sinful' products is often quite inelastic, the majority of the burden of the sin tax falls on the consumers, which tends to make these taxes regressive. The Irish government would no doubt like to avoid placing an increased tax burden on the under-18s. On the other hand, behavioral economics (discussed in the Epilogue to the text) counters that people engage in 'sinful' activities because they suffer from an irrational lack of self-control, and that they will ultimately regret their decisions to drink or smoke. If so, then the government may be increasing the utility of those who are taxed by helping them to reduce or eliminate their consumption of the 'sinful' products – the tax helps to impose the missing self-contol on them. From this point of view, the consumers may gain overall from sin taxes. The taxes may not therefore be the burden that the traditional incidence analysis would suggest.