



National Off-Licence Association (NOFLA)

Submission to the Minister for Finance for Budget 2016

EXECUTIVE SUMMARY

The National Off-Licence Association, representing the Independent Off-Licence sector, presents the following submission for consideration in Budget 2016. Independent Off-Licences are located at the heart of communities all across Ireland, providing knowledge and expertise in the retail of quality artisan wine, beer and spirits. All NOffLA members are trained and examined in the responsible retail of alcohol to ensure best practice.

Independent Off-Licences make a significant social and economic contribution to Ireland Inc. They act as a vital component of local communities, whereby outlets tend to be locally operated SMEs, investing and employing locally and monitoring responsible drinking within their communities.

This contribution has been undermined in recent years due to the impact of the disproportionate **excise** duty increases on alcohol carried in Budget 2013 and Budget 2014. This is exacerbated by the unequal trading environment that Specialist Off-Licences are now operating in, whereby mixed traders absorb tax increases on popular lines (by as much as 68%) to lower alcohol prices as a footfall driver to encourage the sale of dearer household necessities. This has forced our responsible indigenous sectors who only sell alcohol on to the brink of commercial failure, placing local jobs and local businesses across Ireland at risk.

NOffLA therefore presents this pre-budget submission and calls on Government to begin to actively support the most responsible alcohol retailers of Ireland i.e. the Independent Off-Licence sector and introduce measures to stimulate jobs and growth, as opposed to unemployment and business closures. When surveyed in May 2015 85% of NOffLA members surveyed stated that the Government are not doing enough to support SMEs. We believe that the recommendations outlined in this document will protect the remaining 5,800 jobs in our sector (having lost 3,000 (34%) since 2008), which is perilously close to commercial failure as a result of the excise duty increases in Budget 2013 and Budget 2014. Furthermore, the measures will allow for job creation, an increase in capital expenditure, and an increase in average pay for NOffLA Members' employees.

These measures will, by extension, provide much needed security to the 92,000 jobs associated with the drinks industry.

NOFFLA CALLS ON THE MINISTER FOR FINANCE TO:

1. REVERSE THE BUDGET 2014 15% EXCISE DUTY INCREASE ON ALCOHOL

- Ireland's competitiveness on the European stage is being damaged. Our rates of excise are **624%** higher than the EU average for wine, **298%** for beer and **243%** for spirits.
- The Off licence sector directly support **5,800 jobs** nationwide having **shed 35% (3000) jobs**.
- **A reversal in excise will lead to increased job creation and SME investment with 70% of outlets taking on more staff** and 23% taking on more than one member if excise be reduced.
- 38% of retailers have been forced to reduce staff and a further 45% reduced salaries.
- Off-licences must raise and pay **€53,000 in excise duty +VAT** for the required stock to generate sales in order **to pay just 1 minimum-wage employee** an example of how excise is choking working capital and stalling expansion.

2. RESTORE PARITY TO WINE TAXATION IN RELATION TO DOMESTIC ALCOHOL

- Wine excise on a 75cl bottle of wine is on average 35% (€0.82) **higher than the equivalent cider and beer excise on a 75cl bottle**.
- Retailers and suppliers have to raise and pay **an extra €17,958 per 1,000 cases of wine in excise and VAT** due to increases in Budget 2013 and 2014, now totaling €47,035, up 61%.
- Import excise frequently payable at the point of entry or with 30 days credit and a lack of available finance puts severe pressure on working capital for SMEs ultimately costing jobs.

3. BAN BELOW INVOICE COST SELLING & SAVE €24M IN VAT RECLAIMS

- Banning the retailing of alcohol at below invoice cost price will ensure that retailers cannot reclaim 23% of the loss in their VAT return; **saving the State an average of €24 million** each year.
- The ban can be achieved through either a reintroduction of the Groceries Order on alcohol or via Ministerial regulation under Section 16 of the Intoxicating Liquor Act 2008 **at no cost to the Exchequer**.
- A ban on below invoice cost selling of alcohol would ensure **that alcohol is retailed in a responsible manner through the elimination of deep discounting**.

4. ESTABLISH TIGHTER CONTROL ON OUT-OF-STATE IMPORTS IN TERMS OF VAT AND EXCISE COLLECTION

- Many online retailers of alcohol located outside of Ireland are illegally selling and delivering alcohol directly to Irish consumers without paying the legally required excise and vat in Ireland.
- This tax evasion is generally achieved by the vendor labelling the shipment with non-alcoholic commodity codes such as foodstuffs, collectibles, or not for consumption items which would not attract duty or VAT in order to bypass customs.
- Adequate verification of these codes within Ireland is obviously not taking place.
- A Remote Off-Trade Licence should be created by the Department of Justice in the upcoming Sale of Alcohol Bill.
- Such a licence would ensure online retailers are fit for purpose; tax compliant; and meet the same licensing obligations as domestic retailers.

KEY FACTS ABOUT EXCISE DUTY

- 1. Independent specialist off-licences make a significant contribution to the economy in employment, taxation and rates.**

Contributions include:

- 5,800 jobs¹
- 1,834 businesses
- Independent Off-Licences tend to be locally owned and employ members of the local community. Much of the profits generated in larger mixed-trade outlets exit Ireland

- 2. Independent Off-Licences are subjected to disproportionately high rates of alcohol taxes in Ireland.**

- Compared to the EU average:
 - Excise on Wine is 624% higher
 - Excise on Beer is 298% higher
 - Excise on Spirits is 243% higher
- By an EU Comparison, Ireland has:
 - The highest wine excise in the EU
 - The second highest cider excise in the EU
 - The third highest beer excise in the EU
 - The third highest spirits excise in the EU

- 3. High Excise Duty has created an uneven playing field with mixed traders (due to below invoice cost selling and aggressive promotional activity) and has led to sales volume declines, significant job losses and business closures.**

- 35%(3,000) of all jobs have been lost in the off-trade sector since 2008

- 546 (wine and/or beer and/or spirits) off-licences have closed or lapsed since 2008

- 4. One-third (31.7%) of remaining retailers have struggled to remain open due to the two large excise duty increases since 2013.**

- 38% of retailers have been forced to reduce staff and a further 45% reduced salaries
- Off-licences must generate €53,000 for duty + VAT payments to offset the cost of a minimum-wage employee (an increase of €20,300 on budget 2013 levels due to excise duty increases) +61%
- For an employee earning the average retail wage, retailers must generate €83,000 in duty + VAT payments, (an increase of €32,025 on 2013 levels) +61%

- 5. While there is a correlation between job losses in the drinks industry and excise duty increases, there is equally a correlation between job creation and duty reversal.**

- 70% of members reported they would take on more staff should excise be reduced
- Of these, 23% reported they would take on more than one employee

- 6. Large excise increases have had a devastating impact on cash flow for importers and retailers alike – stalling expansion.**

¹ Drinks-related employment in Dáil constituencies 2013

- Like all SMEs in Ireland, the impact of the severe lack of access to credit for Independent Off-Licences and their suppliers is critical as each excise increase requires overnight funding from midnight on budget day
- The significantly increased excise liability to revenue since December 2012 and their strict credit terms is completely stalling expansion for importers and retailers alike as cash is being chewed up by excise funding
- Despite recent Government initiatives, 86% of NOffLA members surveyed in May 2015 stated that the Government are not doing enough to support SMEs
- Other overheads have also increased, compounding the challenges faced by independent owners. These include:
 - Rates: Have increased by 20%
 - Electricity: Has increased by 15%
 - Water rates: Have increased by 100% (No charge in the past)
 - Gas: Has increased by 22%
 - Licence Fee: Has increased by 100%
 - Commercial retail rents have increased across Ireland, Connaught/Ulster (+31.4%), Munster (+27%) and the Dublin Region (11.5%)

7. Independent Off-Licences play an invaluable role in Irish society, conducting themselves as responsible traders who do not engage in the aggressive retail practices of larger multiples.

- All NOffLA members are trained and examined in responsible retailing to ensure best practice in the responsible and legal retailing of alcohol. Their loss will be felt socially as much as economically

8. Excise is an ineffective means of tackling consumption, as it can be absorbed by large multiple retailers.

- Studies have shown that supermarkets absorb excise increases, thereby subsidising the prices of cheaper products (approx 68% of all beer sales; 38% of all spirits sales and 31% of all cider sales)
- This absorption forces the most responsible retailers in the industry (independent specialist off-licences) out of business

9. The adverse impact of Excise has broader ramifications for the Irish economy.

- A reduction in excise would provide security to the alcohol sector as a whole, protecting the 92,000 jobs and €1.1 billion worth of local purchases associated with it²
- The high cost of alcohol discourages tourists from visiting Ireland, with alcohol prices featuring prominently on surveys on the disadvantages of visiting Ireland³

² *Drinks-related employment in Dáil constituencies 2013* found that the drinks industry directly employs 62,000 in Ireland, while a further 11,600 jobs are generated by purchases by the drinks industry and wages/salaries expenditure generates an additional 17,500 jobs.

³ *2013 Fáilte Ireland Visitor Attitudes Survey* (MillwardBrown)

1. A reversal of Budget 2014 excise duty increases would both prevent further job losses and allow for job creation

Disproportionately High Tax

Budget 2013 and 2014, when taken together, introduced substantive increases in the alcohol excise duty of beer (+44%), cider (+43%), spirits (+37%) and wine (+62%).

Ireland is a **high tax economy** in terms of alcohol products with the highest tax on wine in the EU, the second highest on cider and third highest on spirits and beer⁴. This merely encourages out of state purchases online often where no excise or VAT is paid or by Irish holidaymakers abroad and the criminal black market. Consumers now pay significantly less for identical products abroad than in Ireland directly as a result of Ireland’s high excise duty. **On every €9 bottle of wine, for example, €4.87 (54%) goes to the Exchequer**, compared to Spain, Italy or Germany, where there is no excise duty charged per bottle. **Furthermore, €16.40 of a (68%) standard bottle of spirits is excise and VAT.**

It should be noted that the disparity in excise on alcohol with other EU Members serves to discourage tourists, in particular from the 26 EU countries with lower excise from visiting Ireland, with the high cost of alcohol featuring prominently on recent surveys into the disadvantages to visiting Ireland⁵. Younger active tourists with healthy lifestyles like hikers, backpackers, surfers and campers have limited holiday budgets and are being forced to choose more affordable countries to visit. The alienation of this category of tourists will result in the loss of substantial revenue in the long term, as well as placing Ireland’s indigenous brewing/distilling industries under serious threat.

Excise is a regressive tax on consumers, whereby **over half of a Special Occasion spend is tax** is a whopping 52% (€130) of a €250 spend is excise and VAT. It should also be noted that the €250 spend is generally a net amount earned after income tax deductions of PAYE, PRSI and USC.

52% (€130.35) of a Sample Spend (€250.65) is Excise + VAT						
Product Quantity	Duty	Price per unit	Customer Spend	Total Duty	Total VAT	TOTAL TAX
Red 6	€3.19	€10.99	€65.94	€19.14	€15.17	€34.31
White 6	€3.19	€10.99	€65.94	€19.14	€15.17	€34.31
Prosecco 1	€6.37	€17.99	€17.99	€6.37	€4.14	€10.51
Whiskey 1	€11.92	€29.99	€29.99	€11.92	€6.90	€18.82
Beer 24	€0.48	€1.95	€46.80	€11.52	€10.76	€22.28
Port 1	€4.62	€23.99	€23.99	€4.62	€5.52	€10.14
Total	€29.77		€250.65	€72.71	€57.64	€130.37

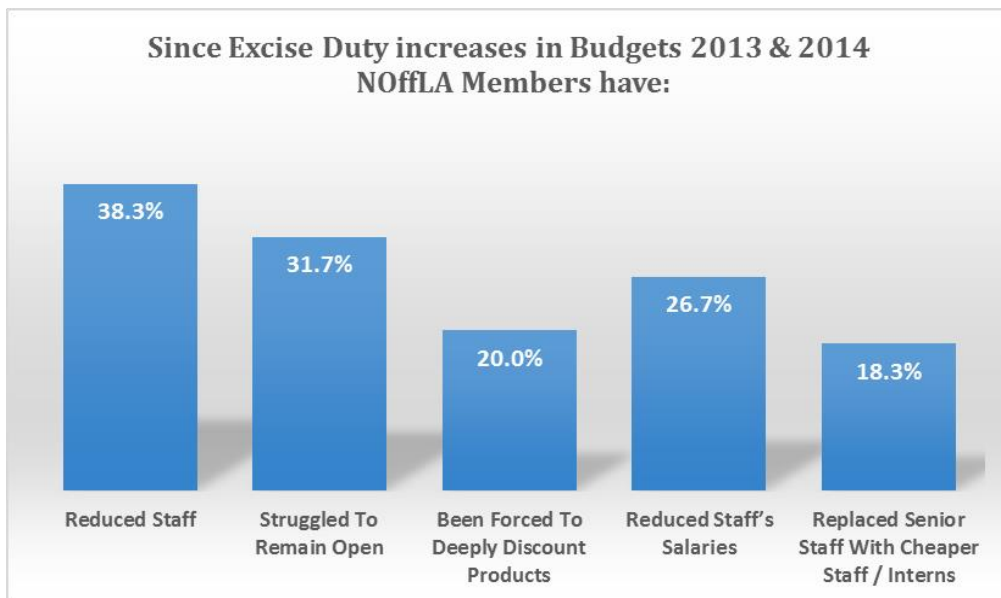
⁴ European Commission, DG Taxation and Customs Union, Indirect Taxation:

⁵ 2013 Fáilte Ireland Visitor Attitudes Survey (MillwardBrown)

- **Excise and Employment**

Excise Duty on alcohol is directly linked to job losses and potential job creation through its reduction. Unlike other taxes its impact is immediate requiring up front funding from midnight on Budget Day and the uncertainty surrounding its fluctuation from year to year prevents medium to long term business planning in terms of job creation, expansion of product offering and the upgrading of equipment and premises. Since 2008, **546 off-licences have closed or lapsed** and **over 3,000 jobs have been lost**. Like other SME's the recession has taken its toll on our sector and this combined with the damage inflicted by consecutive excise duty increases has prevented the Independent Off-Licence sector and its suppliers from benefiting from the tentative recovery and sense of optimism that other sectors have witnessed.

To illustrate this deep and damaging impact, 46.3% of the 2015 NOffLA Member's Survey respondents considered excise duty to be the primary factor behind the decline in their business, ahead of the recession, which was cited by 39% of those surveyed.⁶



Indeed 49.9% of 2015 NOffLA Member's Survey respondents reported a decrease in turnover in 2014, when compared to 2013 and only 7% have managed to maintain their pre-Budget 2013 sales volumes.

Of the Independent Off-Licences which did not fold as a result of the recent punitive excise increases, many may be forced to continue to take tough business decisions which will impact negatively on their employees and the local community in which those wages circulate, in order to remain open.

Our 2015 Members' Survey revealed the following stark picture of the impact of excise duty:

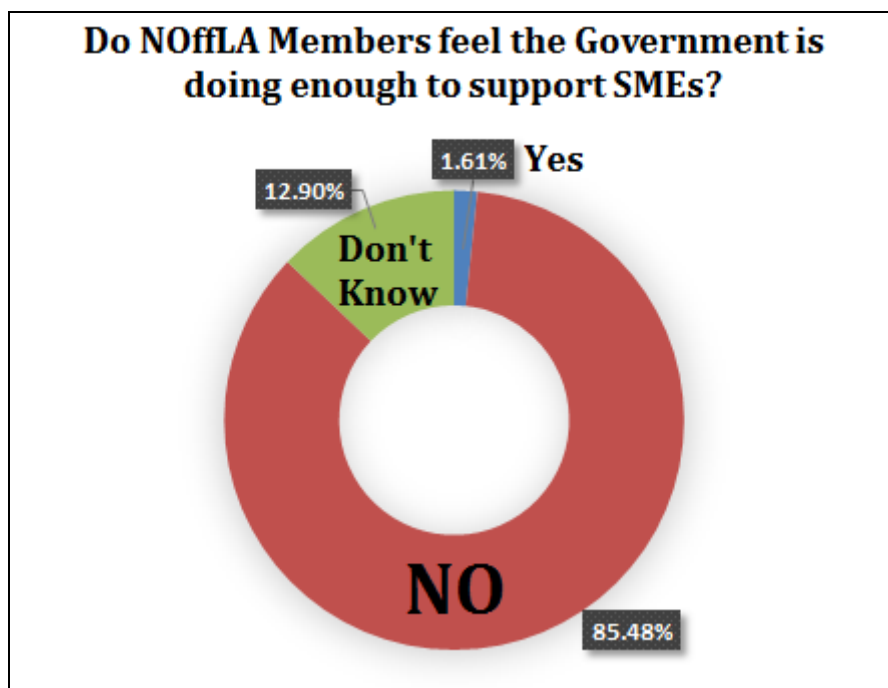
⁶ NOffLA Members' Survey, Conducted April-May 2015

A further excise duty increase in Budget 2016 would result in the following retailer actions:

- **16.4% would close outright (273 outlets).**
- **Of the remainder**
 - **50.8% would struggle to remain open,**
 - **44% would reduce staff,**
 - **43% would reduce wages**

This is because excise is directly correlated to cash flow and excise strains working capital. Funding an excise increase in the current economic climate is a constant struggle for importers and retailers alike as credit is not available and consumer spending has still yet to pick up in a sustained manner. **Ultimately shedding jobs is the only way to release the required funds.**

- **Taking the average retail wage of €30,733 (including employers' PRSI) a retailer/importer must generate €83,700 for duty + Vat payments in order sell product to pay that wage, a €32,025 increase on 2012 levels.**



Case Study: €20,300 - €32,000 Extra Required for Duty Payments to Retain One Staff

- To hire a new employee on the minimum wage costs an employer **€19,400 per year** (Eurostat average minimum wage rate plus Employers PRSI of 10.75%).
- To generate cash just to pay this salary an employer **must purchase and sell 1,124 cases of wine**, requiring funding of € 53,000 to pay duty + VAT. Prior to Budget 2013, this payment **would have been €32,700**.
- After the excise increases in order to pay existing employees on a similar wage, the employer must generate an **extra €20,300** to offset excise duty increases and continue to pay their wages.
- Often this creates critical business risk in hiring an employee who may not achieve the required sales revenue to generate the salary, while it makes overriding commercial sense to reduce staff to maintain a positive cash flow.

Sales required to pay wages: (using average bottle price of €8.64) Eurostat

	Minimum Wage	Average Retail Wage
Wine	1124 Cases	1778 Cases
Sales	€116568	€184,398.75
Purchases	€97140	€153,665.63
Gross profit	€19428	€30,733

Excise and VAT payments to generate €19428 minimum wage (1,124 cases of wine)

	Excise	VAT	Total	% Differential
2015	€43,038.00	€9,898.83	€52,937.83	
2012	€26,578.58	€6,113.07	€32,691.66	
Differential	€16,459.42	€3,785.76	€20,246.17	+38.25%

Excise and VAT payments to generate €30,733 Average Retail Wage (1778 cases of wine)

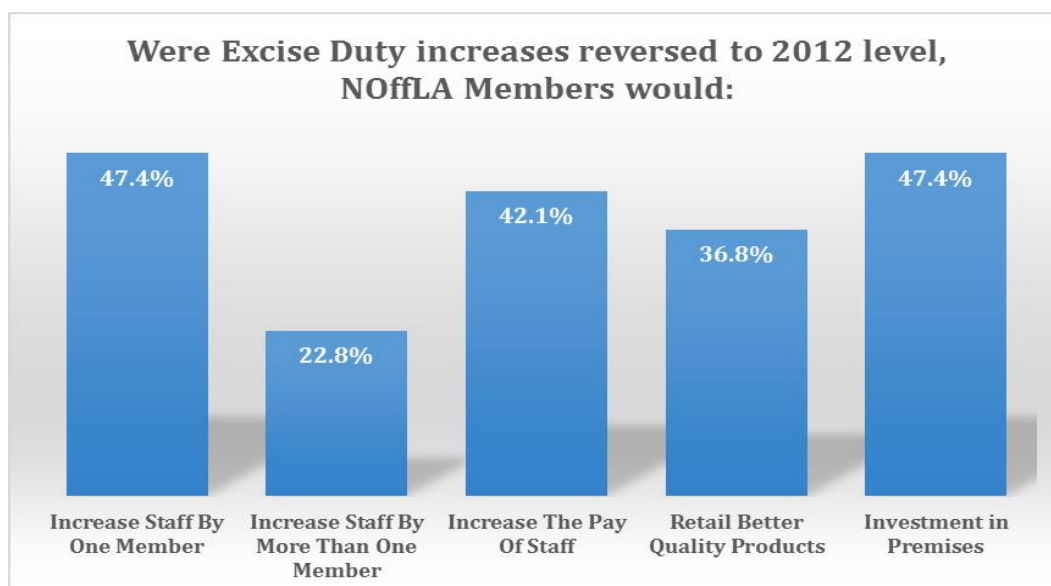
	Excise	VAT	Total	% Differential
2015	€68,080	€15,658.40	€83,738.40	
2012	€42,042.92	€9,669.87	€51,712.79	
Differential	€26,037.08	€5,988.53	€32,025.61	+38.25%

Independent Off-Licences cannot afford to absorb excise increases unlike large mixed traders as alcohol is their sole product and these losses cannot be offset by selling dearer grocery necessities. Nonetheless, as a result of the deep and aggressive discounting of alcohol by multiples, consumers have developed inflexible price expectations. As a result, independent specialist off-licences are forced to either reduce their margin in an attempt to absorb the increase in excise to remain competitive or face a reduction in sales. Both options will result in an **inevitable collapse of business**.

- **Potential for Job Creation**

The fate of the Independent Off-Licence sector is entirely in the hands of government policy.

With the Independent off-licence sector on the brink of commercial failure, any increase in the punitively high excise rates will result in further job losses. Conversely, due to the huge commercial impact of excise duty in overall turnover, a reversal in excise duty to 2012 levels will result in job creation and expansion in the sector.



As per our survey, were excise duty levels to return to their 2012 level, 47.4% of survey respondents stated that they would be granted the required security to take on additional staff, while 42.1% would increase staff pay.

If we take these staffing level statistics as a reflection of the 3,167 Off-Licence businesses operating throughout Ireland⁷, we estimate that at least **1,172 jobs would be created** were excise to be returned to 2012 levels.

⁷ *Drinks-related employment in Dáil constituencies 2013*

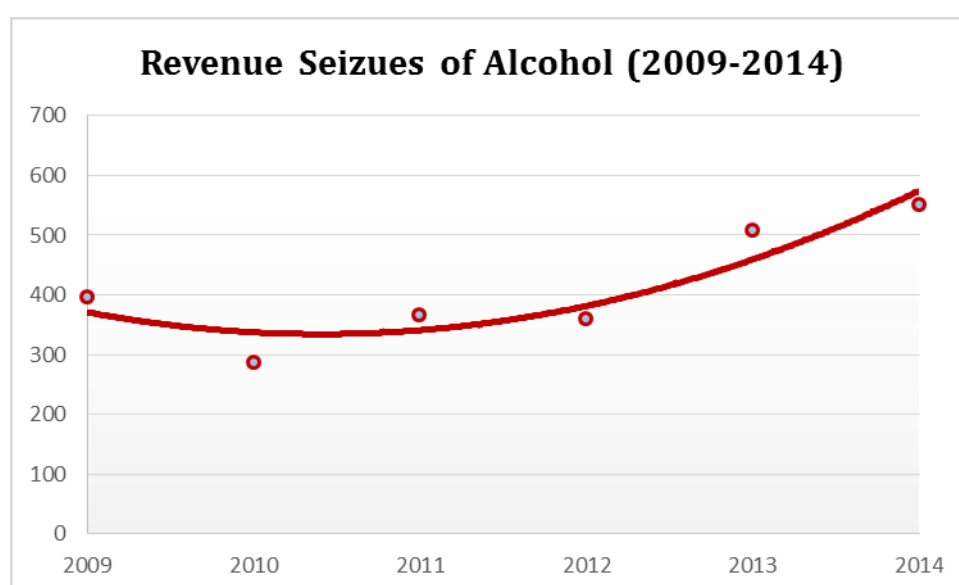
Excise and Behavioural Change

- **Black Market Trade** Heightened commodity taxes also give rise to illegal phenomena such as smuggling and illicit trade. Not only do these illegal acts deprive the Government of much-needed tax revenue but also reinforce criminal organisations and corruption, and expose the population to health threats when alcohol is traded and produced outside of the scope of statutory public health controls.⁸

The British-Irish Parliamentary Assembly in February 2015 heard how “illegal cross border trade continues to damage the livelihood of our members, prop up criminal gangs and deny the state the revenue it’s due”, noting that “commodities that attract high levels of excise duty were a particular challenge”.

A report published by the British – Irish Parliamentary Assembly earlier in the year, noted that one of the largest problems faced by law enforcement on the island was smuggling and illicit trade, citing the high levels of excise duty being a “particular challenge”. Revenue authorities told the Committee how “high taxes lead to high profits for criminals” that if they can source the commodity at a low rate of tax and place it back on the market of a high tax jurisdiction such as Ireland.⁹

Alcohol products are **prime targets for counterfeiters** in the European market due to their brand value, high tax and the excise component of the final price. All of this adds to the price that can be charged by counterfeiters. According to the Revenue Commissioners, the number of seizures of counterfeit and contraband alcohol in Ireland has increased from 282 in 2008 to 550 seizures in 2014.



⁸ Sassi, F., A. Belloni and C. Capobianco (2013), “The Role of Fiscal Policies in Health Promotion”, OECD Health Working Papers, No. 66, OECD Publishing. <http://dx.doi.org/10.1787/5k3twr94kvzx-en>

⁹ British-Irish Parliamentary Assembly Report on Cross-border Police Cooperation and Illicit Trade, February 2015

These numbers indicate that there has been a **significant increase in illicit traders'** activity in Ireland with regard to counterfeit/contraband alcohol.

The current legislative and enforcement systems in the area of illicit trade do not act as strong enough disincentives. In many instances the benefits of carrying on illicit activities are considerably higher than the penalties and risks of being prosecuted.

In 2009, then Minister for Finance, Brian Lenihan, recognised the correlation between the high excise on tobacco and the growing illicit trade in the product, deciding to refrain from increasing its excise in Budget 2010 as he believed "the high price is now giving rise to massive cigarette smuggling". We urge the Minister to follow suit and reverse the excise on alcohol to counter this evident growth in the black market of alcohol.

Another direct result of excise duty increases is Irish customer migration to out of state online sales - also frequently an untaxed event. This is outlined in full on **page 19**

- **Excise Duty & Consumption**

Excise duty is too frequently used as a **blunt tool for reducing alcohol consumption**. It aims to reduce the affordability of alcohol without any consideration of the devastating consequences the measure takes on the Independent Off-Licence sector and its suppliers. Any limited successes through this approach, will be substantially offset economically through job losses and subsequent social welfare costs. Excise duty increases are frequently absorbed by mixed traders (who account for 80% of off-trade sales) to promote alcohol as a foot-fall driver to sell other dearer necessities. Indeed a 2014 study led by the University of Sheffield found that **supermarkets respond to increases in alcohol taxes by 'under-shifting' their cheaper products** – i.e. absorbing the tax increase to maintain low prices. As a result, one in six of all product lines were impacted- accounting for a large proportion of total sales: **approximately 68 per cent of all beer, 38 per cent of all spirits and 31 per cent of all cider sales¹⁰**.

As a result, **the intended purpose of increasing alcohol prices is negated** while the supermarket's competitors (Specialists) are driven out of business.

It is worth noting that as Specialists, the retail of alcohol is our sole product (and therefore livelihood), NOffLA members exercise extreme responsibility when it comes to the sale of alcohol.¹¹ In this sense, we are often the first and last line of defence against irresponsible and/or underage drinking. All our members are trained and examined in NOffLA's Responsible Trading Certificate, which ensures that

¹⁰ 'Alcohol tax pass-through across the product and price range: do retailers treat cheap alcohol differently?' (School of Health and Related Research, University of Sheffield: 2014)

¹¹ Failure to adhere to licencing laws can lead to a licence being revoked, and also court proceedings being issued. This would mean the loss of livelihood and the loss of jobs and revenue to the local economy. It is therefore in our members' best interests to retail alcohol in the strictest, most transparent manner – the same cannot be said for multiples who do not face the same stringent penalties or consequences resulting from the loss of a licence.

Independent Off-Licence employees are highly trained in retailing alcohol responsibly, while the face to face interaction in our small shops allow us to develop sound judgement in exercising caution in refusing the sale of alcohol to problem drinkers. Furthermore, unlike the alternate option for alcohol retail (mixed traders), Independent Off-Licences do not engage in aggressive sales techniques such as, retailing alcohol at a loss to drive foot-fall, allowing alcohol to be purchased at self-service tills, and strategically placing alcohol amongst non-alcohol products to encourage its spontaneous purchase.

NOffLA proposes a ban on the below invoice cost selling of alcohol be used as an alternative to relying on excise duty, which will drive down consumption without resulting in significant job losses and the eradication of our sector (and the cost to the state that follows), as well as generating additional revenue in its own right and will recover €24 million for the tax payer in loss leader subsidies.

- **Minimum Unit Pricing and Excise Duty**

NOffLA notes the ongoing work of the Minister for Health, Leo Varadkar, in progressing the Public Health (Alcohol) Bill 2015. A key component of the Bill will be to develop Minimum Unit Pricing, so as to set a floor price under which no alcohol can be retailed.

While it is not yet clear what unit will be used, it is believed it will come within the (€0.90-€1.10) band. Using the middle pricing mechanism of €1.00 per 10 units of alcohol, NOffLA has calculated the tabulation of prices below.

Product	% Alcohol	€1 MUP Per10 grams	Excise + Vat	Balance for Production & Margin
Wine	12.0%	€7.10	€4.52	€2.58
	12.5%	€7.40	€4.57	€2.83
	13.0%	€7.69	€4.63	€3.06
	13.5%	€7.98	€4.68	€3.30
	14.0%	€8.28	€4.74	€3.54
	14.5%	€8.58	€4.79	€3.79
Beer	3.9%	€1.53	€0.77	€0.76
	4.3%	€1.69	€0.80	€0.89
	5%	€1.97	€0.85	€1.12
Spirits	38%	€20.71	€15.79	€4.92
	40%	€22.09	€15.64	€6.45

As can be seen, due to the high levels of excise, most of the minimum price will constitute excise plus VAT. With a small balance remaining for the actual cost of manufacture, distribution and retail of the product, it is evident that (a) premium alcohol will continue to be sold at a heavily discounted below cost levels to and that (b) the only alcohol retailing at invoice cost or above at these margins will be of inferior quality.

To generate market share using minimum price, we predict retailers will amplify their scale of below invoice cost selling and the acquisition of counterfeit goods.

In order to reduce the likelihood of inferior alcohol being offered for sale as well as below cost invoice selling increasing, NOFLA therefore urges that consideration be given to the need to reduce excise when existing duties are looked at in the context of MUP.

2. RESTORE PARITY TO WINE TAXATION IN RELATION TO DOMESTIC ALCOHOL

While the excise of alcohol in general is unacceptably high by European standards, wine in particular has been targeted in previous excise duty measures. Our rates of excise on wine, for example, are 624% higher than the EU average for wine, compared to the (still unacceptable) 298% for beer and 243 % for spirits. When comparing the current excise on wine to the current excise on cider and beer, the excise on a bottle of wine is on average, **€0.82 dearer than the equivalent excise on cider and beer**. This disparity reaches as high as €1.07 more for wine on 12.5% ABV bottles.

Beer Vs. Wine Taxation per 75ml bottle/9lt case				
Alc. %	Beer& cider Duty	Wine Duty	Over taxation (Per Bottle)	Over taxation (Per Case 12)
12.5%	€2.11	€3.19	€1.08	€12.86
13.0%	€2.20	€3.19	€0.99	€11.85
13.5%	€2.28	€3.19	€0.91	€10.83
14.0%	€2.37	€3.19	€0.82	€9.82
14.5%	€2.45	€3.19	€0.74	€8.80
15.0%	€2.54	€3.19	€0.65	€7.79
15.5%	€2.62	€3.19	€0.57	€6.77

Wine is not produced in Ireland and as such is **a non domestic product** but it falls into the same fiscal customs and statistical classification as “similar” domestic products. Thus its disproportionately high excise is arguably **distorting the single market**.

The impact of the sheer scale of excise increase on wine since Budget 2013 (62%) can best be illustrated by the excise cost of 1,000 cases of wine (12x75cl). Prior to Budget 2013, if 1,000 cases of wine (12x75cl) were imported /taken out of bond in a month, the excise duty would have been €23,640.

In Budget 2013, this figure rose to €33,360, with Budget 2014 increasing this cost to €38,240 - for the same volume. The total payment (including VAT) is now €47,035 - **an extra €17,958 per 1,000 cases** that has to be found per month.

Tax Burden on 1,000 Cases of Wine 2012-2015					
Year	% Increase	Duty per Case	Excise per 1000 Cases	Vat	Payable to Revenue
2012		€22.64	€23,640	€5,437	€29,077
2013	41%	€33.36	€33,360	€7,673	€41,033
2014	15%	€38.24	€38,240	€8,795	€47,035
Increase	62%	€15.60	€14,600	€3,358	€17,958

This impact on all segments of the Drinks sector cannot be understated, as excise duties are frequently payable at the point of entry or within 30 days whilst stock turnover and supplier credit terms are on average 60 days. Funding for this upfront cash requirement is simply not available so letting staff go becomes the only funding option.

3. BAN BELOW INVOICE COST SELLING & SAVE €24 MILLION IN VAT RECLAIMS

Fine Gael, in its 2011 Fiscal Plan, detailed its intention to ban the below cost selling of alcohol,¹² NOffLA estimates, that the state is subsidising mixed traders selling alcohol as loss leaders by €24 million P.A.

- If at least **40%** of the total alcohol sold in mixed trading outlets in 2013 was sold at below cost; this would equate to **€516.8 million** (this figure includes VAT applied at 23%). The retail price of €516 million without VAT is **€420 million**. The VAT collection, equates to **€96.6 million** (*The difference between the two figures*).
- If the alcohol sales totalling €420 million has been sold at a reduced price of **20% below cost** then these goods would have originally cost €525 million to purchase and the VAT charged on the purchase invoice on the cost of these goods would be **€120.75 million**.
- When these figures are returned to the Revenue, the VAT collected on their sale is **€96.6 million**. But the VAT charged when they were bought is €120.75 million.
- Therefore, the Irish Revenue must rebate the difference which is **€24 million**.

Prior to the abolition of the Groceries Order in 2006, it was not possible to sell alcohol at below invoice cost. Since its abolition, retailers can reclaim VAT on the losses they incur on products chosen to be sold below cost. The Exchequer loses out significantly because of this practice. VAT is refunded on the higher bought in value and paid on the lower “below cost” selling value.

Banning the retailing of alcohol at below invoice cost price will ensure that retailers cannot reclaim 23% of the loss in their VAT return; saving the State an average of €24 million each year.

NOffLA notes the ongoing Public Health (Alcohol) Bill 2015’s intention of introducing Minimum Unit Pricing, however warns that MUP will not stop the sale of alcohol below cost, given much of the brands being used as footfall drivers are premium brands.

¹² *Less Waste, Lower Taxes, Stronger Growth: Fine Gael’s Fiscal Plan (2011)*

Further, a ban on below cost invoice selling can be implemented immediately, unlike minimum unit pricing, which requires legislation to implement and is currently held up at the European Court of Justice.

This ban can be achieved through either a reintroduction of the Groceries Order or via Ministerial regulation under Section 16 of the Intoxicating Liquor Act 2008.

Invoice cost is the cost of the product supplied for retail inclusive of Excise plus VAT as displayed on a pro forma invoice, as accepted by the Revenue Commissioners for VAT deduction purposes.

This is **distinctly and completely different to the UK ban on below cost selling** which defines 'cost' of alcoholic product as VAT plus excise, irrespective of supplier costs.

The UK bans the retail of alcohol below the cost of excise plus vat.

Ireland should ban the retail of alcohol at below invoice cost price which includes duty and VAT.

See sample invoice below

Calculation of Invoice Cost: The invoice below shows an off-licence purchased 24 bottles of wine for €391.14 (inc. tax). As such, the invoice cost per bottle amounts to €16.29.

River Wines Ltd
 [Redacted]
 [Redacted] Mobile Email [Redacted]

 VAT Reg. Number: [Redacted]
 Invoice No: [Redacted]
 Invoice To: [Redacted] Deliver To: [Redacted]

SALESPERSON		YOUR NO.	DELIVER VIA	DELIVERY	TERMS	DATE	
		E	Masterlink		Net EOM	10/11/2014	
QTY.	ITEM	DESCRIPTION		PRICE	UNIT	DISC %	EXTENDED
2	M1003	Sancerre 12 Bardin		€159.00	12.75		€318.00
Any claims for shortages or breakages must be notified within three days of delivery					SALE AMT.	€318.00	
					CARRIAGE	€0.00	
					VAT@ 23%	€73.14	
					TOTAL AMT.	€391.14	
					PAID TODAY	€0.00	
					BALANCE DUE	€391.14	

4. ESTABLISH TIGHTER CONTROL ON OF OUT-OF-STATE IMPORTS IN TERMS OF VAT AND EXCISE COLLECTION

On line sales are a feature of modern retailing resulting in a sharp rise in out-of-state importation direct to the consumer. Many of these websites' unique selling point is that their product is cheaper than its Irish equivalent – primarily due to these companies' non-adherence to European taxation law.

While many sites do not make explicit reference to the fact they do not pay excise, others suggest their unique position places them outside the remit of domestic taxation. Such claims include the concept that the container itself is a “collectable” item for sale, irrespective of the contents inside the bottle. Another suggests that the alcoholic contents are not for consumption, thus not liable to excise.

The payment of Excise and VAT is the responsibility of the person selling the alcohol (as opposed to the purchaser) and as they are not present in the country it is difficult to track and prosecute. This tax evasion is generally achieved by labelling the shipment with an incorrect commodity code such as foodstuffs, which would not attract duty or VAT in order to bypass customs. Verification of such codes is not being enforced on arrival in Ireland, given the exponential growth in online sales; NOffLA expects this to increasingly become a major loss of taxes to the State.

NOffLA members have made the appropriate authorities aware of these companies as they discover them, however this process of enforcement is both reactionary and, realistically, only scratching the surface of what we believe to be a growing issue that is both costing the Exchequer and unfairly impacting compliant competitors.

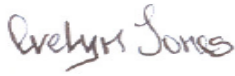
NOffLA understands the Department of Justice is in the process of developing the Sale of Alcohol Bill, which will be “intended to modernise and streamline licensing law in order to make it more understandable and user-friendly for the licensed trade, the courts and members of the public”.

As such, NOffLA suggests the Department use this opportunity to develop a remote off-trade licence for such retailers. The licence would be obtainable through the acquisition (and presentation) of a Certificate of Personal Fitness from the Department of Justice and a tax clearance certificate (or similar verifiable documents of tax adherence) from the Office of the Revenue Commissioners. Retailing of alcohol into Ireland should therefore be strictly closed to all operators without this licence.

Such a regime would ensure:

- i. All remote retailers of alcohol are fit to retail safe product that matches the description of the product purchased;
- ii. All remote retailers are tax compliant and brought within the scope of the relevant authorities who can impose sanctions on infractions; and
- iii. Equal parity is created between land-based retailers and remote retailers in terms of obligations to hold off-licences.

FOR FURTHER DETAILS:



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ABOUT NOFFLA

NOffLA works to promote the responsible sale, marketing and consumption of alcohol in Ireland. It represents **315 independent specialist off-licences** across the county. NOffLA's members are specialist or pure off-licences whose only product is alcohol. They tend to be **owner-operated**, located in the heart of their communities and employ the **highest standards of expertise and excellence** when retailing alcohol.

The Association requires as a condition of membership that members to be fully trained and examined in the Responsible Retail of Alcohol. To ensure the highest standard of training is provided, NOffLA developed and implemented the **Responsible Trading Certificate (RTC)** which ensures that Independent Off-Licence employees are highly trained in retailing alcohol responsibly. To date, NOffLA has trained 1117 alcohol retailers, (with 710 employees availing of the innovative e-Learning platform for this programme) and accredited 967 by way of examination. Similar requirements are not in place in mixed trading outlets where in many cases little oversight is given to the sale of alcohol. For example it is common practice in some outlets to permit the purchase of alcohol at self-service checkouts.

By contrast, alcohol is the sole product for NOffLA's members'. Failure to adhere to licensing laws can lead to a licence being revoked, and also court proceedings being issued. This would mean the loss of livelihood and the loss of jobs and revenue to the local economy. It is therefore in our members' best interests to retail alcohol in the strictest, most transparent manner.

Despite some believing that the off-trade is one homogenous sector, which is benefiting from the significant shift to home consumption, the job losses and business closures witnessed in this sector in the last few years show that this is not a true reflection.