Taxation of still wine in the Czech Republic and other member states of the European Union

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Abstract: The article focuses on the comparison of wine taxation indicators in the Czech Republic and other member states of the European Union. The author wants to contribute to the discussion on the introduction of a higher than zero rate on still wines in the Czech Republic. When introducing the taxation of still wine in the Czech Republic, it is necessary to proceed in accordance with the applicable directives of the European Union. These are Council Directive (EU) 2020/1151 and Directive 92/83/EEC. The 2020 Directive regulates the conditions for the application of reduced rates for wines and amends Directive 92/83/EEC, which sets a rate of zero for still wines. The source of data for comparing indicators applicable in the area of wine taxation are European Commission and Eurostat documents.
Cluster analysis ranked the states of the European Union according to their similarity of the observed characteristics. The clustering objects have made up of 27 member states and their characteristics are indicators of taxation in the field of still wine. It is evident that states with high production prefer lower taxation of still wine and consumption is usually at a higher level in these states. In contrast, states with lower or no production more often choose higher taxation and consumption is rather low here. France with higher taxation of still wine and Italy with no consumption taxes appear to be specific.

Keywords: still wine, excise duties, consumption taxes, EU member states, Czech Republic
JEL Classification: H20, H23, H25

1 Introduction

Taxation or non-taxation of still wine is currently a very topical topic for the government and Parliament of the Czech Republic. Although it had already been decided that the rate of consumption tax on still wine is continue to be zero in the Czech Republic, the discussion on this topic is still alive. Currently, wines for taxation has divided according to the harmonized customs tariff into two groups, namely still and sparkling wines. Still wines have a zero tax rate, but sparkling wines and intermediate products (i.e. wine musts, vermouth) have a rate of CZK 2,340 per 100 litres of product.

The European Union (also EU) harmonizes the excise duty on wine similarly to other excise duties and consumption taxes. Excise taxes have a more detailed harmonization than income taxes. The reason for the harmonization of taxation is the establishment of common rules for taxation of products that reach the internal market of the European Union. In the field of consumption taxes, minimum rates have also set by the directives. All member states must comply with these rates. This minimum threshold may affect the amount of the tax rate in the Member State. The upper limit of taxation is not set. At the same time, leaving tax issues in the hands of national governments is essential. This is stated, for example, by Rybová (2017), Nerudová (2005), Kubátová (2005), Kubátová (2018). Still wine, sparkling wine and intermediate products have a minimum tax rate of zero in the European Union directive.

Wine growers in the Czech Republic are concerned about the increase in the wine tax rate and the related decreasing competitiveness of domestic wine companies. The contribution compares the tax burden on wine in the Czech Republic and other member states of the European Union. States do not compete directly with taxation, but ultimately with market prices. The amount of taxation and the market price may be related.

The European Union is a major player in the global wine market. Eurostat (2022) reports that in 2020 it accounted for 64% of global production, 48% of consumption and 45% of the world's wine-growing regions. The main producers of wine are Italy, Spain, France, Portugal, Germany and Hungary. The biggest exporters are Italy, France and Spain. The main importers of wine in the European Union are Germany, the Netherlands, Denmark, Sweden, Belgium, France and Ireland. The Directorate-General for Agriculture and Rural Development (2023) states that there is an imbalance in the wine market in different regions of the European Union. In some areas of the European Union, there have been surpluses of wine due to the increase in production, but at the same time, the consumption of wine is decreasing, probably in connection with higher price increases, and the volume of exported wine is decreasing. The region of France, Spain and

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Portugal is the most affected. The European Commission adopted temporary market measures, the so-called "Crisis Distillation Measures". They include support programs for wine. Distilled wine is off the market, and alcohol is for non-food purposes. This is to prevent distortion of competition.

The World Health Organization (2022) published the annual consumption of wine in litres of pure alcohol per person. Another source, Landgeist (2022), lists wine consumption according to WHO at 12% ABV. According to these sources, Southern Europe is one of the largest producers and consumers of wine in the world. The biggest consumer of wine in Europe according to Landgeist (2022) is France with 54 litres of wine. Right behind France is Portugal with 50 litres. Slovenia is third with 44 litres. We see that Southern Europe is clearly the biggest consumer of wine. Although various Western European countries also have a decent consumption of wine. The largest global consumer of wine in 2018, Moldova, consumed significantly less in 2019, at just 30 litres per capita. Spain is also an interesting case. Although the Spanish are known for their wine (and produce a lot of it), they drink far more beer than wine.

The export of wine from the member states of the European Union may be associated with difficulties outside the European Union in the form of higher taxation in the country of consumption. For example, Dickinson (2023) reports that China imposed an import tax on wines imported from the European Union. According to the author, this move is a retaliatory measure for the imposition of tariffs on solar panels from China.

2 Literature and Legislative Review and Methods

The area of taxation of still wine is subject to harmonization similar to other alcoholic beverages, tobacco products, raw tobacco and fuel. The reason for harmonization is the trading of products on the internal market of the European Union. Kubátová (2005) and Nerudová (2005) explain the concept of harmonization as an approximation of the mechanism of collection of taxes, rates or structure between selected states.

There should be no tax competition between member states. In practice, however, we encounter it on a smaller scale. Nerudová (2005) deals with the advantages and disadvantages of both tax harmonization and tax competition. According to the author, the current tax competition prevailing in the European communities is not intentional. It is only the result of the failure of the harmonization process.

Excise taxes take away funds from consumers of taxed products with no direct relationship to the consumer's income. The impact of these taxes on consumers is largely regressive. For a regressive tax, the average tax burden decreases with the growth of income, and at the same time, the marginal tax burden (the share of tax in the last unit of income) is smaller than the average. Excise taxes, the rates of which are fixed, the degree of progression depends exclusively on the level of consumption of the taxed product by different income groups of taxpayers. (Kubátová, 2015, p. 31)

Due to their nature, consumption taxes can act as automatic or controlled stabilizers in fiscal policy. Appropriate application and flexible adjustment of taxes can contribute to economic growth. Taxes on consumption (including VAT) increased significantly in states with a below-average consumption burden and vice versa in the period 2008-2010. Research shows that indirect taxes, including consumption taxes, typically limit economic growth less, do not interfere with savings, and are generally less progressive than direct taxes. The disadvantage of tax systems based on indirect taxation is a lower redistributive capacity than in the case of direct taxes. However, there are effective tools to correct these distributional effects when moving towards indirect taxes. (Eurostat, 2011)

Kubátová & Vítek (1997, pages 96-98) state that the stabilizing function of taxes generally depends on two factors: the elasticity of the tax with respect to its tax base and the elasticity of the tax base on the gross domestic product. Consumption taxes directly affect aggregate demand, which indicates their possible application as a suitable fiscal policy stabilizer.

The application of consumption taxes can have an effect on the market of goods and services primarily on the economic variables, which are consumption and inflation. The effect of consumption taxes on inflation results from their character as unit taxes. As the price increases, the amount of tax paid does not change, the tax rate has determined by the absolute amount per unit of taxed product, the relative amount of the tax decreases. According to Kubátová and Vítek (1997, p. 108), an adjustment process can occur, when a decrease in the real value of the tax will lead to a decrease in the relative price of goods, and therefore to an increase in consumption. Subsequently, the consumption tax revenue will increase. The authors do not consider selective consumption taxes, imposed as a unit, to be dangerous from the point of view of inflation. As prices rise, they remain nominally constant, acting against inflation, unlike ad valorem taxes, where inflationary growth also affects the tax.

Svátková et al. (2007, p. 15) state that the argument in favor of the use of selective consumption taxes is their significant revenue, especially from taxation of goods such as gasoline, alcohol or cigarettes. On the other hand, the disadvantage of selective taxes is their distortion of action, which leads to the substitution of taxed goods and thus to inefficiency (if it is not a Pigou tax).

2.1 Legislation in the area of excise taxes

Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structure of excise duties on alcohol and alcoholic beverages still wine includes all products of CN codes 2204 and 2205, with the exception of sparkling wine. The directive divides still wines into two groups. The first group of products contains more than 1.2% alcohol by volume, but does not exceed 15% by volume. This applies if the alcohol contained in the finished product is of fully fermented origin. The second group of products are products with an alcohol content above 15% by volume, but not exceeding 18% by volume, if they have been produced without any enrichment and if the alcohol contained in the finished product is of fully fermented origin;

Council Directive (EU) 2020/1151 of 29 July 2020 amends Directive 92/83/EEC on the harmonization of the structure of excise duties on alcohol and alcoholic beverages. The directive recommends that the Republic of Malta use a higher reduced rate limit for small independent wine producers. The special situation in the wine sector in Malta has caused this exception.

Directive 92/84/EEC precisely defines the subject of the tax, the conditions of taxation and the minimum rates for wine. It distinguishes between still and sparkling wines. The directive further divides still wines into two groups according to alcohol content. Member States may tax still wines with a higher alcohol content at a higher tax rate. It defines sparkling wines as wines with an alcohol content of 1.2-15%. The minimum tax rates for both groups of wines are zero. We call products with an alcohol content between 1.2-22%, which we cannot classify as beer, wine or other fermented products, intermediate products. The minimum rate is 45 Euro/hl. Here, too, it is possible to apply a reduced rate to intermediate products with an alcohol content of up to 15%.

Table 1 The minimum rate of excise duty on wine and intermediate products according to the directive of the European Union

Product	**EU currency (EUR) per quantity unit**	**Minimum rates** with validity from 1/1/1993	
Intermediate product	EUR/1 hl of product	45	-
Still wine	EUR/1 hl of product	0	-
Sparkling wine	EUR/1 hl of product	0	-

Source: Council Directive 92/84/EEC of 19 October 1992 on the approximation of the rates of excise duty on alcohol and alcoholic beverages

2.2 Excise tax rates on wine in all member states of the European Union

The European Commission provides information on indirect taxes. Here we can find consumption tax rates, value added tax rates for the mentioned products and tax revenues. The following table 2 and table 3 contains this data for 2021. This is the most recent information. The clustering process uses this data in the next section. Information on the amount of income from still wine in the area of VAT is not available. Self-estimations could reduce the reporting ability of the results. The first fifteen states in the table use an excise duty rate of zero on still wines. The value added tax rate ranked these states in Table 2.

Table 2 States with zero excise duty on still wine

Member States (abbreviation)	Standard Rate for Still Wine (EUR per hectolitre of product, Article 8.1 of Directive 92/83/EEC)	Value Added Tax for Still Wine (%)	Revenues from taxes on consumption (excise duties and similar charges) other Value Added Tax (million EUR) (Forecast for 2021)
Italy (IT)	0	-	0
Portugal (PT)	0	13	0
Luxembourg (LU)	0	17	0
Cyprus (CY)	0	19	0
Germany (DE)	0	19	0
Romania (RO)	0	19	0
Austria (AT)	0	20	0
Bulgaria (BG)	0	20	0
Slovakia (SK)	0	20	0
Czech Republic (CZ)	0	21	0
Spain (ES)	0	21	0
Slovenia (SI)	0	22	0
Greece (EL)	0	24	0
Croatia (HR)	0	25	0
Hungary (HU)	0	27	0

Note: Italy does not state the VAT rate in the European Commission (2023).

Source: European Commission (2021), European Commission (2023)

Value added tax is the only consumption tax on still wine in these states. The zero tax rate allows these states to protect their wine producers from lower prices from foreign producers. On the other hand, in states with wine production we can also expect higher wine consumption. The decision to tax wine is in the hands of national governments. Traditions probably also have a big influence.

Table 3 Excise duties and value added tax in the EU member states

Member States (abbreviation)	Standard Rate for Still Wine (EUR per hectolitre of product, Article 8.1 of Directive 92/83/EEC)	Value Added Tax for Still Wine (%)	Revenues from taxes on consumption (excise duties and similar charges) other Value Added Tax (million EUR) (Forecast for 2021)
France (FR)	3.91	20	78.46
Malta (MA)	20.50	18	2.088
Poland (PL)	38.7226	23	101.95 (including intermediate products and sparkling wine)
Belgium (BE)	74.9086	21	180.93
Netherlands (NL)	88.3 (above 8.51 % vol.)	21	351.65
Latvia (LV)	111	21	20.95 (including other alcoholic beverages other than beer)
Estonia (EE)	147.82	20	26.83
Lithuania (LT)	164.67	21	49.07
Denmark	151.3014 (6-15 % vol.) 202.631 (15-22 % vol.)	25	224.55
Sweden (SE)	249.6829 (8.51-14.99 % vol.) 522.5411 (15-18 % vol.)	25	631.46 (including sparkling wine)
Finland (FI)	421 (8-18 % vol.)	24	312.95 (including sparkling wine)
Ireland (IE)	424.84 (5.51-15 % vol.) 616.45 (>15.01 % vol.)	23	354.42

Source: European Commission (2021), European Commission (2023)

The second group of European Union countries contain wine producers as well. For example, we definitely cannot leave out France. In general, taxation in France and the Nordic countries is high. This obviously also applies in the area of wine taxation. Some states also include sparkling wines and intermediates in their wine tax revenue. Unfortunately, this reduces the expressive power of the results.

It is evident that the level of taxation of still wine is very different in EU member states. This tax is part of the taxation of wine, including sparkling wine and intermediate products. In some states, data on tax revenue from still wine separately is not available. In all states with two still wine rates, the higher the alcohol content of the still wine, the higher the rate.

Excise duty on wine in the Czech Republic

Wine and intermediate products for the purposes of the Excise Tax Act in the Czech Republic are subject to wine, fermented beverages and intermediate products listed under nomenclature codes 2204, 2205, 2206, which contain more than 1.2% alcohol by volume, but no more than 22% alcohol by volume.

The basis of excise duty on wine and intermediate products is the amount of wine and intermediate products expressed in hectolitres (hl). From the point of view of determining the rate of excise duty on wine and intermediate products, special attention must be paid to the correct determination of the subject of the tax in accordance with the provisions of § 93 paragraphs 2, 3 and 4 of the Act on Excise Taxes, which distinguishes between:

• Still wines (excise tax rate CZK 0.00/hl);

• Sparkling wines (excise tax rate CZK 2,340/hl);

• Intermediate products (excise tax rate CZK 2,340/hl).

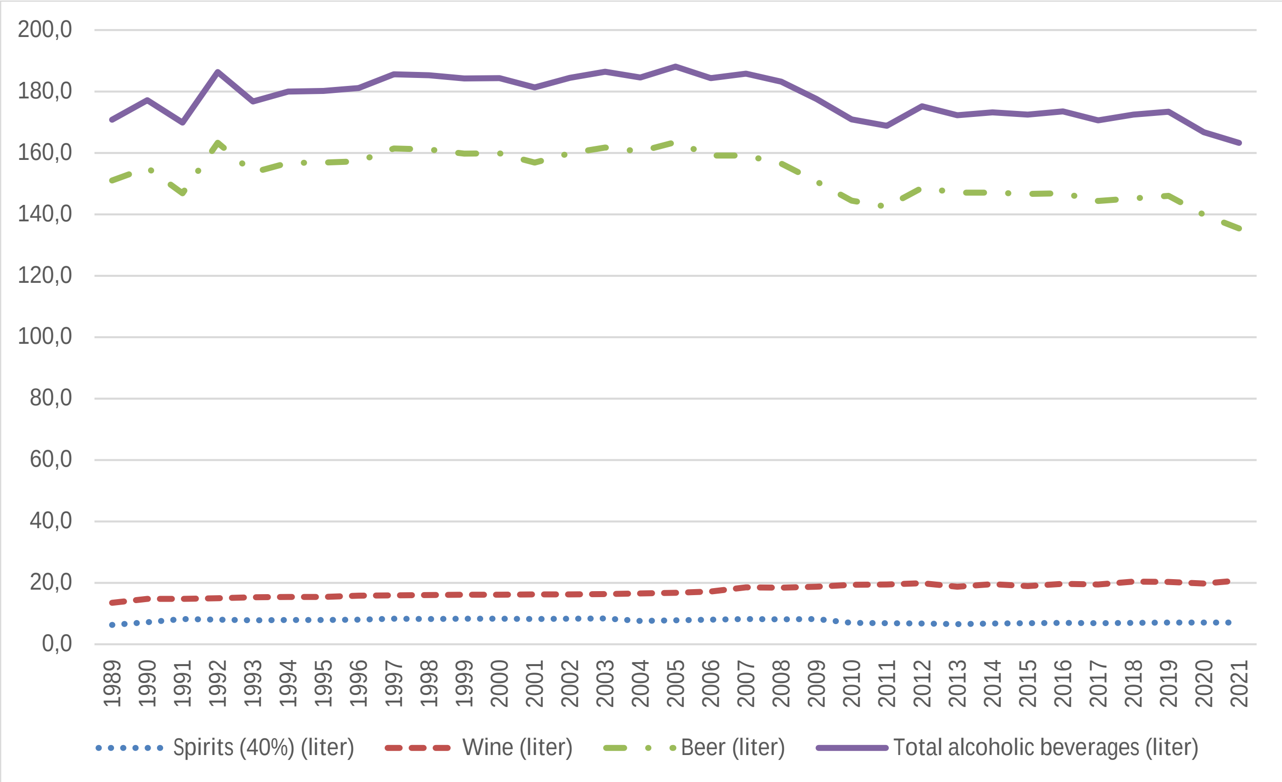
For the transport of still wine under the regime of conditional tax exemption in the tax territory of the Czech Republic and the obligations of a small wine producer, are specified in the provisions of §§ 100, respectively. 100a of the Excise Duties Act (§ 19 paragraph 2 letter a).

2.3 Consumption of wine in the Czech Republic

The price level in the Czech Republic is growing quite significantly between 2022 and 2023, around 7%. Consumer prices of wine accounted for less than 7% of the year-on-year increase in the price level. This is data from the Czech Statistical Office in September 2023.

According to the CZSO (2022), the trend of wine consumption is increasing and beer is decreasing. We can simply state that in ten years there has been an increase in wine consumption by one litre and a decrease in beer consumption by ten litres (l) per person/year. After the methyl scandal in the Czech Republic, interest in quality wine and fruit spirits increased. Regarding the total consumption of all alcoholic beverages, thanks to the decrease in beer consumption, there was an overall decrease in the consumption of alcoholic beverages.

Figure 1 Consumption of alcoholic beverages in the Czech Republic in litres per inhabitant per year



Source: Czech Statistical Office (2022)

The following table 4 shows data on wine consumption. The growing consumption of wines made from grapes and other types is evident here.

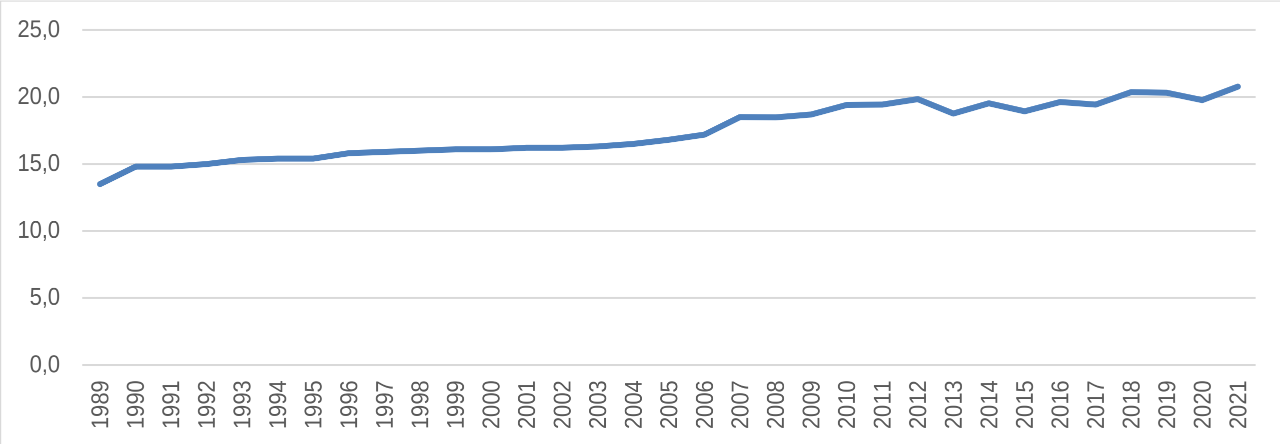
Table 4 Consumption of wine in the Czech Republic in litres per inhabitant per year

Years	**1989**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**	**2020**	**2021**	**Difference between 2021 and 1989**
Wine (in litre)	13.5	14.8	15.4	16.1	16,8	19.4	18.9	19.8	20.8	+ 7.3
Wine worth pure alcohol	1.6	1.7	1.8	2.0	1.9	2.2	2.2	2.3	2.4	+ 0.8
Grape wine	11.3	12.5	13.0	13.5	14.4	17.3	16.4	16.5	17.2	+ 5.9
Wine others	2.2	2.3	2.4	2.6	2.4	2.1	2.5	3.3	3.6	+ 1.4

Source: Czech Statistical Office (2022)

According to CZSO (2022) data, we can see a steady increase in wine consumption. Total wine consumption increased by 7.3 litres between 2021 and 1989. Beer consumption decreased by 15.6 litres. On the contrary, beer consumption expressed in alcohol value increased by 0.4 litres. The total consumption of alcoholic beverages decreased by 7.5 litres, but the value of pure alcohol is higher by 1.5 litres.

Figure 2 The trend of wine consumption per capita in the Czech Republic (in litres)



Source: Czech Statistical Office (2022)

The government of the Czech Republic is considering taxing still wine with consumption tax. So far, the excise tax rate is zero. Only the 21% value added tax rate taxes still wine. All other alcoholic beverages are subject to an excise duty rate greater than zero. The Czech Republic currently shows higher inflation values.

The Czech Statistical Office (2023) states that wine, among other things, contributed to the year-on-year increase in the price level. Wine prices increased by 6.7% year-on-year.

2.4 Methods

The aim of this survey is to find out the taxation situation of still wine in the Czech Republic and other member states. Taxation of still wine is being prepared in the Czech Republic. I want to contribute to the discussion and summarize information that can help to better estimate the situation of Czech wine producers and traders. I sorted the data on member states in the area of still wine taxation using cluster analysis. I used Ward´s Method, Euclidean distance. The formation of clusters during the clustering process depends on the selected clustering method. Ward's method often forms smaller rather equally sized clusters. States have grouped themselves into groups according to the similarity of the observed characters. A tree diagram shows the results of the clustering process.

Objects of the clustering process: twenty-seven member states of European Union: Austria, Belgium, Bulgaria, Cyprus, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

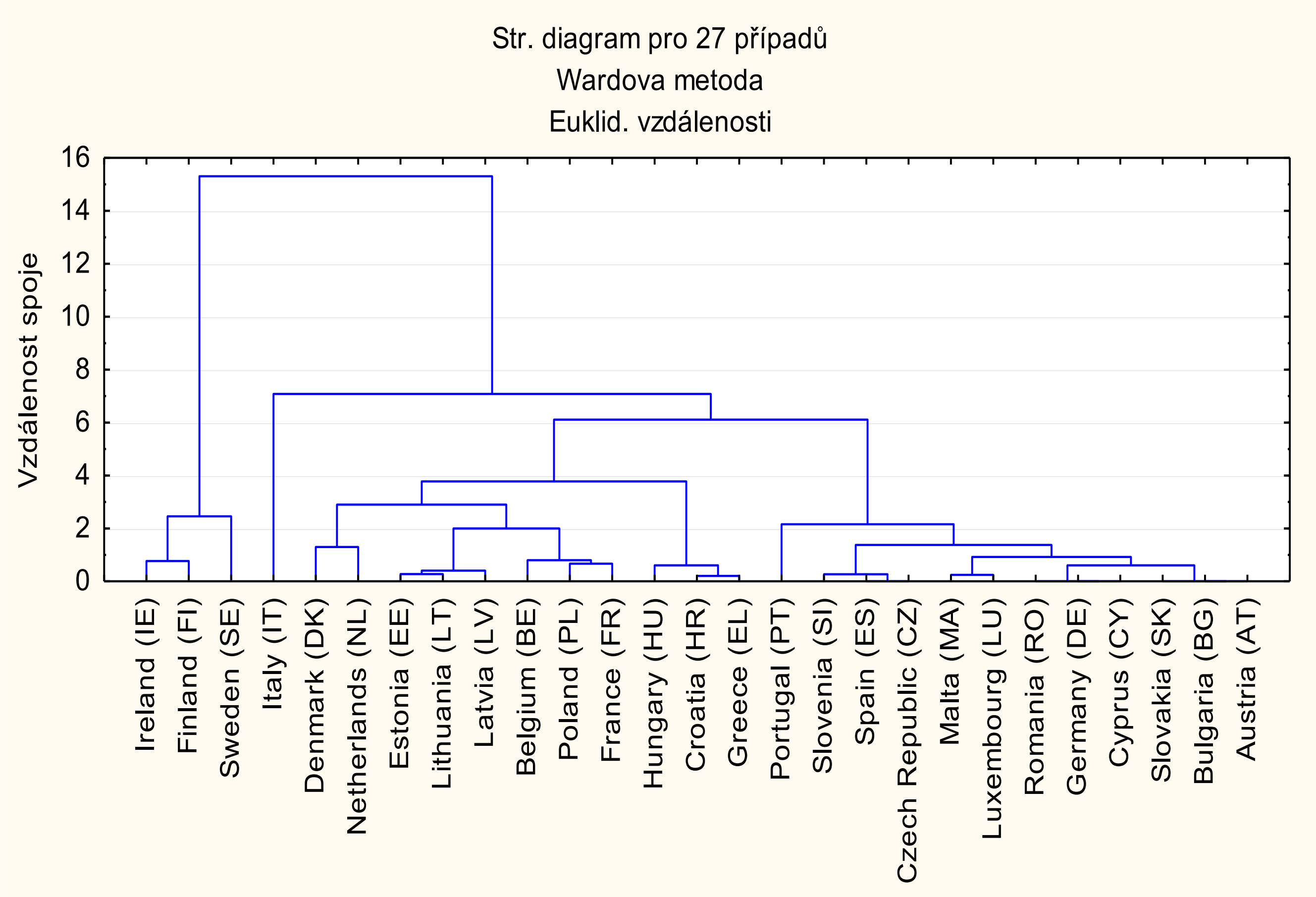
Object characters:

- Standard rate for still wine in EUR per hectolitre of product
- Value added tax rate for still wine in percent
- Revenues from taxes on consumption (excise duties and other similar charges) other value added tax in million EUR

The disadvantage is that we cannot consider the data as independent. However, a larger number of mutually independent characters is preferable. I adjusted the data for cluster analysis. I calculated zero Revenues from excise duties in states with zero tax on still wines. In contrast, I cannot adjust the revenues of states with a higher than zero rate for still wines because I do not know the consumption shares of different types of products in tax revenues. Some states list two rates for still wines based on the amount of alcohol in the drink. In these cases, I calculated the arithmetic mean of both rates. This reduces the explanatory power of the results. The data used does not provide detailed information.

3 Research results

All 27 EU states have joined the clustering process. Figure 4 shows the clustering results. The chosen method makes it possible to divide the states into groups. Five groups of states are sufficient to interpret the results. The data was standardized.



Source: own processing in software Statistica 12

Clusters of countries:

- **First cluster:** Ireland, Finland, Sweden
- **Second cluster:** Italy
- **Third cluster:** Denmark, Netherlands, Estonia, Lithuania, Latvia, Belgium, Poland, France
- **Fourth cluster:** Hungary, Croatia, Greece
- **Fifth cluster:** Portugal, Slovenia, Spain, Czech Republic, Malta, Luxembourg, Romania, Germany, Cyprus, Slovakia, Bulgaria, Austria

The states of the first cluster – Finland, Ireland and Sweden - show the highest tax rates. This mainly concerns the rates of excise duty on still wine. The states of the first cluster show the highest tax rates. This mainly concerns the rates of excise duty on still wine. These range from 249.6829 in Sweden to 616.45 EUR in Ireland (above 15% vol.). Ireland has the highest rates of excise duty on still wine. The states of the first cluster show the highest tax rates. This mainly concerns the rates of excise duty on still wine. These range from 249.6829 EUR (8.51-14.99% vol.) in Sweden to 616.45 EUR in Ireland (over 15% vol.). Ireland has both of the highest still wine excise rates of any country. Value added tax rates range from 23-25%. World Health Organisation (2022) shows the following wine consumption per person in litres of pure alcohol in the year 2019: Sweden 3.4 litres, Ireland 2.88 litres and Finland 1.59 litres.

Second cluster belongs to Italy, which has no consumption taxes on still wines. World Health Organisation (2022) shows a higher consumption of wine per person in litres of pure alcohol in 2019, i.e. 4.83 litres. However, according to data from Eurostat (2022), Italy is one of the highest producers and consumers of wine in the European Union. We can understand the low taxation of still wine in Italy as protection of the domestic market.

The third cluster - Belgium, Denmark, Estonia, France, Latvia, Lithuania, Netherlands, Poland - contains only states with a higher than zero rate of excise duty on still wines. France has the lowest rate of excise duty, i.e. 3.91 EUR, and Lithuania the highest, namely 164.67 EUR. Value added tax rates range from 20-25%. France is one of the largest producers and exporters of wine. At the same time, according to World Health Organisation (2022), it has the highest consumption of wine per person in the EU countries in the year 2019 in litres of pure alcohol, i.e. 6.44 litres. Consumption in other countries (from highest to lowest): Denmark 4.08 litres, Belgium 3.41 litres, Netherlands 2.92 litres, Estonia 1.92 litres, Latvia 1.7 litres, Lithuania 0.88 litres and Poland also 0.88 litres. Important importers of wine according to Eurostat (2022) are: Netherlands, Denmark, Belgium and. France.

The fourth cluster - Hungary, Croatia, Greece - contains southern EU states with a zero excise duty rate. Value added tax rates range from 24-27%. Hungary is one of the major producers of wine in the European Union. World Health Organisation (2022) shows the following wine consumption per person in litres of pure alcohol in the year 2019: Croatia 3.52 litres, Hungary 3.33litres, Greece 2.66 litres.

The fifth cluster – Austria, Bulgaria, Cyprus, Czech Republic, Germany, Luxembourg, Malta, Portugal, Romania, Slovakia, Slovenia, Spain - groups twelve states. Malta is the only country with a higher than zero rate of excise duty on still wines (20.5 EUR per hectolitre of product). Value added tax rates range from 13-22%. Portugal is one of the major producers and consumers of wine in the European Union. Portuguese consumers drink 6.04 litres of pure alcohol per person per year. Spain is also an important producer, but also an important exporter. Consumers drink 3.52 litres of pure alcohol in wine per person per year.

World Health Organisation (2022) reports the following wine consumption per person in litres of pure alcohol in the year 2019 (from highest to lowest):

Portugal 6.04 litres (was mentioned); Slovenia 5.26 litres; Luxembourg 4.73 litres; Austria 3.7 litres; Spain 3.52 litres (already been stated); Romania 3.38 litres; Germany 3.02 litres; Czech Republic 2.73 litres; Cyprus 2.72 litres; Malta 2.34 litres; Slovakia 2.01 litres; Bulgaria 1.72 litres.

The results show that states with high production tend to choose lower taxation of still wine and consumption is mostly at a higher level in these states. Italy is the only country that does not tax the consumption of still wine. However, its consumption is no the highest in the European Union. In contrast, states with lower or no production more often choose higher taxation and consumption is rather low here. France is specific because it is among the major producers and exporters of wine with high domestic consumption, while at the same time it has higher wine taxation.

4 Conclusions

The results show that more than half of the European Union states do not tax still wines by excise duty but only value added tax. Most of the large wine producers belong to this group. In essence, it can be argued that wine is subject to low taxation in the European Union, which allows this community to protect its internal market. Italy is the only country that does not tax still wines with excise or value added tax. In contrast, the highest rates of excise duty on still wine are shown by the northern states of the European Union, which are usually neither wine producers nor significant consumers. France is a major player in the wine market, being a major producer, importer and consumer. Still, unlike other producers, it uses an excise duty higher than zero on still wine. Apparently, the tradition of consumption and habits prevails here.

Value added tax is an ad valorem tax and has a stronger pro-inflationary effect than specific excise duties. This effect can cause reduce consumption and thus increase the problem of the European Union with higher production, as mentioned in the introduction. The price level of wine in the Member States is not subject of investigation. However, it could provide another explanation for the tax burden on still wine.

Now a few more notes about the Czech Republic. Wine consumption and prices are increasing in the Czech Republic. The government of this country plans to tax still wine with an excise tax from 2025. We can assume that the excise tax will increase the price and, on the contrary, slow down consumption growth. The question is what prices foreign traders will offer. It is difficult to estimate the situation of Czech wine producers now. The effort to increase the taxation of still wine in the Czech Republic goes against increasing subsidies for wine producers in other regions of the European Union. The increase in subsidies will help producers to bridge the problematic period without significantly reducing production. On the other hand, higher taxation will support the reduction of production and consumption in the Czech Republic. In the future, it is likely that due to climatic changes, there may be an increase in wine production in the Czech Republic as well.

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