Still Wine Can Bring Additional Billions to Public Budgets

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Abstract: The aim of the article is to quantify the possible tax income from still wine for public budgets. The Ministry of Finance has evaluated the possibilities of introducing a higher than zero rate on still wines several times. Still wine is the only alcoholic beverage without excise duty. The Czech Republic applies a zero rate on still wines as well. The author assumes the same rate for still wines as the rate for sparkling wines and intermediate products. The tax will increase the price of a 0.7 l bottle of wine by CZK 18. The results of the article show a possible tax amount of around 4 billion CZK. The National Budget Council also presents a similar result. This revenue is much higher for public budgets than the tax on sparkling wine and intermediate products. However, tradition, popularity of the drink and pressure from producers are of great importance.

Keywords: still wine, excise duty, wine tax, tax revenues
JEL Classification: E620, **H21**

1 Introduction

The aim of this article is to add to the discussion to increase the rate of tax on still wine and passenger cars. Excise duty on wine is one of the taxes on consumption. European Union harmonizes these taxes with relevant directives:

- 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.
- 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.
- Council Directive 92/84/EEC of 19 October 1992 on the approximation of the rates of excise duty on alcohol and alcoholic beverages precisely defines the subject of the tax, the conditions of taxation and the minimum rates for wine.

The minimum rates in Council Directive 92/84/ EEC of 19 October 1992 for still and sparkling wines are zero. States may or may not tax these products. Excise duty rate on intermediate products is 45 EUR per 1 hectolitre of product. Tax rates on still wine are therefore very different in the member states of the European Union.

The Czech Republic taxes still wines at a rate of zero (according to the minimum rate of the EU directive), but taxes sparkling wines and intermediate products at a rate of CZK 2,340 per 1 hectolitre of drink, see Act No. 353/2003 Coll., on consumption taxes. Euro exchange rate in the year 2023 is 24.176 CZK per 1 EUR. Euro exchange rates change every year. The Czech tax rate in Euros is EUR 95.6664 per 1 hectolitre of sparkling wine and intermediate product. European Commission (2023) lists these tax rates in its documents.

The Ministry of Finance of the Czech Republic considered introducing a tax on still wine several times. Still wine has a zero tax rate even further. Wine growers, wine producers and importers are a strong interest group. In addition, the administrative costs associated with tax collection and the effectiveness of this tax may be the reason for the zero rate. Health experts argue that the alcohol in still wine is just as harmful to health as it is in other taxed alcoholic beverages. However, still wine is a single alcoholic drink without excise duty.

2 Literature Review

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. 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

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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;

Another 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%.

I wrote about various approaches to the taxation of still wine in the Member States of the European Union in my article on the taxation of still wine in the European Union (Rybová, 2023). It is usually the case that countries that purchase still wine from other countries tax this product at higher rates. On the contrary, countries with higher domestic production and lower imports of still wine tax it at low rates or do not tax still wine at all. This is not the case in the Czech Republic. The Czech Republic purchases more still wine from other countries than it produces and still wine has a zero excise rate. On the other hand, sparkling wine imports less than it produces and the excise rate is higher than zero. Specifically, it is CZK 2,340/hl of sparkling wine. The taxation of still wine is politically impenetrable. Producers of still wine, mainly in Moravia, are a strong interest group against this taxation.

The International Organisation of Vine and Wine (2024) confirms that some European Union countries produce wine beverages in large quantities. Italy, France, Spain, Portugal, Greece, Germany and others trade their wine production on world markets. Incidentally, statistics from this organisation (International Organisation of Vine and Wine, 2022) show that China is also a significant wine producer. It is a significant producer and exporter of fresh grapes and tends to import wine. The author Shuanglin Lin (2022) analyses taxes burdening consumption in China. She states that specific taxes on alcoholic beverages are among the most significant taxes from total tax revenues in China and points out that these taxes are not favourable for income redistribution. 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.

Authors Goodhue et al. (2012) examined wine tax, production, aging, and wine quality. The authors evaluate the effectiveness of different wine taxation practices. Their analysis found the following: an increase in the volumetric retail tax collected at sale increases quality, so that the basic Alchian-Allen effect holds. However, an increase in the volumetric storage tax collected each period decreases quality, as does an increase in the ad valorem storage tax. The effect of an increase in the ad valorem retail tax on quality is indeterminate. Increases in any tax reduce the quantity of wine produced. Any two-tax system that includes a volumetric sales tax spans the full ranch of feasible tax revenues with positive tax rates. Provided the tax system includes a volumetric sales tax it may be efficient, regardless of which of the other instruments, or how many of them, are used. We must evaluate the assertions about the inefficiency of taxation empirically on a case-by-case basis.

The authors Kuang et al. (2024) submitted an interesting article about Sassicaia 2015 scandal and its consequences. The findings from this study reveal a counterintuitive market response to the 2015 Sassicaia counterfeit scandal. Contrary to expectations, the publicity surrounding the event did not diminish buyer confidence. Instead, it appears to have increased demand for the authentic 2015 Sassicaia, perhaps because of an increase in the perceived rarity and heightened media attention. This suggests that in the high-end wine market, scandals can sometimes enhance the desirability of a product, particularly when its authenticity is verified. The analysis shows that the counterfeiting event led to a significant increase in the price of the 2015 Sassicaia compared to other Sassicaia vintages and comparable Super Tuscan wines. This outcome might seem paradoxical. However, several factors could explain this price increase: rarity perception and media attention.

3 Methods

The aim of the contribution is to estimate the amount of tax revenue from the consumption tax on still wine when the rate is increased. Two steps lead to the estimation of the still wine tax yield. The first step is to calculate the total volume of wine consumption in the Czech Republic. The second step is the calculation of the tax revenue from still wine. Individual subsections describe one of the steps.

3.1 Consumption of wine

The Czech Statistical Office (2024) publishes the consumption of wine per person in litres of the drink and in litres of pure alcohol. Beverage consumption in litres is part of the calculation in this article. Data for wine consumption summarizes the consumption of still wine, sparkling wine and intermediate products. This Office registers separately two types of wines, i.e. wine made from grapes and other wines. The amount of consumption of wine is the sum of both types shows table 1.

Table 1 Consumption of wine in the Czech Republic per year (per person)

Type of wine (unit of measurement)	2017	2018	2019	2020	2021	2022	Average of consumption
Grape wine (litre)	16.4	17.1	17.2	16.5	17.2	16.5	16.8
Other wine (litre)	3.0	3.3	3.1	3.3	3.6	3.4	3.3
Total (litre)	**19.4**	**20.4**	**20.3**	**19.8**	**20.8**	**19.9**	**20.1**

Source: Czech Statistical Office

Wine consumption is growing in the long term, according to data from the aforementioned office. For example, in 1971, 1 person consumed 11.3 litres of wine per year. In 1980, 1 person consumed 14.1 litres, and in 1990, 14.8 litres and in 2000, 16.1 litres.

The Czech Statistical Office (2024) recalculates food consumption to the average state of the population of a given year. The number of inhabitants is the average state of the population on July 1 in the relevant year. The following table 2 shows the average population figures in 2017–2022.

Table 2 Average population on 1 July in 2017-2022

Year	Average population	**Year**	Average population
2017	10 589 526	**2020**	10 700 155
2018	10 626 430	**2021**	10 500 850
2019	10 669 324	**2022**	10 759 525

Source: Czech Statistical Office

I need to calculate the total consumption in the Czech Republic in litres. Metadata of the Czech Statistical Office shows the use of the median number of inhabitants as of July 1 of a given year, see table 2. The calculation of total consumption in the Czech Republic is as follows:

Total wine consumption = Consumption of wine per person per year * average population on 1 July (1)

These data cannot separate the consumption of still wine from sparkling wine and intermediate products. It will only be possible to separate the still wine in the second step.

3.2 Still Wine Taxation

As already mentioned, the tax rate in the Czech Republic and the minimum rate in the EU directive on still wines is zero. The Ministry may choose the rate for still wines at its discretion. We have many options to introduce this tax. We can set it arbitrarily in any amount. We can also raise it gradually to the level of excise duty on sparkling wine or it can be set to its level immediately. This is the easiest way to have the same rates for still and sparkling wines. The subject of the article is a simple model for calculating tax revenue from the tax for still wine. The rate for still wine is the same as the rate for sparkling wine. Equation 2 for calculating still wine tax revenue:

Wine tax revenue = total consumption of wine * tax rate (CZK per litre of product) (2)

The consumption of still wine in litres of the product is correct for this calculation. The tax rate for still wine in this model is the same as the tax rate for sparkling wine, i.e. CZK 23.40 per 1 litre of product. But we do not know whether the consumption refers to still or sparkling wine. Therefore, we multiply the total consumption by the tax rate and then subtract the tax income from the sparkling wine and the intermediate product, see equation 3:

Still wine tax revenue = Wine tax revenue – Sparkling wine and intermediate product tax revenue (3)

The difference between the tax on total wine consumption and the tax revenue from sparkling wine and intermediate products will show the amount of tax on still wine. This amount of excise duty on still wine is theoretical. Her ability to speak is limited. I did not consider the production of wine by natural persons up to 2000 litres. Wine production up to this limit is not taxed, see Svátková (2009). I am unable to verify this based on the available data. On the other hand, it is likely that home production and consumption of wine without its official sale is not in the statistical data.

We need to know the current revenue of the Customs Administration of the Czech Republic (n. d.) from the taxation of sparkling wine and intermediate products to determine the tax revenue generated by the taxation of still wine.

Table 3 Excise duty od sparkling wine and intermediate products

	2017	2018	2019	2020	2021	2022	Average of values 2017-2022
Excise Duty of sparkling wine and intermediate products in million CZK	380.7	408.0	403.6	444.7	483.2	552.73	445.49
Excise duty of domestic production	377.6	405.2	401.5	442.8	481.4	550.71	443.20
Import duty	3.1	2.7	2.1	1.9	1.8	2.03	2.27

Source: Customs Administration of the Czech Republic (n. d.)

Sparkling wines and intermediate products come mainly from domestic production and taxation works well here. In other states of the European Union with a predominance of consumption of domestic production, wine is tax-free, as stated for example by Rybová (2023).

4 Research results

The first results show the total consumption of wine in litres in the Czech Republic. The following table shows the excise duty for all wines (still and sparkling) and intermediate products in the event that the tax rate is the same for all types of products. I abstracted in the calculation from the tax exemption for low wine production.

Table 4 Theoretical wine tax revenues

	2017	2018	2019	2020	2021	2022	Average of values 2017-2022
Total consumption of wine in the Czech Republic per year (hectolitre)	2058,603.8	2164603.8	2166939.7	2115420.6	2181026.5	2143297.4	2138315.3
Tax rate per hectolitre of wine (same as rate for sparkling wine, CZK per hectolitre)	2340	2340	2340	2340	2340	2340	2340
Theoretically possible tax revenue in billion CZK	4.82	5.07	5.07	4.95	5.10	5.02	5.00
Excise Duty of sparkling wine and intermediate products in billion CZK	0.38	0.41	0.40	0.44	0.48	0.55	0.45
Theoretical tax revenue of still wine	4.44	4.66	4.67	4.51	4.62	4.47	4.56

Source: Own processing

The last row of the table shows the likely amount of tax on still wine. When we look at the amount of tax collected from sparkling wine and intermediate products, taxing still wine can be interesting for public budgets. Empirical studies show that an increase in the rate of excise taxes reduces the consumption of taxed products, but this is only temporary.

The National Budget Council of the Government (2023) writes in Daniel Bárta's commentary about the exception in the taxation of still wine. It is evident that this exception is not correct. The absence of taxation of still wine prepares public budgets by up to five billion per year. This result is consistent with the results of this study. This article states that in the European Union, 15 countries do not impose excise duty on wine, where consumption from domestic producers dominates. This is not the case in the Czech Republic. Here, domestic producers cover only a third of the consumption.

Another question presents itself to us. What will the price of a bottle of wine be if we raise the rate to the level of the rate for sparkling wine and intermediates? The following example shows a price increase.

Wine tax rate: Tax rate on 1 litre of wine CZK 23.4

Tax 0.75 litre of still wine CZK 17.55

The price of wine will increase by CZK **18**

Empirical studies show that increasing consumption taxes that are included in the price of goods results in a tax shift of more than 100%. This means that the seller increases the price not only by the tax but also by his margin. Fletcher, Deb and Sindelar (2009) describe this in their study on tax incidence.

5 Conclusions

It is evident that the tradition, the popularity of the drink and the pressure from the producers are of great importance. Still wine has a privileged position over other alcoholic beverages in the Czech Republic. This drink has a long tradition here. This applies not only to cultivation, but also to consumption. Czech society perceives it more as a food than as an alcoholic beverage. Czech governments have already considered the introduction of an excise duty on still wine several times, but have yielded to pressure from interest groups, mainly from producers. The experience of other European Union states shows that states that consume the majority of domestic production and import only a small amount do not tax wine. They protect their market. In the Czech Republic, we tax sparkling wines and intermediate products, where domestic production prevails. On the other hand, we do not tax still wines, where a large share is imported. At the same time, the results of this study, information from the National Budget Council show that taxation of still wine would bring more money to public budgets than taxation of sparkling wine and intermediate products. At the same time, the price of one bottle with a volume of 0.7 litres of wine would increase by only CZK 18. It is likely that consumption of still wine would decrease slightly for a short time. We can assume the impact of the consumption tax according to the results of various studies so far. A prerequisite for similar products is a low elasticity of demand. This means that consumers are less sensitive to a change in price. If the price of wine is higher, part of the tax may also fall on the producer. If the price of wine is higher, part of the tax may also fall on the producer in the form of a lower margin from the sale of wine. The tax can most often fall on customers by increasing the sales price by the wine tax.

In connection with the article by Goodhue et al (2009), I can add that the Czech Republic taxes sparkling wines with an ad valorem sales tax and a specific volume tax. The proposed taxation of still wine is the same as sparkling wine. The specific tax will increase the price when sold to final consumption. This may lead to a decrease in the quantity sold, especially for the cheapest wines. The Czech Republic most often imports these wines. A wine tax would affect domestic wines less than cheap imported wines. These may increase the competitiveness of domestic wines.

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