POLICY BRIEF

Modelling the impact of beer excise taxes on consumption and revenue in South Africa

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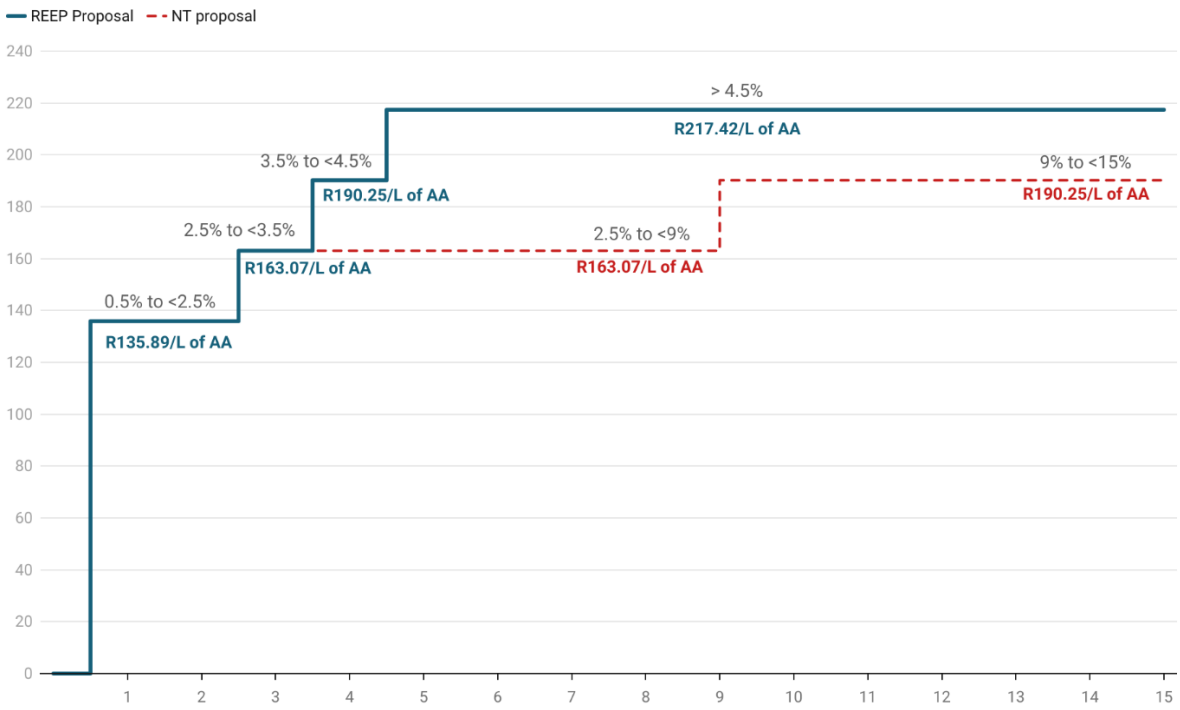
INTRODUCTION

Alcohol is a major public health concern in South Africa, contributing to a wide spectrum of harms including violence, injuries, trauma-related hospital admissions, mental health disorders, infectious diseases, and premature mortality.[1] [2] Estimates from several publications indicate that the number of alcohol-attributable deaths in South Africa is in the range of 36 200 to 62 300 deaths per year.[2-4] In response to these harms, the National Treasury has proposed reforms to the alcohol excise tax system, including a tiered tax structure for beer based on alcohol content. Beer dominates the alcohol market, accounting for 75% of beverage volume consumed and over 50% of alcohol excise revenue. We provide recommendations based on the tax simulation model for different beer tax scenarios.

BACKGROUND

Beer in South Africa is taxed by litres of absolute alcohol. In the 2024/25 fiscal year the excise tax was levied at a rate of R135.89 per litre of absolute alcohol. National Treasury's proposed structure (tiered approach) would replace the current flat-rate system. The tiers are based on alcohol by volume (ABV). However, the tiers in the National Treasury's proposal—particularly the broad 2.5% to 9% ABV tier—is unlikely to incentivise producers to reduce the alcohol content. More than 99% of beers fall within this range (and most beers fall in the 4% ABV to 6% ABV range), limiting the effectiveness of the policy in reducing alcohol content.

To address these limitations, the Research Unit on the Economics of Excisable Products (REEP) developed an alternative proposal with **more granular tax tiers** and stronger incentives for reformulation. The REEP proposal introduces tiers with narrower ABV intervals, specifically 0.5-2.5%, 2.5–3.5%, 3.5–4.5%, and above 4.5%), which better reflect market realities and encourage producers to lower alcohol content.



Source: Research Unit on the Economics of Excisable Products, University of Cape Town, 2024/25 excise tax rate data from National Treasury's 2024 Annual Budget. Proposed tiers data from National Treasury's 2024 'Taxation of Alcoholic Beverages' document. • Created with Datawrapper

This policy brief presents findings from a tax simulation model, evaluating the impact of various excise tax scenarios on beer consumption, government revenue, and industry dynamics. The methodology, assumptions and more detail are described in detail in the main report. The model demonstrates that a well-calibrated tiered tax system can significantly reduce alcohol consumption, enhance public health outcomes, and maintain fiscal sustainability. Moreover, simulations show that industry reformulation—prompted by targeted tax incentives—can lead to substantial reductions in alcohol intake with minimal impact on industry revenue.

KEY FINDINGS

Using a tax simulation model, three main scenarios were modelled:

Key findings include:

- The NT proposal results in a modest 1.9% reduction in absolute alcohol consumption and a 17.7% increase in government revenue.
- The REEP proposal with industry reformulation leads to the largest reduction in absolute alcohol consumption (–15.7%), a 12.9% increase in government revenue with only a 1.3% decline in industry revenue.
- Aggressive uplift factors for beers above 4.5% ABV yield the highest revenue gains (68%) and stronger public health outcomes, even without product reformulation.
- Partial reformulation balances public health and industry sustainability, reducing alcohol consumption by 11.8% with a 2.4% decline in industry revenue.

POLICY RECOMMENDATIONS

1. Adopt a tiered excise tax structure based on alcohol content

Replace the flat-rate system with a progressive tiered structure that increases tax rates with alcohol strength, aligning with WHO guidance and international best practices.

2. Implement targeted tax tiers

Introduce refined tiers within the 2.5%–9% ABV range to reflect market realities and to incentivize reformulation:

- 0.5% to 2.5% ABV: Uplift factor 1.0
- 2.5% to 3.5% ABV: Uplift factor 1.2
- 3.5% to 4.5% ABV: Uplift factor 1.4
- Above 4.5% ABV: Uplift factor 1.6

3. Consider aggressive uplift factors for high ABV beers

Increase the uplift factor to 2.0 for beers above 4.5% ABV to further encourage reformulation of high-alcoholic products.

4. Annual excise tax duty rate adjustments

Increase alcohol excise taxes by four percentage points above inflation annually for the next 5 to 10 years to reduce affordability. This adjustment reflects the combined growth in inflation and per capita GDP.

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