



Supervision activity of the Swiss Alcohol Board Evaluation of the inspection strategy, the resources employed, and the inspection results

Summary

The Swiss Alcohol Board (SAB) is a decentralized unit of the Federal Administration entrusted with the practical implementation of the alcohol control legislation. As of 1 January 2007, it employs 169 full-time employees, 10 of whom are in training. Subject to the Alcohol Act are all distilled products (spirits, brandies, aperitifs, etc., as well as high-grade alcohol for industrial purposes). The SAB's mandate is primarily concerned with the fiscal aspects relating to distilled products, i.e. collection of taxes, control of import, production, and trade. Each year, the SAB conducts more than 10,000 announced or unannounced inspections on site, resulting in annual retroactive demands of between 0.5 and 1.5 million francs. A consumption tax of 29 francs per litre of 100%-pure drinking alcohol is levied. This price rise is primarily levied for health policy reasons, in order to reduce the consumption of spirits. Not affected by the Alcohol Act are the classical fermented products: beer, wine, and fruit wine. In comparison with EU countries, the Swiss alcohol tax is in the middle of the field. In the North, the taxes are higher, and in the South, they are somewhat lower.

In Switzerland, there are 124,000 producers of spirits and 13,500 distillation facilities with an annual production of approximately 20,000 hectolitres of pure alcohol. More than 70,000 hectolitres of pure alcohol are imported. The average total consumption of alcoholic beverages per capita amounted to between 8.5 and 9 litres of pure alcohol in recent years; in other words, every Swiss person drinks an average of 42 litres of wine, 56 litres of beer, and nearly 4 litres of spirits (40% alcohol) each year. In terms of pure alcohol, the share of spirits in the consumption of all alcoholic beverages is therefore less than one fifth.

In the 2006 fiscal year, the SAB recorded net revenue of 247.7 million francs, of which 222.7 million were transferred to the Old-age and Survivors' Insurance (AHV), and the Invalidity Insurance (IV) and 24.7 million to the cantons for fighting addiction. The total expenditures of the SAB amounted to 32 million francs.

Object and purpose of the evaluation

The object of the evaluation is the supervisory system of the SAB. This system includes both internal audit activities (including administration and review of distillery applications and tax statements) and on-site inspections (of producers, farmers, bars and restaurants, retail and wholesale traders, and tax warehouses, etc.). The evaluation aims to provide a general overview of the SAB inspection system as well as information on the goals, the human resources, and the costs of the inspection activities and the cooperation of the SAB with other actors involved in supervision. The object of this evaluation does not include the activities of the SAB profit centre Alcosuisse, which has the SAB monopoly for the import and trade of high-grade alcohol (alcohol level 80% and more).

The evaluation is based on the results of various survey and analysis methods (interviews; written questionnaires submitted to inspectors; document, data, and costs analyses). In addition, two case studies (Germany and France) show how the inspection system for spirits is organized in other countries.



Several organs exercise supervision and inspection functions

In addition to the SAB, the most important actors involved in supervision and inspection are the cantons (responsible for execution of the Foodstuffs Act), the Swiss Federal Customs Administration (responsible for import and export processing of products containing alcohol and partially responsible for levying the alcohol tax), and the VAT authority (inspections of operations subject to VAT that produce or trade in spirits). The SAB also cooperates with the relevant business organizations, in particular the Swiss Association for Spirits, the Swiss Distillers Association, and the Swiss Fruit Union. The SAB works together with the Swiss Federal Office of Public Health, which holds primary responsibility for prevention through information and awareness-raising at the federal level. The SAB also maintains close contact with the Swiss Institute for the Prevention of Alcohol and Drug Problems in Lausanne. In addition, numerous bilateral, personal contacts exist between the SAB and federal and cantonal authorities, third parties, and abroad, this exchange of information being primarily of an informal nature.

SAB inspections ensure complete declaration of spirits

The SAB has not set out its inspection goals in writing. Ensuring complete declaration and the subsequent collection of the alcohol tax are viewed as the most important goal. It aims to prevent the circulation of cheap and/or untaxed alcohol on the market.

With respect to the definition of the main goals of inspection, preventive health policy concerns (including containment, reduction, or regulation of consumption) turn out to be viewed as less important relative to the fiscal aspect. Likewise, the amount of the retroactive demands arising from inspection activities is not seen as an important measure of the effectiveness of the inspections. Rather, equal legal treatment is to be ensured by the choice of specifications. Similarly, equal treatment must be taken into consideration when selecting inspection cases. No taxable individuals or entities should have reason to assume they will never be inspected.

47 positions at the SAB are allocated to inspection activities

Currently, the SAB allocates 47 positions – i.e. 40% of the SAB staff (not counting Alcosuisse, trainees, and maintenance staff) – to inspection activities. The personnel costs for inspection activities amount to nearly 6 million Swiss francs. The Swiss Federal Audit Office (SFAO) regards the creation of an organizational unit for Controlling and Audit as a key competence centre for on-site inspections as fit. The appropriate foundations should now be developed, however, so that Controlling and Audit can be utilized in a targeted and optimal manner. Since several staff members will retire in the coming years who can hardly be fully replaced, it is important to concretely plan and utilize the resources on the basis of a clear strategy and corresponding risk management.

Farmers and small producers absorb a significant share of the inspection resources

In the view of the SFAO, these two groups of producers currently absorb a disproportionately high share of the SAB human resources allocated to inspection, namely 40%, in proportion to their production volume and tax revenue. Likewise, these two groups of producers absorb the highest share of personnel costs for case processing. Approximately 87% of the taxed volume of spirits and therefore also of the SAB revenue arises from the spirits traded by the tax warehouses, and 8% of the amount is taxed directly upon import. The share of tax revenue arising directly from production by farmers and small and medium producers is rather low, namely a total of 4.5%.



A large proportion of taxable individuals and entities are currently inspected

The current inspection system covers a large proportion of the taxable individuals and entities subject to inspection. Each year, more than 10,000 inspections of producers and traders are conducted on-site, resulting in between 0.5 and 1.5 million francs in retroactive taxes and fines each year. This – rather modest – amount indicates that the system of taxation functions well, that sufficient inspections take place, and that the legal provisions in force for quite some time are largely complied with.

The scope of an inspection can vary considerably, depending on the type of inspection and the assessment of the inspector with respect to risk, impression of the operation, production volume, and other factors. On-site inspections are sample inspections, are generally carried out by a single person, and are primarily based on the distillation records or the alcohol accounting of the operation. If no irregularities are observed, no written report is compiled, and the inspection is hence not documented.

In the future, inspections should be conducted on a more risk-oriented basis

The current selection procedure covers various risks defined by the SAB. The findings from the inspections are, however, used on a case-by-case basis and are not used broadly to draw appropriate conclusions for future inspections. Significant data on the taxable persons and entities – and also on the inspection results – is stored in various data sources, which are not centrally or electronically accessible. Currently lacking is a networking of all data and data sources as a basis for comprehensive risk analysis. Given the decreasing availability of resources for inspection, the targeted selection of audit cases and their assignment to the inspectors is becoming increasingly important.

The upcoming legislative revision will permit simplifications and savings

In recent years, the SAB has undertaken various organizational and process-oriented changes and simplifications relating to supervision, some of which have also affected the taxable persons and entities. For instance, the distillery supervision offices have steadily been consolidated, entailing a reduction from over 2,000 to currently 210 employees. However, the SFAO believes that further potential for simplification and therefore savings at the SAB exists, e.g. in relation to the system of tax-free own-consumption for farmers and the 30% tax reduction for small producers. This potential should be discussed in the context of the envisaged total revision of the Alcohol Act. Irrespective of which federal authority (SAB, Swiss Federal Office of Public Health, or Swiss Federal Customs Administration) is ultimately entrusted with the lead in the legislative revision, the expertise available at the SAB should be taken advantage of.

Close supervision of spirits production in Germany and France

On the occasion of its visits to Germany and France, the SFAO noted that the production of spirits in both countries is closely monitored and supervised. In both countries, the responsibility for levying the tax on spirits and for control of the production lies with the customs authority. External auditors and tax supervision officers are trained for some of the on-site inspection activities relating to spirits. Unlike in Switzerland, where the SAB also performs health policy functions under the Alcohol Act, the customs organs have no responsibilities or powers in this regard. On the whole, it was noted that distillation and the inspection thereof is organized more liberally in Switzerland than in Germany and France.



The evaluation results lead to five recommendations

1. Based on the goals to be achieved, the SAB should develop a formal strategy for on-site inspections, with a corresponding inspection concept. This concept should take greater account of risk considerations.
2. The SAB should build up a comprehensible and developable risk analysis with appropriate risk management, capable of further development. Risk analysis would provide the SAB with a tool to react in a targeted manner to the planned reduction of human resources and the associated decrease in the number of inspections.
3. In connection with the reduction of positions – over the next 5 years, the SAB anticipates a reduction by 20% – the SAB should draft a clear reduction and relinquishment plan. Certain adjustments in the focus areas of inspection should not be ruled out.
4. The SFAO supports the planned total revision of the Alcohol Act. The simplifications with regard to small producers and farmers should be further pursued, and the system of tax-free own-consumption for farmers should be called into question altogether, as should the 30% tax reduction for small producers.
5. The SAB should clarify with which other organs relating to alcohol supervision it should strengthen cooperation or formalized information exchange.

The Swiss Alcohol Board appreciates the recommendations of the Swiss Federal Audit Office and will take the appropriate action for their implementation - as far as this has not yet been arranged for.

In 2007, the project on “Review of Federal Responsibilities relating to Alcohol” under the direction of the General Secretariat of the Swiss Federal Department of Finance is being conducted in the framework of the task relinquishment plan of the Confederation. The report of the working group was made available at the end of August 2007. The decision of the Federal Council on the future orientation of the responsibilities of the SAB is intended to be taken in the course of 2007. But irrespective of its further orientation, there is to be stated that the SAB's expertise on the levying of taxes should definitely be taken into account.

Original text in German