WET Reform
October 2016

The May 2016 Budget announced that it would:

- Reduce the WET rebate cap from $500,000 to $350 in July 2017 and further reduce the cap to $290,000 from 1 July 2018;
- Tighten eligibility criteria such that from 1 July 2019 a wine producer must own or lease a winery and sell branded, packaged domestic wine to qualify for the rebate;
- Strengthen associated producer legislation and tighten anti-avoidance measures.

The current value-based tax on wine disadvantages small/medium wine producers and encourages people to drink cheap wine over expensive wine. Volumetric tax is preferable.

The 2009 Henry Report on tax reform recommended that tax on wine be volumetric. "If alcohol taxes are to be effective in reducing social harm, the taxation of beer, wine and spirits needs to be reformed. The ideal tax structure would be a volumetric tax on all alcoholic beverages." – Henry Report E5-3

Australia is one of few, if not the only country in the world to have a wine tax which is value-based and not volumetric.

The rate of WET tax on Golden Oak Fruity White 4 litre cask is around $0.42 per litre.
The rate of WET tax on Curly Flat Pinot Noir is $10.79 per litre (25 times the rate per litre for Golden Oak Fruity White cask wine)

Once a wine producer's sales have exceeded the WET rebate, the WET tax becomes just another marginal cost. For a producer of premium wine, the WET tax payable becomes a crippling marginal cost that threatens the viability of the business or at least takes away any incentive to increase production and make more effective use of investment.

It is nonsense to talk about a WET rebate being a subsidy when WET tax is imposed on such an unfair basis.

One of the main reasons for the introduction of the WET was to raise revenue to combat the social costs of alcohol abuse. Cheap bottled and cask wine (currently benefitting from the lowest tax rate of all alcohol produced in Australia) has been associated with problem drinking. Public policies that raise prices of alcohol have been shown to be effective at reducing problem drinking. A fair, uniform volumetric tax would raise the price of these low priced wines. This would raise more revenue to combat the social cost of alcohol abuse, as well as raise the price of the cheapest wine, resulting in lower rates of alcohol abuse to begin with.

A volumetric wine tax would not be as easy to rort as the current value-based system.

The government is not considering volumetric tax at this time so efforts must be made at making the best of the current, poor, value-based system of taxing wine.

The WET rebate was introduced in 2004 to reduce the onerous penalty of value-based WET tax on small / medium producers in regional Australia.

Small / medium wine producers benefit regional Australia through:

- Regional tourism. Attract more visitors into regional areas.
- Increased regional employment through wine production and wine tourism. Small / medium producers are more labour intensive than large producers, hand pruning, hand picking.

The current WET tax is an excessive marginal cost for producers of premium wine as it can be imposed at $5 to $20 per litre or more.

Small / medium wine producers have to produce premium wine (over $20 per bottle) to have any prospect of finding a market for their wine and having a profitable business. Small / medium producers cannot compete with huge producers in the under $15 market that has the lowest WET burden.

Small / medium producers need to be of reasonable size to have traction in the market, ie to get recognition from wine writers, brand recognition with consumers and to get sales in restaurants.

Small / medium producers whose sales generate WET over a rebate cap of $290,000 are hammered with the expense of WET tax at over $10 per litre (in my case) which can render the sale unprofitable.

Wine producers need to be small so that they stay under the WET rebate cap or go very big to get economies of scale. Wine producers whose sales generate WET in the range $290,000 to $500,000 will fall into an unprofitable zone because of the excessive rate of WET tax per litre. There is no incentive to increase production, making additional use of the existing facilities. It will be difficult to progress from being a small producer to production big enough to get the economies of scale sufficient to be able to bear the excessive cost of WET tax at $5 to $10 per litre or more.

Small / medium wine producers have many challenges in addition to excessive value-based WET tax

- The huge wine producers have a greater capacity to control the market.
- The huge wine producers have greater clout with Coles and Woolworths who dominate the wine sales market. Coles and Woolworths are amongst the biggest wine producers.
- Small/medium producers are more at the mercy of the weather, effect on crop quality and quantity because they rely on grapes they have grown themselves or don't have the clout of huge producers in buying grapes in years when crop levels are lower. Because of bad weather at flowering, the market value of our 2009 crop was worth $900,000 less than the 2008 crop. With huge fixed costs, it was extremely challenging to keep the business afloat but with 90 hours working weeks, we managed.
- Wine producers are roped into the Winery Award which has higher pay rates than the Horticulture Award during harvest and for employing teenagers at any time.

Do we want Australian wine to have the reputation of being "sunshine in a bottle"? Do we want Australia to be known for producing "goon" (cask wine). From TimMEy's wine blog – *On the one hand, it's a cheap drink that tastes good ice-cold or mixed. On the other hand, it can be disgusting. On the box of one brand, Golden Oak, it says "produced with the aid of milk, egg, nut, and fish products and traces may remain. Sugar added." Of course, some optimistic mates say, "well, at least it's a whole meal".*

Premium wine producers (often small/medium producers) are working hard to raise the profile of their own wine which raises the profile of Australian wine generally. The New Zealand government has done a mighty job of helping raise the profile of New Zealand wine. The Australian value-based WET tax harms premium wine producers, many of whom are small/medium.

Small/medium wine producers usually work long hours (in my case, more than 70 hours a week for the past 25 years) earning no penalty rates for working overtime or on public holidays. Small/medium producers open the doors to tourists who arrive out of hours. My first cellar door experience in Victoria was with Laurie and Nola Williams of Flynn & Williams – I was welcomed into their home, listening to Laurie's tales, enjoying snacks made by Nola. At Curly Flat cellar door, there are no crowds arriving on buses; visitors sit by the open fire and often stay for an hour or more and are attended to by people who work in the vineyard or winery and know the wine intimately. Small producers can provide a unique, personal wine experience that large producers could not do.

What style of wine industry does Australia want to promote? A WET rebate cap of $290,000 with the excess WET tax payable at $10 per litre stifles small/medium producers of premium wine.

"Top up" Rebate of $210,000 for sales direct to consumers

I urge the government to consider the proposal that if retaining the rebate cap at $500,000 per annum is not feasible, that an additional "top up" rebate be introduced so that eligible Australian wine producers can have an additional rebate up to $210,000 on sales direct to consumers.

The WET rebate was introduced to lighten the burden on genuine regional producers.

Producers with vineyards and/or wineries in regional areas can have a significant investment. Forces beyond the control of producers can make it difficult or impossible to get sufficient/any return on that investment in some years. We are farmers. You can't just mothball the vineyard/winery till better conditions return. If the weather goes against them and the crop is decimated, losses can be crippling. In the years where producers generally have bumper crops, there are different challenges in that it can be harder to sell all your wine in the year after release. If the AUD is high relative to other currencies, you can have a flood of cheaper imports with which to compete as happened after the 2008 global financial crisis. In the tough years it is very difficult to bear additional burdens such as excessive value-based WET tax.

Conditions on the "top up" rebate of $210,000:

- That producer must have already qualified to receive the $290,000 capped rebate;
- Any additional sales must be direct to consumer;
- WET must have been paid in order to claim the rebate;
- The sales must have been processed from a physical cellar door outlet;
- The producer must satisfy suitable criteria

Proposed that criteria eligibility tightened such that a wine producer must own or lease a winery

Vineyard owners have significant investment in the wine industry. It is inefficient for all grape growers to own their own winery and have those winery assets underutilised and getting poor returns. Producers of fine grapes do not necessarily have wine making skills. Better use of resources to have their wine made under contract. Winery owner make more efficient use of his winery facility and equipment.

Many grape growers without their own winery produce quality wine and put their hearts and souls into marketing their wine.

Consider granting eligibility to those with

1. a significant interest in a winery, or
   a significant interest in a vineyard

and

2. inventory, beneficial ownership of the brand

Could there be a rebate of 50% of the maximum rebate if you have a significant interest in a vineyard and another rebate of 50% of max if you have a significant interest in a winery? Consequently, if you have both a vineyard and a winery, you qualify for the maximum rebate.