



VASSE FELIX
MARGARET RIVER

6 October 2016

Murray Crowe
Principal Advisor
Individuals & Indirect Tax Division
Treasury
Langton Crescent, Parkes ACT 2600

Dear Mr Crowe,

Re: Proposed reduction of the WET rebate cap

In the 2016 Budget, the Federal government announced proposed changes to the WET rebate. One of these, a proposed reduction in the rebate from \$500K to \$290, will have a disproportionate negative impact on the WA wine industry generally and on key regional wine tourism businesses such as ours particularly.

As a small to medium wine producer we operate at the premium end of the wine market and make a huge contribution to the reputation for quality that Australian wines enjoy, both domestically and internationally. However, we do not have the economies of scale that large producers are able to achieve in grape production, purchasing power of inputs or wine making volumes. Our production techniques, marketing and sales and distribution channels are also very different to the major producers and much more expensive. This requires us to charge more for our wine than large producers and this pricing differential is magnified by the WET system. The result is that it is very difficult for us to achieve sustained profitability under a system where taxation of wine is based on value rather than volume. The distance to market WA faces also makes this system worse as we pay WET on freight costs inputted into our cost of goods, including getting dry goods into WA and the finished product to market.

This was recognised by the Government in 2000 and 2004 when the WET Rebate was introduced and expanded with the intent of ensuring that "Around 90% of wine producers will be able to fully offset their WET liability by accessing the new rebate. In particular, small wine producers in rural and regional Australia will benefit significantly, receiving around 85% of rebate benefits." (Tax Laws Amendment (Wine Producer Rebate and Other Measures) Bill 2004, Explanatory Memorandum at para 1.6). It is clear from this and other statements made at the time that the intent of the WET Rebate was to provide relief to small and medium wine producers from the WET, in recognition of the important contribution of those producers to regional tourism and regional employment.

The WET Rebate Consultative Group's report in October 2015 found that since its introduction, the WET Rebate has underpinned investment in regional areas in winemaking infrastructure, vineyards and cellar doors. This has enabled the number of smaller winemakers to increase, and the increase in producers has created diversity in the wine industry, which has in turn supported tourism and regional employment.

A 2011 survey of WA wine producers conducted by Wines of WA (WoWA) found that for 95% of respondents the WET Rebate was critical to the profitability of their business. Any reduction in the WET



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Rebate for producers in these regions will have a significant flow on effect, and for many producers will mean the difference between a profitable and a loss making business.

For these reasons, we believe that the cap should remain as is until 1 July 2019 while the effectiveness of integrity measure amendments to eligible product and producer are assessed.

If changes to cap are introduced, WoWA has suggested the following:

- Maintain the overall rebate cap of \$500,000 but refocus it so that the full amount is only available on cellar door and direct to consumer sales, and introduce a limit within the cap on the rebate available for wholesale sales at \$350,000.
- This refocused cap should apply from 1 July 2019, to enable the impact of the changes to the rebatable wine and eligible producer definitions to be assessed and to provide a reasonable period for eligible producers affected by the wholesale cap reduction to adjust their businesses.
- Concurrently, government and industry should consider how to implement a simpler and fairer taxation system for wine based on volume, as that is the ultimate integrity measure.

If you require further information regarding this issue, please do not hesitate to contact me.

Yours sincerely,

Paul Holmes à Court
Chief Executive Officer