Senate Economics Legislation Committee

Inquiry into the provisions of the Excise Tariff Amendment Bill (No. 1) 2002 and the Customs Tariff Amendment Bill (No. 2) 2002

Submission No.

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Attachments?

No Attachments





Helm Wines

Premium Canberra District Wines

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Submission to Senate Economics References Committee (Excise Tar. If Amendment Bill(101)

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WINE TAXATION

Background

The Canberra District winery Helm Wines like most throughout Australia are suffering from the 29% Wine Equalisation Taxation (WET) which is levied on the wholesale price of the wine. (ad valorem). At the time of its implementation two years ago, the Howard Government recognised that Regional wineries should be exempt from the WET on Cellar Door /Mail Order sales and only pay GST, so they could maintain profitability in their businesses. However, wholesale sales eg to Liquor stores or Restaurants the wineries collect and pay the 29% WET plus 10% GST a total of 42% taxation.

The system was further complicated by the wineries being required to collect the Tax, then complying with a rebate (subsidy) system which involves each State rebating 15% of the WET without any threshold and the Commonwealth rebating 14% (subject to certain thresholds). The WET is payable on wine for own use (tasting and promotional stock) but the GST excludes this stock. Records must be kept so an audit can trace these wine movements. The Commonwealth 14% component is claimed on the BAS (monthly or three monthly) and the 15% State subsidy is claimed from each State Liquor Licensing Authority each month or three months.

Wineries are suffering from a down turn in cellar door sales and those who wish to sell wholesale (liquor shops, restaurants etc) cannot compete, due to the WET. This is because the wineries were set up for regional sales (without WET) with expensive speciality wines, targeted at cellar door tourist customers and are not competitive in the wholesale market which sells mostly cask wine and under \$10 bottle wine. So the WET discriminates against premium wines produced by regional wineries and gives a large tax advantage to cask and cheaper wines.

The Wine Federation of Australia and other groups have been lobbying unsuccessfully since the introduction of GST, for a 600,000 litre exemption for all sales (cellar & wholesale) to replace the current complicated, time consuming compliance system. This proposal has to date proved unacceptable to the Government

The time is now critical for the wine taxation system to be changed with falling cellar door sales due to declining regional Tourism, contracting domestic sales, the effects of the drought and increase in number of regional wineries. The Government acknowledges the enormous benefits wineries bring to regional employment, development and tourism so it is now critical that the tax system is changed to a fair, simplified system before this important part of the Australian economy is lost.

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The Wine Industry peak body, the Wine Federation of Australia has failed to convince the Government of the need for Taxation reform. It currently represent about 500 of the 1450 wineries in Australia. Many wineries have been reluctant to express their preferred taxation view through the fear of displaying a divided Wine Industry. This threat of division has been made very clear to all wineries by the WFA...

TAXATION PROPOSAL FOR CONSIDERATION:

At the implementation of GST some independent winemakers proposed that the WET should be a volumetric tax on the alcohol content. This was dismissed by the Wine Industry because of the historic memories of Excise. So a price based ad valorem WET was introduced which gave cask and cheap bottle wine a large tax advantage and the premium wine paid more. In fact the premium wines are subsidising the tax on cheaper end of the market.

Two years on, the regional wineries are going broke from low returns, falling cellar door sales, the drought, declining tourism, while the cheaper end of the market is prospering. The Wine Taxation issue is the biggest concern of Helm Wines and other regional wineries' future. It is now time for the Government to change to a volumetric revenue neutral taxation system as an amendment to the Wet legislation, with the only the State Rebate needed to remain. I call on the government to address it as soon as possible.

Example:

Current system

Ad valorum = wholesale price x 29% \$10 x 29% = \$2.90 per bottle. \$9 cask (4 litre) retail = \$4.50 wholesale x 29% = \$1.30 per 4 litre cask. The cask (in bottle equivalents) pays 25 cents in tax, the premium bottle pays \$2.90.

Proposed system

Volumetric = bottle size x % alcohol x \$ rate. $0.75 \times 12.5\% \times $13.80 = 1.29 per bottle 4 litre cask $4 \times 12.5\% \times $13.80 = 6.90 per 4 litre cask

Both pay the same amount of tax per 750 ml bottle and the State cellar door rebate remain.

The premium bottle wine would return to the maker or reduce in price by \$1.61. The price of the 4 litre wine cask would increase from \$9 (\$1.70 per bottle) to \$14.60 or \$2.64 per bottle equivalent.

The \$13.80 is a rate per litre of alcohol which is revenue neutral to the government now and would be indexed annually or 6 monthly with CPI.

Ken Helm