Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

Email: bettertax@treasury.gov.au

5th June, 2015

Dear Sir/Madam,

Submission to Better Tax Discussion Paper

The Craft Beer Industry Association (CBIA) welcomes the opportunity to make this submission to the review of taxation.

The CBIA represents a fast growing sector of the Australian economy, made up of predominantly small businesses. There are approximately 280 craft brewing businesses in Australia up from 235 in 2014 and 200 in 2013. Almost half of these businesses are located in regional and rural centres providing much needed employment and tourism opportunities.

The spectacular growth of the industry has in turn supported growth upstream in the agriculture and manufacturing industries and downstream in hospitality and tourism.

As the Treasurer often says, small business is the engine room of the Australian economy and the CBIA represents the kind of businesses that are helping to add diversity to the economy and reduce Australia's reliance on the resources sector. The CBIA understands the context in which the tax review is taking place and the importance of putting Australia's federal budget on a sustainable footing, but we also take the view that any changes to the taxation system should be wary of unintended negative impacts on the growth of Australia's economy and the incentive for small businesses to invest and to employ people.

We also recognise that excise is used as a means of reducing the social costs of excessive alcohol consumption. Our industry supports this goal. We produce handcrafted, premium products that have high input costs and low economies of scale and are priced to reflect this. We market our products as something that should be enjoyed for the flavour not effect and expend a lot of energy engaging with our customers and educating them about how we feel our products should be consumed.

The craft beer industry's main issue with Australia's tax system is excise on alcohol and the way in which it is levied and collected. In this submission we will propose a number of changes to the excise arrangements, with the aim of reforming the system to improve cash flow for small businesses in the craft beer industry and to allow the sector to grow as a whole.

We are confident that a reformed excise system will be either revenue-neutral or revenue-positive for the Australian government, with any reduced revenue from excise being replaced by increased company tax, income tax and GST receipts from further growth in the craft beer industry.

Excise and the Australian craft beer industry

Craft brewers generally fall into 2 broad categories (with some being a blend of the two):

a) Brewpubs, where beer brewed is sold directly to the public, by the glass over the in-house bar, from kegs or serving tanks; and
b) Production breweries, where beer is brewed and packaged into kegs or cartons for distribution to venues and retailers.

It is fair to say that our comments relate primarily to production brewers, given the time and payment cycle from production and distribution by the brewer, to receiving payment from the customer.

Since 1983, beer excise has been adjusted every 6 months in accordance with CPI movements. It now represents approximately **$15 per carton** (excluding GST) of craft beer and approximately **25% of a craft brewer's gross revenue**.

Since the Federal Budget of 2012 brewers have been eligible for a 60% refund of excise paid up to a maximum of $30 000 per annum. This refund amount has remained static since then while the excise amount paid has increased half yearly as outlined above.

Excise on beer is generally payable weekly by the brewer within 1-7 days of the beer leaving the brewery (and well before the brewery has been paid for the product by its customers.) Brewers with under $2 000 000 turnover (including excise) can extend this payment period slightly, to 21 days after month end. However brewers at this production scale level are often investing heavily in equipment to fund capacity growth that results in the excise timing impost creating a cash flow double whammy.

This cash flow burden (quite often requiring borrowing by the brewery) is a major limiting factor on the solid and sustainable growth of one of the few bright spots in Australia's manufacturing industry.

In light of the timing of the obligation to pay excise on beer, the consequence is that some of Australia's smallest manufacturers are financing the payment of excise on beer on behalf of retailers – including two of Australia's largest companies in Wesfarmers and Woolworths.

In Australian beer, the domination by large corporate entities in both the supply and retailing sides means:

a) there is very little price elasticity for craft brewers to raise wholesale prices at the same rate as beer excise increases; and

b) there is little room for small suppliers to negotiate trading terms that will ensure customer payments are aligned to excise obligations (i.e. 7 day terms).

Reform of the alcohol excise system

The present alcohol excise system as it relates to beer is hindering the many small businesses that make up the Australian craft beer industry from reaching their commercial goals. This in turn inhibits their growth and certainly prevents more people being employed in the industry. This in turn means the government receives less company tax, personal income tax and GST receipts.

The CBIA recommends that four key concepts be kept in mind when taxation reform is being considered so that the growth of our sector can continue.

1. No matter what changes are made to alcohol excise or tax regimes more broadly, craft brewers should be no worse off, whether as against national and international brewers, or relative to other alcohol types. Ideally, the opportunities for continued sustainable growth of the segment would be enhanced.
2. Any rebate assistance given to a particular sector of the alcohol industry should be based on a model of first paying the excise and then receiving a portion of it back by way of rebate, or alternatively based on a reduced rate of excise for an initial portion of production, as opposed to not paying the excise at all, as this ensures at least a certain level of underlying business viability.

3. Excise on craft beer (whether quantum or collection and payment method) should not of itself create an impediment to Australian craft brewer growth, both individually and as an industry.
4. Excise on various alcohol types should not warp the market in a way that craft brewer margins are forced even lower in order for craft beer price points to remain competitive with other alcoholic product types.

The Craft Beer Industry Association proposes three changes to the alcohol excise regime as it applies to beer. We are of the belief that these changes will be either revenue-neutral or revenue-positive for the Australian government, with any reduced revenue from excise being replaced by increased company tax, income tax and GST receipts from further growth in the craft beer industry.

1. Align excise reporting and payment obligations to the business' BAS payment cycle (even if reporting is handled on a separate form).

2. Lift the rebate to something more reflective of the investment required to grow a production brewing business, without lifting it to a point that generates problems of the type seen in the wine industry, and index it to CPI.

3. Reduce the container size to which the bulk excise rate applies (reduce from 49.5 litres to 30 litres)

Our proposals in more detail

Alignment with BAS payment cycles

In various ways, the Australian tax system already recognises the need for businesses to be able to invest in their own growth in order to achieve sustainability/viability, before incurring certain tax reporting and payment burdens. For example:

1. Payroll Tax obligations commence after a business reaches a certain critical level;
2. PAYG withholding tax is reported and paid on a cycle that reflects the size of the business;
3. GST is reported and paid on a cycle that reflects the size of the business; and

4. The GST reporting cycle means there is an opportunity to collect payment (and therefore GST) from customers before it is due for payment to the tax office.

No such deferral (whether of the actual obligation to pay the particular form of tax, or of the timing of reporting and payment itself) exists for small brewers in relation to beer excise.

It is now necessary to ease the beer excise burden in a way that allows the early promise of this new wave of small Australian manufacturer to flourish. We believe that growth in the craft beer manufacturing segment (and of course the creation of more jobs, particularly in regional areas, as a result), would be supported if the cash flow burden on craft brewers could be eased by providing the option for craft brewers to defer excise payment obligations to timing more aligned to their customer payment and cash flow cycle (e.g. the BAS cycle).

It is also vital that the threshold level at which a brewer qualifies for such timing deferral is set at a high enough point that reflects the capital intensive and low-margin nature of production brewing.

We would suggest that the GST/PAYG withholding limit of $20 million turnover for monthly reporting be used as the guideline with businesses under this threshold able to report and pay quarterly if they choose.

Lifting the rebate level and indexing to CPI

Craft Brewers are not advocating for an excise model similar to the Wine Equalisation Tax (WET). We understand there is a prevailing view in some quarters that the WET has harmed the Australian wine industry.

We are advocating for an adjustment to the current excise rebate for brewers to a level that can really assist with investment in growth for these small manufacturers. A rebate of 60% of excise paid up to $100,000 per annum, modeled on the same rebate structure currently in place, would provide a level of funds back to the brewery which could make a real difference in their investment in equipment and staff for further growth.

By retaining the current structure for the rebate we are avoiding poor business practices that may occur under other systems.

Reducing the container size

Due to previous quirks of time, circumstance and, we understand, a political promise, a differential excise rate applies to beer, based on the size of container in which the brewer sells the beer.

Historically, keg beer was only available in 50 litre kegs. The 'keg rate' therefore applies to containers 48 litres or greater.

In recent years, various innovations have led to the more regular use of 30 litre kegs, to address various modern issues, including:

- Occupational health and safety considerations (a full 50 litre keg weighs approximately 65 kilograms)
- Environmental impact ("one way" recyclable 30 litre kegs are becoming more common, to avoid the need for return shipping of an empty container to the brewery)
- The rise of the 'small bar', where space for taps and kegs can be at a premium
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For many small brewers, 30 litre kegs are a much more practical option. Distribution is often done in a small vehicle to the immediate area around the brewery. Often, the kegs have to be handled by a single brewery representative. And 30 litre kegs are a more appropriate keg size for venues wanting to offer a broad range of new beers – taps can be turned over quickly and quality can be better assured.

The current excise regime on kegs means that small brewers are penalised financially for using smaller kegs – based on current excise rates, the same beer in a 50 litre keg would attract excise of $1.20 per litre and yet the small brewer using 30 litre kegs is charged $1.72 per litre.

Conclusion

The craft beer industry is one of those rare things in the Australian economic landscape: a manufacturing industry that is growing and at a significant rate. Added significance should be given to this growth in that it is not confined to a particular geographical type or area. Craft breweries are starting in cities, regional centres and rural areas across the country from the tropical north to the southern parts of Tasmania. 280 small businesses providing jobs, investment and flow on benefits to numerous ancillary industries and quite often becoming important social hubs where Australia's relationship with alcohol is being rewritten.

The Craft Beer Industry Association firmly believes that our proposals, if implemented, would assist the Governments in achieving its goal of assisting small businesses to reach their commercial goals while protecting its revenue base with any reduced revenue from excise being replaced by increased company tax, income tax and GST receipts from further growth in the craft beer industry.

Yours faithfully,

Peta Fielding
Chair
Craft Beer Industry Association