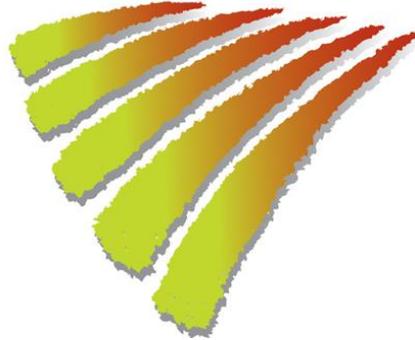


WINE TASMANIA



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SUBMISSION TO THE AUSTRALIAN GOVERNMENT'S TAX DISCUSSION PAPER

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Introduction

The Tasmanian wine sector is an important and growing contributor to trade and the economy, regional employment, tourism and the overall Tasmanian brand. The quality of Tasmanian wine is increasingly being recognised around the world, including through independent endorsements, wine show results and sales, and the Tasmanian wine region is regarded as one of the strongest in the country.

The Tasmanian wine sector has developed a strong, clear and collaborative position in the wine world, built on quality and value. Tasmania has emerged as one of the strongest wine regions with an opportunity to lead and drive the new wave of interest in Australian wine. Contrary to many other Australian wine regions, demand for Tasmanian wine continues to outstrip supply, and strong growth is occurring in the Tasmanian wine sector, including through the attraction of external investment.

This response to the Australian Government's Tax Discussion Paper focuses on the taxation treatment of wine on behalf of the island's wine producers.

Wine Tasmania confirms its support for retaining the value-based system of taxation on wine, together with the rebate, and only in conjunction with the rebate. Within Tasmania, the Wine Equalisation Tax (WET) rebate is being utilised as was originally intended - to support small wine producers / cellar doors making a significant contribution to Australia's regional communities. Increasing net taxes paid by Tasmanian wine producers would severely impact on this developing high quality and value sector, which is increasingly being recognised around the world. Wine Tasmania believes there is an opportunity to reform the rebate in line with its original intent, removing the rebate from bulk, unpackaged, unbranded and private label wine and foreign producers.

Recommendations:

1. Retention of value-based tax system with the Wine Equalisation Tax (WET) rebate; and
2. Reformation of the WET rebate to target it to regional wine producers and communities in Australia.

Wine Tasmania's position is aligned to the national wine sector's position, as presented by the Winemakers' Federation of Australia. Wine Tasmania is open to continuing dialogue on taxation issues impacting on the state's wine producers.



Snapshot of Tasmania's Wine Sector¹

- 1,340 full time equivalent positions
- 160 licensed wine producers
- 200+ vineyards covering close to 1,800 hectares
- Average annual production of 500,000 dozen, less than 1% of national production
- 90 cellar door outlets, with 160,000+ tourists visiting wineries - 15% of all visitors (2014)
- Key varieties - Pinot Noir 41%, Chardonnay 18%, Sauvignon Blanc 17%, Pinot Gris 10%, Riesling 8%
- Sparkling wine production - 35% of total production (76% of Chardonnay and 45% of Pinot Noir)
- Sales percentages (approximate) - Tasmanian 40%, mainland Australia 52%, export 8%
- Highest pricing for Pinot Noir, Chardonnay, Riesling and Sauvignon Blanc grapes in Australia
- Average bottle value of \$22.36, compared with the national average of \$10.87 per bottle
- The value of Tasmanian wine sales is growing at almost double the Australian wine sales value

Wine Tasmania Overview

Wine Tasmania is the peak representative body for Tasmanian grape growers and winemakers, working to assist them to be recognised as world leaders in the sustainable production of premium cool climate wine.

Established in 2006 as a public company limited by guarantee, the Wine Tasmania Board is skills based and chaired by independent director Graeme Lynch. Other directors are Will Adkins (Brown Brothers), Rebecca Duffy (Holm Oak Vineyards), Nick Glaetzer (Glaetzer-Dixon Family Winemakers), Natasha Nieuwhof (Goaty Hill), Scott Dawkins (Deloitte - independent) and Guy Taylor (Tourism Tasmania - independent).

Wine Tasmania represents more than 98% of Tasmanian wine production, with around 100 state-wide producer members and 40 associated member businesses, and operates against a clear Strategic Plan, which is available at www.winetasmania.com.au and focuses on the following key roles:

1. **Drive demand** for Tasmania's wines through targeted and collaborative marketing and promotion
2. Encourage **sustainable production** and **market-led growth**
3. Support individual wine businesses and profitability to **stabilise the base** for future growth
4. **Advocate** and **manage issues** on behalf of wine producers

¹ Sources: Tourism Tasmania Visitor Statistics, Wine Tasmania Vintage Reports, Australian Grape & Wine Authority Winegrape Dispersion Report, Winemakers' Federation of Australia Production Profitability Analysis, Gaetjens Langley, Nielsen



Wine Taxation

Wine Tasmania confirms its support for retaining the value-based system of taxation on wine, together with the rebate, and only in conjunction with the rebate.

Within Tasmania, the Wine Equalisation Tax (WET) rebate is being utilised as was originally intended - to support small wine producers and cellar doors making a significant contribution to Australia's regional communities. Increasing net taxes paid by Tasmanian wine producers would severely impact on this developing high quality and value sector, which is increasingly being recognised around the world.

Wine Tasmania believes there is an opportunity to reform the rebate to refocus it in line with its original intent, removing the rebate from bulk, unpackaged, unbranded and private label wine and foreign producers.

Wine Tasmania understands the current complexity of tax arrangements on different alcohol beverages, but notes the statement in the tax discussion paper that *"Internationally, beer, wine and spirits are typically taxed at different rates"*. As international Governments and previous Australian Governments have recognised, there are several good reasons for treating alcohol beverages differently.

As shown in the attached infographic, the Winemakers' Federation of Australia (WFA) has highlighted the national wine sector's significant contribution to the national economy, with a presence throughout more than 60 regional communities around the country.

WFA has also clearly articulated the differences between the wine, beer and spirits sector, including the capital and time intensive nature of producing wine, as well as the low return on investment capital and profitability and variability challenges of wine by comparison to other beverages.

It should be recognised that the variability challenges are exacerbated in cooler climates, such as in Tasmania. Growing grapes in cooler climates produces quality superior to warmer areas, but also comes with much greater risk than warm climates. The most recent example relates to the 2013 Tasmanian vintage of 11,392 tonnes - the largest on record, which was followed in 2014 by a vintage of just 6,624 tonnes. There are very few practical ways for wine producers to tailor and reduce costs based on anticipated yields, as the same effort needs to be applied to managing vineyards.



With all of Tasmania's wine in the small category of Australian wine retailing above the equivalent of \$15 per bottle (7% of national volume but generating 28% of value), the state's wine producers are taxed very highly. However, the WET rebate is being applied in line with its original intent in Tasmania - recognising and support small wine producers contributing to regional economies.

Moving from the current value-based system on wine and / or removing the WET rebate would increase net taxes paid by the state's wine producers. This would significantly impact on this emerging high value and quality wine region, which is increasingly being recognised and contributing to the Australian wine sector's global reputation.

The majority of the state's 160 licensed wine producers only sell their wine within Tasmania, with a priority focus on regional cellar door and wine tourism. By volume, approximately 40% of Tasmania's wine is sold within Tasmania, 50% on the Australian mainland and 10% in export markets.

At the time of the introduction of the GST and WET, the Tasmanian Government was the only state that chose not to offer the state cellar door rebate above the WET rebate threshold. At this time, there were very few Tasmanian wine producers that exceeded the WET rebate threshold however it means that there is no scheme other than the WET rebate to recognise and support the contribution of Tasmanian wine producers to regional economies, employment and tourism.

Whilst the Tasmanian wine sector is in a strong position, Tasmania is an expensive place to grow grapes and make wine. It is difficult for producers to recover these high costs in a highly competitive marketplace, where there is constant pressure on pricing. Wine Tasmania would strongly resist any initiatives resulting in increases to the net taxes paid by Tasmanian wine producers.

As outlined in the introduction, Wine Tasmania's submission focuses on wine taxation, however there are several other taxes impacting on Tasmanian wine businesses, such as the GST, payroll tax, company tax, Fringe Benefits Tax, tax treatment of assets and R&D tax incentives. These taxes are not specific to Tasmanian wine producers, however Wine Tasmania welcomes the opportunity for further discussion and input on these tax issues as relevant.