TREASURY EXECUTIVE MINUTE

Minute No. 2010/3468

14 December 2010

Assistant Treasurer and Minister for Financial
Services and Superannuation

THE WINE PRODUCER REBATE

Timing: At your convenience

Recommendation:

- That you note the briefing requested by your Office on the Wine Producer Rebate.

Noted Signature: .... …../…../2010

KEY POINTS

The wine producer rebate

- The wine producer rebate scheme entitles wine producers to a rebate of 29 per cent of the wholesale value of eligible domestic sales. The producer rebate scheme applies to all products subject to wine equalisation tax (WET), whether they are sold by wholesale, retail or wine applied to own use such as wine used for tastings or promotions. The rebate is capped at $500,000 of the WET payable on the value of each producer's wine sales in Australia per year. To be eligible for the producer rebate, the entity must manufacture the wine; it is not classified as a producer if it just purchases bulk wine and bottles it for sale.

- The wine producer rebate was introduced on 1 October 2004 to assist the wine industry. The $500,000 threshold on a producer's WET liability results in only the largest wine producers being subject to WET. The rebate effectively exempts over $1.7 million of wine sales per producer from WET each year and results in close to 95 per cent of all wineries effectively paying no WET. Total WET rebates for the 2008-09 financial year came to $221 million from a gross revenue of $950 million.

Eligibility of New Zealand wine producers

- The rebate scheme was introduced in July 2005 to New Zealand producers in accordance with Australia's obligations under the Australia and New Zealand Closer Economic Relations Trade Agreement of 1983. The main issue in extending the WET rebate to New Zealand producers was that the previous policy differentiated in the tax treatment of Australian and New Zealand wine producers.

- New Zealand winemakers are eligible to claim the wine producer rebate as long as: they produce the wine in New Zealand; the wine is sold in Australia, and; the producer can substantiate that WET was paid on the sale of the wine on or after 1 July 2005. Under the scheme, New Zealand producers are entitled to a rebate of 29 per cent of the selling price of the wine. The selling price does not include expenses that are unrelated to the production of the wine in New Zealand.

Issues with the Wine Producer Rebate

- In May 2008, the Treasurer announced a comprehensive review of Australia's tax and transfer system including the wine equalisation tax and wine producer rebate. In the context of the Review, the Government received a number of representations from winemakers, including the Winemakers' Federation of Australia. Among the issues raised were concerns with the operation of the wine producer rebate fostering commercial practices whereby grape growers alter their contract arrangements so that they meet the definitions of a wine producer. This encourages small-scale production and supports some small, otherwise uneconomical wineries.

- The Australia's Future Tax System Review, delivered to the Government at the end of 2009, found that the wine producer rebate is poorly targeted and acting to prevent appropriate market responses to the challenges facing the wine industry. The ANAO review of the Tax Office administration of the WET, to be released shortly, recommends that the Taxation Office engage Treasury in discussion on the definition of a wine producer in order the resolve the unintended outcomes regarding access to the wine producer rebate.

- The ANAO review further reports that the cost to revenue of extending the rebate to New Zealand wine producers has risen strongly in each year since its introduction, increasing from around $5 million in 2006–07 to over $19 million in 2009–10. The rebate to New Zealand producers represented over nine per cent of the total producer rebate paid in 2009-10.

- The review partly attributes the strong growth in the New Zealand rebate to delayed claims for earlier year rebate entitlements. The report suggests however, that, as in Australia, the growth in the New Zealand rebate is also partly due to the adoption by New Zealand wine growers of commercial practices that reclassify grape growers as wine producers.

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