23.9.16

From: Hahndorf Hill Winery

PO Box 474

Hahndorf SA 5245

RE: Submission to the Australian Federal Government consultative process on reform to the WET rebate eligibility criteria

Dear Sir/ Madam,

I note with urgency that the Federal Government is about to finalise its position regarding the WET Tax debate. As a small, rural family owned wine producer – which incidentally is by far the largest demographic in the Australian wine-producing industry - I would like my views to be presented.

This is because I firmly believe that there is not only so much at stake, but also because there is considerable misinformation and misunderstanding amongst the public, politicians and even within the wine industry itself. In order to clarify matters, I’ve put together some numbers which have been extrapolated from original data issued by The Australian and New Zealand Wine Industry Directory, 2016.

The WET Tax rebate was originally designed to encourage and support small wine producers who would otherwise not be able to withstand the additional tax of 29% (in addition to the 10% GST) that wine producers must pay on the sale of their products.

These small wine producers are invariably family-owned businesses who have invested their lives and who work the skin off their knuckles to make a living and to pay the wages.

**Small producers** account for at least 1,800 (nearly 73%)of a total of 2468Australian wine producers, each processing less than 150 tonnes of grapes a year (about 10,000 cases of wine a year.) This equates to less than 6% of all wine produced in Australia. It is therefore a significantly *large group* of producers, who own an unquestionably *small segment* of the wine industry, which is at the core of the Wet Tax debate. The point that I will proceed to make is that very little tax is ‘lost’ because of the small amount of the total Australian wine production that is generated by this category of producer. But conversely, it is a large number of small businesses that currently play a huge role in many rural regions of Australia – and it is these business that will be very adversely effected if they are denied the Wet rebate in its entirety.

The **medium-sized wine producers**, which are approximately 466 in number, each process between 150 – 9,000 tonnes of grapes per year and thereby make approximately 14% of all Australian wine.

Conversely, the **top largest 21 wine producers** in Australia process between 9,800 – 284,636 tonnes of grapes a year and make nearly 80% of all Australian wine.

Despite the small size of their businesses, these majority 1,800 small wine producers create significant rural employment in Australia by virtue of the nature of grape growing, winemaking and wine selling processes, and because of their significant numbers that are scattered across rural Australia.

**Misconceptions:**

Counter to popular misconception, the WET Tax rebate does not throw thousands of taxpayers’ dollars in the direction of these small producers. In fact, we are all proudly hardworking and self-sufficient and do not depend on financial handouts. All the Wet Tax rebate does is shelter us from paying this 29% additional tax burden on our produce. Technically what happens when we fill in our tax form, is that we ‘add in’ the 29% WET Tax calculated on the sale of our produce, but then further down the tax form, this exact same amount is then ‘deducted’ as the so-called ‘Rebate.’ This process simply reverses and nullifies the 29% WET Tax. It is therefore clearly not hard-earned ‘taxpayer’s money’ that is being redirected to small wine producers.

In addition, this Wet Tax rebate is capped so that if the wine producer is selling above a certain value of wine, then all wine sold above this cap is not protected from the 29% WET Tax via this rebate.

**Levels the playing field for small family owned businesses:**

This current WET Tax rebate cap allows the majority of 1,800 small wine producers to be protected from this 29% tax since virtually all of them have incomes below the so-called cap. This is, in fact, good and proper because it levels the playing field when comparing small family-owned wine businesses to any other small family-business in Australia - whether they be a butcher, a baker or a hairdresser – none of whom would be able to survive the impost of an addition 29% tax. It is therefore strange that some people believe that small family-owner wine producers would somehow magically be able to survive a 29% tax impost. Please believe that small wine producers are no different to any other small Australian family-run business, except that they produce wine.

**How much tax is being rebated in the wine industry?**

Small wine producers invariably do not have the negotiating leverage that the larger wine producers have. These larger producers, who together produce 94% of Australian wine production, have significant muscle, leverage and economy of scale that allows them to push down grape-grower prices, negotiate better deals and reduce wage costs, dry goods and botting costs. The Wet Tax rebate is of little consequence to the scale of their production, and by virtue of their economic muscle these 94% large producers are able to thrive in current conditions, whilst all paying the Wet tax on their considerable productions.

It is good and proper that the 1,800 small wine producers, who produce only 6% of all the wine, are protected from the impossible burden of this 29% tax. This is because, despite the fact that they are generally small Mom and Pop operations, they generate significant rural employment and much needed diversity in the wine industry. Their varied and often quirky offerings that embellish the tourism landscape, in turn support a whole range of regional tourism initiatives. These initiatives consist of extended hospitality and tourism operations and local produce-makers who also contribute to valuable rural jobs – jobs that are perhaps more ‘precious’ than urban jobs, only because rural employment is not regularly created in any large numbers when compared to urban opportunities.

**Small wine producers VS producers of other alcohol products such as beer and liquor distillers:**

It is also appropriate that small wine producers are supported by the WET Tax rebate system even when compared to small producers of other alcohol products such as small brewers or artisan distillers, who are indeed all taxed in one form or other. This is because unlike the artisan brewers and distillers, small wine producers are a significant part of the rural landscape and thereby make a significant impact upon regional communities. In addition, small wine producers have invested far more into local communities than these alternative producers. These infrastructure investments, farmland investments and viticultural involvements, plus investment in the infrastructure and systems required to market the wine produced, all add up to major rural involvement and commitment.

Our extended family of small wine producers currently makes a substantial contribution to supporting rural family life and communities right across Australia – but that is now all at risk because of the proposed WET Tax reform. There are also strong fears that the proposed reduction in the WET Tax rebate could, in all likelihood, lead to the complete removal of the WET Tax rebate in the near future.

It is clear that without the WET Tax rebate, the majority of these small wine producers will not survive and their demise will be associated with a parallel loss of thousands of jobs, plus a domino effect that will adversely impact regional tourism-related opportunities as offered by local B&B’s, tour guide operators and even local produce manufacturers, all of whom are supported by the regional wine tourism experience. In addition, rural horticultural property values will be destroyed and rural creativity, optimism and enterprise will be severely affected.

Perhaps it is interesting to note that much of the support for the proposed WET Tax reform comes from the ranks of the large wine producers and their organizational mouth-pieces. This is because they are fully aware that they will be able to seamlessly slip into the vacuum created by the demise of the small wine producers and thereby profit from the so-called boutique wine market.

Unfortunately the Federal Government seems to have been unduly influenced by these large industry powerbrokers and wittingly or unwittingly they have agreed to proceed with the proposed WET Tax reform.

It will be a significant tragedy, and it does not make sense, if hundreds of small family owned business are wiped out in rural areas of Australia, particularly in the light of current political investment and initiatives that are precisely aimed towards the creation of more small businesses in Australia.

As a small wine producer, it is my job and responsibility to try and correct any misrepresentation and to try and re-open this debate to ensure a secure and safe outcome for this segment of the wine industry.

Best regards,

Larry Jacobs

Hahndorf Hill Winery

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