

WET REBATE. TIGHTENED ELIGIBILITY CRITERIA SUBMISSION

I am making a submission to the above review as the owner of a small vineyard in SE NSW with the potential to be seriously affected by the proposed changes in the Implementation Paper. In the event that the proposals outlined are implemented I would have no option but to exit the industry as soon as the changes took effect.

My Position

I own a 5 acre vineyard producing 10 tons of grapes. The grapes are processed by a contract wine maker and the wine bottled and sold under my own label, Rusty Fig Wines. I own the grapes throughout the winemaking process. The wine is sold to retail outlets and online through our website. Importantly we do not own or operate a cellar door, unlike many small producers, and are not required to do so under their terms of our producers licence.

Implementation Paper

My comments are confined to the question of an eligible producer.

Though acknowledging its limitations the paper proposes that an eligible producer be defined in terms of ownership and size of the winery producing the owner's wine. This definition is poorly designed and would fail the tests of equity and economic efficiency, two of the three tests against which tax design is usually measured.

The basic problem with this definition is that it fails to account for the way in which the industry is structured. Over the years small producers have moved to a model in which they produce grapes, have the wine contract made and then sell it under their own label. This change has been done for sound reasons of economic efficiency. Because wine making entails an added level of expertise and investment beyond grape growing it makes sense, in the case of many small vineyard owners, for the processes of grape growing and winemaking to be done by separate businesses. The capital investment and technical expertise required in winemaking are such that a small producer cannot recoup the costs or operate at a competitive cost efficiency for their own level of production. They must operate a larger winery or contract out the winemaking to a winery operating on a larger scale.

Any sensible definition of wine producer must therefore cover both winemaking and grape growing as these are the two production processes involved in making wine for sale. In simple terms wine making cannot occur in the absence of grape growing and the two need not be done, and indeed often are not for sound financial reasons, by the same production agent.

The paper without supporting any modified definition of wine producer, raises two options. The first would extend the definition of wine producer to include entities that owned at least one of a winery, vineyard or cellar door. This would address my predicament but would not do so if extended to having to meet two of the three listed—because I do not own a winery or cellar door—even though I'm clearly a small producer.

It is not clear why a cellar door should be considered as one of the criteria. The taxing entity is the producer at which the WET rebate relief is aimed, not the selling agent. In some states too cellar doors are allowed to sell not only the wine of a single producer but other wines from the same area. They would not therefore have a direct ownership link to vineyard and winery operators so that the design of the tax exemption rules would be unduly complex.

A further option presented in the paper would require a wine maker to retain ownership of the grapes throughout the wine making process whether he/she owned a winery or had the wine contract made and also to own one of a winery, vineyard or cellar door. Leaving aside the cellar door issue discussed above this option is reasonable as it covers off the full wine making process as it affects small producers selling wine under their own labels and doesn't discriminate between producers according to the wine making process chosen. Ownership retention of grapes throughout the wine making process would help ensure the wine making was contract based and safeguard against abuse of the exemption rules.

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