

TREASURY EXECUTIVE MINUTE

Minute No. BR14/051 *2014/0219*

4 February 2014

Small Business Minister

cc: Treasurer

MEETING WITH THE WINEMAKERS' FEDERATION OF AUSTRALIA (RELATES TO MINISTERIAL NO. 2382)

Timing: 13 February 2014

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Manager
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Unit

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Consultation: Small Business, Competition and Consumer Policy Division; Social Policy Division - Health and disability Unit; Small Business Tax Division.

ADDITIONAL INFORMATION

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AGENDA ITEM 1: STATE OF THE WINE INDUSTRY

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In August 2013, the WFA published an extensive report on the state of the wine industry, entitled *Expert Report on the Profitability & Dynamics of the Australian Wine Industry* (see Attachment B), along with a supplementary paper proposing actions for the wine industry to improve its performance (see additional information below under Agenda Item 2).

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- The report also draws attention to the current wine tax regime, which allows eligible wine producers to claim a rebate on the WET (see below for further information under Agenda Item 2).

AGENDA ITEM 2: WFA REPORT, ACTIONS FOR INDUSTRY PROFITABILITY 2014-2016

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- In December 2013, WFA released its report, *Actions for Industry Profitability 2014-16* (see Attachment C). The report was the result of a review by WFA aimed at providing a comprehensive blueprint for returning profitability and restoring asset values in the industry. The review included extensive industry consultation and proposed a number of actions to boost industry's performance, including:

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- reforming the wine equalisation tax rebate to support regional communities;

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- The report provided 43 Actions under eight themes. The eight themes are:

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5. Retain with changes to the WET rebate;

- : Retain the WET rebate to ensure that it is working within its original policy intent and seek policy changes to improve the workings of the WET rebate on the wine industry, consistent with the original intent.

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- See below for additional information on the following themes:

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- Retain with changes to the WET rebate; and

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Retain with changes to the WET rebate

- The wine equalisation tax (WET) is a value-based tax levied at a rate of 29 per cent of a product's wholesale value and was introduced in 2000 when the former wine taxation system (a wholesale sales tax of 41 per cent) was replaced with the GST.

- The objective of WET was to ensure that the pricing of wine did not change much from that existing prior to the GST.
- WFA is concerned that the wine producer rebate, which allows eligible wineries to claim an exemption from the WET (capped at \$500,000 per year), is being exploited in a way that is contrary to its original policy intent of supporting regional development and investment in the wine industry.
 - The producer rebate scheme applies to all products subject to WET, whether they're sold by wholesale, retail (at the cellar door, by mail order or internet), or applied to own use (for example, wine used for tastings or promotions). This effectively means that most small wine producers pay no WET at all.
 - The ATO is aware of these concerns and a focus of the ATO's 2013-14 Compliance Program is the investigation of structural arrangements that artificially create entitlements to the producer rebate. The former government also undertook minor amendments to tighten eligibility around claiming the producer rebate for wine used in blending or further manufacture.
 - : There has been extensive media reporting in the first week of February 2014 (Weekend Financial Review, ABC News) that the ATO is calling in the Federal Police to investigate reporting of the WET producer rebate scheme.

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