Nexia Australia

Taxation Update

Wine Industry to Face Tax Changes

September 2017

Wine Equalisation Tax (WET) is payable on the final wholesale sale of wine at the rate of 29%. The WET rebate is a 29% rebate for eligible wine producers on eligible sales of wine. Historically this rebate has been capped at $500,000 per producer.

A typical example of the application of the WET regime is a sale of $110 of wine from an eligible producer to a wholesaler (who quotes that they will sell to a retailer), and the sale of that wine from the wholesaler to the retailer at $220. In that instance the following transactions are incurred:

Producer Transactions

Transaction	Value of item	Cumulative
Producer sells wine to wholesaler	110	110
Producer remits GST ($110 / 11)	(10)	100
Producer claims WET rebate ($100 x 29%)	29	129

Wholesaler Transactions

Transaction	Value of item	Cumulative
Wholesaler buys wine from producer	(110)	(110)
Wholesaler claims GST credit ($110 / 11)	10	(100)
Wholesaler sells wine to retailer	220	120
Wholesaler remits GST ($220 / 11)	(20)	100
Wholesaler remits WET ($200 / 1.29) x 29%	(45)	55

This shows that the WET rebate can be a large contributor towards the income of producers. To fully utilise the existing WET rebate, a producer must sell $1,724,138 of wine pa.

The wine industry has been calling for changes to the WET rebate to make it fairer and better targeted because it has been rorted by, amongst other things, some producers splitting in to separate entities and each entity claiming the full $500,000 rebate. The Federal Government initially looked to address this in the 2016 Federal Budget with proposed changes that were met unfavourably by the wine industry.

Now, after additional consultation, Treasury Laws Amendment (2017 Measures No.4) Bill 2017 has been passed in to law. The law introduces the following changes:

- A reduction of the WET rebate cap from $500,000 to $350,000 from 1 July 2018
- The introduction of tightened eligibility criteria which will apply from 1 July 2018
- An amendment to the associated producer provisions
- The introduction of rules to establish a stronger link between rebate claims and the payment of WET.

As part of the tightened eligibility criteria, producers must own at least 85% of the grapes and other inputs at the crusher and maintain that ownership throughout the winemaking process. This may make it difficult for producers to obtain the rebate in relation to blended wine where some of the grapes come from other vineyards. In addition to this, the rebate will be limited to branded packaged wine under trademark and in containers not exceeding 5 litres.

The changes have not impressed medium to larger producers, who will have their bottom line directly impacted by a reduction of WET rebate.

Coinciding with the reduction in the WET rebate is the introduction of the Wine Tourism and Cellar Door Grant which will apply from 1 July 2019. Genuine wineries with cellar doors that will exceed the new $350,000 WET rebate cap will be able to apply for the annual grant funding of up to $100,000 for their eligible cellar door activities. This grant is intended to boost wine tourism and is attractive for developing wineries.

To discuss how these changes might impact you, contact your trusted Nexia adviser.

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