An Impossible Dream in a Global Financial Crisis: A Case Study of Australia’s Proposed New Wine Tax

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Abstract

The tax reform process is challenging at the best of times, so the 2008 global financial crisis (GFC) and its ongoing impact on the Australian economy and diminishing tax collections presented a serious constraint on the recent Australian tax reform process ‘Australia’s Future Tax System’ chaired by Dr Ken Henry, the then head of Federal Treasury (hereafter known as the ‘Henry Review’). In this environment this article examines the Henry Review processes by way of case study into its supplementary wine tax recommendations.

Australia employs a unique supplementary wine tax, the Wine Equalisation Tax (WET) which is out of step with its significant wine producing competitors such as Italy and France who impose zero or minimal specific wine taxes. In 2010 the Henry Review recommended the replacement of the WET with a wine excise (that as to be phased in).

First, this article provides an overview of Australian wine industry and the WET. The article then outlines the Henry Review’s processes and wine tax recommendations. Following this, a critical analysis is undertaken of these proposals. The article finds significant concerns with the Henry Review’s rationale for its wine excise proposal. Having regard to the tax policy criteria this proposal is difficult to justify. Conducting large scale tax reform such as the Henry Review over a short time line is problematic. Numerous factors work to thwart reform to the WET, especially during a GFC environment with a wine industry under pressure from increased competition, higher levels of regulation, a grape surplus and high exchange rate.
The WET is a sales tax on wine that imposes on the taxable value of assessable dealings with wine in Australia. The tax is applied to both Australian produced wine and imported wine. The primary types of assessable dealings are: wholesale sales; retail sales; application of wine for own use and certain importations. Some assessable dealings such as exports are exempt.

The WET is payable by wine manufacturers, wine wholesalers and wine importers. Whilst, retailers of wine pay WET in the price they pay their supplier for wine. In this way WET is passed on in the price of the wine to the end consumer. WET is calculated at the rate of 29 per cent of the taxable value of assessable dealings with wine in Australia. The WET is calculated on the selling price of the wine excluding wine tax and GST. Where wine is not the subject of a wholesale sale, ie where it is sold at cellar door or used for tastings or promotional activities the WET provides for calculation of alternative values for the tax payable.

The WET forms part of the GST tax base and GST is payable on the value of the wine including any WET component. For imports, an assessable dealing with wine is taxable when it enters Australia. The taxable value is equal to the GST importation value of the wine. The GST importation value is the customs value plus the costs of transport, insurance and duty.

The WET and the GST provide a concessional cash accounting rule for business with annual turnovers of less than $2 million. This means that eligible small wineries do not pay WET or GST until they actually sell the wine.

A rebate of WET applies for producers of rebatable wine that are registered or required to be registered for GST in Australia. From 1 July 2006, the maximum amount of rebate an Australian producer, or group of associated producers, can claim in a full financial year is A$500,000. This is equivalent to about A$1.7 million wholesale value of eligible sales and applications to own use per annum. Given this highly favourable tax treatment 96 per cent of wine producers do not have to pay WET.
The Henry Review had its origins in the federal Labor Government’s 2008-09 Budget which announced a comprehensive ‘root and branch’ review of Australia’s tax system. Commencing on 13 May 2008, the Henry Review was to study the Australian tax system and make recommendations to create a tax structure to help Australia deal with the social, economic and environmental challenges of the 21st century.

The Henry Review’s report to the Treasurer was provided to the government in December 2009. The report consisted of two parts, Part 1 provided an overview whilst Part 2 provided a detailed analysis over two volumes. This report made 138 recommendations covering seven areas. Being carried over a period 19 months the Henry Review was very short-lived given the breadth of its tax reform processes. Again, the fast track nature of this process, the breadth and the complexity involved, would appear to stymie the quality of the reviews’ quantification and assessment of the policy impacts.

In respect of supplementary wine tax the Henry Review recommended that the WET be replaced by a volumetric excise on wine.

Reform of wine taxation is extremely difficult given the policy conflicts, the impacts on the wine industry and consumers, and the ensuing lists of winners and losers. These political economic considerations are further exacerbated in the current GFC environment and the problems besetting the Australian wine industry. Reform of the WET looms as the impossible dream.