

Australia's reputation for fine wines is under threat

Written by Paul Kenny, Associate Professor of Taxation Law, Flinders University

The wine tax and its accompanying rebate are outdated and distorting the Australian wine industry. The tax is encouraging the production of cheap wines and oversupply at a time when the industry is struggling to compete internationally.

While Australian wine drinkers might not care too much about drinking non-premium wine, this comes at the expense of Australia's reputation as a premium wine producer [to overseas markets](#).

The wine tax was originally established in 1930 as a wholesales tax, at a rate of 2.5%. Over time it was repealed and then reintroduced, steadily increasing to 41% by 1997.

With the advent of the 10% GST in 2000 the wine tax was reduced to 29% (and renamed as the Wine Equalisation Tax) so as not to alter the overall tax burden. Australian producers (and New Zealanders) can claim an annual rebate off the wine tax of A\$500,000.

From the 1980s to 2007 the Australian wine industry experienced explosive growth on the back of a low Australian dollar, exports, innovation and differentiation. This came at the expense of "old-world" wine countries (such as France and Italy).

However, since 2007 the growth changed to a contraction. Domestic wine sales have remained flat and exports [declined by 38% between 2007-12](#).

In the wake of the [oversupply of grapes](#) and low profitability, the high wine tax has stymied the industry's ability to compete internationally. It differs to the policies of old-world wine countries and emerging competitors who impose zero or low amounts of wine tax.

This decline coincides with a higher exchange rate, emerging new competitors from New Zealand, Chile, Argentina and South Africa, and a more competitive old-world wine industry. Wine drinkers in traditional and new wine-consuming countries, such as the United Kingdom, United States and China, [tend to prefer premium wines](#). As a result these wines have a

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considerable market share.

However the wine tax punishes premium winemakers and favours voluminous cheap wine, as the Treasury's 2015 Tax White Paper [reform process noted](#) . The Australian wine tax has different impacts on consumers and producers and this creates different distortions.

It raises consumption and tax revenue [but incentivises winemakers](#) to reduce prices, downgrade product quality, reduce advertising and marketing costs. The costs of complying with the tax dissuades winemakers from investing in the quality of their wine and encourages winemakers to lower the cost of their wines [due to competition](#)

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The annual rebate of A\$500,000 that goes with the wine tax also helps inefficient producers stay afloat and is subject to widespread rorting. [A Senate committee found](#) this damages the profitability of the industry overall because of distortions it creates and the widespread rorting.

It also provides a competitive advantage to the New Zealand wine industry which increasingly [accesses the rebate](#)

. NZ wine producers are not subject to the same tax compliance checks as Australian businesses, as they do not lodge an Australian income tax return or Business Activity Statement (BAS) statement, but are still able to claim the rebate. The amount NZ wine producers are claiming has grown quickly from [A\\$5 million in 2006-07 to A\\$25 million 2013-14](#)

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The [health sector frequently calls](#) for higher taxes on alcohol given the external costs of alcohol to hospitals and health services for alcohol abuse and other government expenditures such as police. However, the wine tax is not effective in targeting those who abuse alcohol.

The vast majority of wine drinkers [drink in moderation](#) . Also, the external costs associated with wine consumption appear to be [significantly lower than other forms of alcohol](#)

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While governments have previously cited revenue-raising as the rationale for significant increases in the wine tax, only comparatively small amounts of revenue are raised by wine taxation ([0.2% of total tax revenue](#)) .

Wine should be taxed using a broadly based tax, such as a comprehensive GST set at a uniform rate. This is a fairer tax for the wine industry and aligns with the tax policies of competitor countries. This is less distortionary, far simpler, and provides a more continual revenue source for governments.

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