Appendix F

Returning WET Rebate to Fairness & Original Policy Intent – Supporting Advice on the Impact to Government Revenue

Winemakers' Federation of Australia

January 2015

Disclaimer

Returning WET Rebate to Fairness & Original Policy Intent-Supporting Advice on the Impact to Government Revenue has been prepared by PricewaterhouseCoopers (PwC) at the request of the Winemakers' Federation of Australia (WFA) in our capacity as advisors in accordance with the Terms of Business contained in the Engagement Email (dated 08/01/2015) between WFA and PwC.

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Executive summary

PwC Australia (PwC) has been engaged by the Winemakers' Federation of Australia (WFA) to estimate the impact to government savings from the recommended changes to the Wine Equalisation Tax (WET) as described in the Finlaysons report *Returning WET Rebate to Fairness & Original Policy Intent (dated 17 December 2014).*

Key Findings

Table 1: Summary of estimated government savings

Finlaysons' reference	Details	Estimated savings ($m) 2015-16	2016-17	2017-18	2018-19	Total savings ($m)	Notes
II. Recommended Model Pages 2-8	Under the Recommended Model, the rebate would only be available to winemakers that: • manufacture and sell wine in a form packaged for retail sale, where the finished product is identifiably theirs; and • have business premises in Australia (potentially, in a designated wine region in Australia); and • hold a licence, issued by the Government of a state or territory in Australia, to sell liquor in that state or territory; and • are self-employed or engage one or more employees (including associates of the winemaker) to perform work for the winemaker; and • sell their wine either:	0	0	0	0	**0**	While there are no savings estimated for this measure, it should be noted that introducing the proposed eligibility criteria will ensure future claims are reduced from potential claimants, regardless of origin, who do not have investments in regional Australia.

		Estimated savings ($m)					
	○ by retail sale, or under quotation, from the business premises referred to above; or ○ by internet or mail order sales (in which case the sales would be *deemed* to take place at the above premises).						
III. Phasing Out WET Rebate for Bulk & Unbranded Wine Page 9-10	<u>Note</u>: This proposal would be implemented by: • amending the definition of **rebateable wine*, in section 33-1 of the WET Act, as follows: *rebateable wine means *grape wine, *grape wine products, *fruit or vegetable wine, *cider or perry, *mead or *sake, that is packaged in a single container with a capacity not exceeding 5 litres at the time of the dealing, and which is labelled with a brand on the primary packaging that is wholly owned by, or licensed exclusively to, the producer of the wine. • including a transitional provision in the amending legislation which provides that the eligibility of bulk and unbranded wine for the rebate should be phased out at 25% per annum, starting at 75% of the rebate rate (currently $500,000), from the first day of the financial year in which the amending legislation receives Royal Assent.	29	43	57	73	**202**	This analysis includes all sales of Australian bulk and unbranded wine, excluding producers claiming the WET rebate from New Zealand. The New Zealand producer rebate savings are included in *IV - Repeal WET Act Provisions Allowing New Zealand Winemakers to Claim WET Rebate.*

		Estimated savings ($m)					
IV. Repeal WET Act Provisions Allowing New Zealand Winemakers to Claim WET Rebate Pages 10-14	• Sections 19-5(2) (Entitlement to producer rebates for New Zealand participants) should be repealed to disallow eligibility to NZ entities via the separate scheme. • In addition, the following sections should be repealed since, once the entitlement provisions in section 19-5(2) are removed, those sections become obsolete: ○ 17-10(2A) (Claims for wine tax credits); ○ 19-7 (Approval as NZ participant); ○ 19-8 (Revoking an approval as a NZ participant); ○ 19-9 (Notification of changed circumstances); ○ 19-10(3) and (4) (Exceptions); ○ 19-15(1C) (Amount of producer rebates); and ○ 33-1: (Dictionary) definition of '*New Zealand*' and '*New Zealand participant*'. The reference in section 19-25(4) to '*except in the case of a New Zealand participant*' would also need to be removed.	7.9 total savings[1] (6.4 level playing field savings 0.6 market cannibalism reduction in savings 2.1 bulk and unbranded wine savings)	10.1 total savings[1] (6.5 level playing field savings 0.7 market cannibalism reduction in savings 4.2 bulk and unbranded wine savings)	12.3 total savings[1] (6.7 level playing field savings 0.7 market cannibalism reduction in savings 6.4 bulk and unbranded wine savings)	14.6 total savings[1] (6.8 level playing field savings 0.7 market cannibalism reduction in savings 8.5 bulk and unbranded wine savings)	**44.9** total savings[1] (**26.4** level playing field savings **2.6** market cannibalism reduction in savings **21.2** bulk and unbranded wine savings)	This analysis includes the cannibalism of producer sales taken up by larger producers still operating in the Australian market. This cannibalism rate has been calculated through a sensitivity assumption of 10% of lost New Zealand sales.

[1] Sums may not add due to rounding

		Estimated savings ($m)					
V. Allow Second WET Rebate on Merger of Two Wine Businesses Page 15	Government support to introduce transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over 4 years. These transitional arrangements will be made available to the industry for up to 5 years from the date of implementation.	3 to 12	6 to 24	9 to 37	13 to 50	**31 to 123**	The range of savings is based on four scenarios ranging from 25% take up to 100% take up.
Total savings		**39.9 to 48.9**	**59.1 to 77.1**	**78.3 to 106.3**	**100.6 to 137.6**	**277.9 to 369.9**	

II. Recommended Model

Task

PwC has been asked by WFA to analyse the impact on WET rebate savings if the New Zealand WET rebate system is repealed and Finlaysons' "Recommended Model" for eligibility is applied to New Zealand winemakers.

Under the Recommended Model, the rebate would only be available to winemakers that:

- manufacture and sell wine in a form packaged for retail sale, where the finished product is identifiably theirs; and
- have business premises in Australia (potentially, in a designated wine region in Australia); and
- hold a licence, issued by the Government of a state or territory in Australia, to sell liquor in that state or territory; and
- are self-employed or engage one or more employees (including associates of the winemaker) to perform work for the winemaker; and
- sell their wine either:
  - by retail sale, or under quotation, from the business premises referred to above; or
  - by internet or mail order sales (in which case the sales would be deemed to take place at the above premises).

Specifically, PwC has been asked to respond to Finlaysons' references:

- 7 – PwC provide modelling that estimates:

  7.1 – the cost of acquiring and maintaining a liquor licence and business premises; and

  7.2 – the number of producers that potentially would exit the industry or would otherwise become ineligible to claim the rebate.

Findings

Estimated number of producers that would become ineligible to claim the rebate

The Recommended Model proposed by Finlaysons is not anticipated to impose additional costs to Australian wine producers. One potential impact on Australian producers is the inclusion of the requirement to hold a liquor licence. However the acquisition of a licence is a minor cost to producers (estimated at approximately $1,000) and would not deter producers from claiming the WET rebate.

Finlaysons' report states that it is expected that most, if not all, Australian producers who claim the WET rebate currently hold a state or territory liquor licence of some description and would qualify for the rebate under the Recommended Model.

Table 2: Summary of Recommended Model findings

	Estimated savings ($m)					
Finlaysons' reference	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total savings ($m)**	**Notes**
II. Recommended Model Pages 2-8	0	0	0	0	**0**	While there are no savings estimated for this measure, it should be noted that introducing the proposed eligibility criteria outlined above will ensure future claims are reduced from potential claimants, regardless of origin, who do not have investments in regional Australia.

III. Phasing Out WET Rebate for Bulk & Unbranded Wine

Task

PwC has been asked by WFA to model a reduction in the WET rebate from bulk and unbranded wine. The model is to be updated to reflect a reduction in the rebate from bulk, private label and unbranded wine at 25 per cent per annum from 75 per cent in 2015-16 to 0 per cent in 2018-19.

This proposal would be implemented by:

- Amending the definition of *rebateable wine, in section 33-1 of the WET Act, as follows:
    - *rebateable wine means *grape wine, *grape wine products, *fruit or vegetable wine, *cider or perry, *mead or *sake, that is packaged in a single container with a capacity not exceeding 5 litres at the time of the dealing, and which is labelled with a brand on the primary packaging that is wholly owned by, or licensed exclusively to, the producer of the wine.
- including a transitional provision in the amending legislation which provides that the eligibility of bulk and unbranded wine for the rebate should be phased out at 25% per annum, starting at 75% of the rebate rate (currently $500,000), from the first day of the financial year in which the amending legislation receives Royal Assent.

Specifically, PwC has been asked to respond to Finlaysons' reference:

- 36 – modelling that estimates the savings from removing the rebate from bulk and unbranded wine.

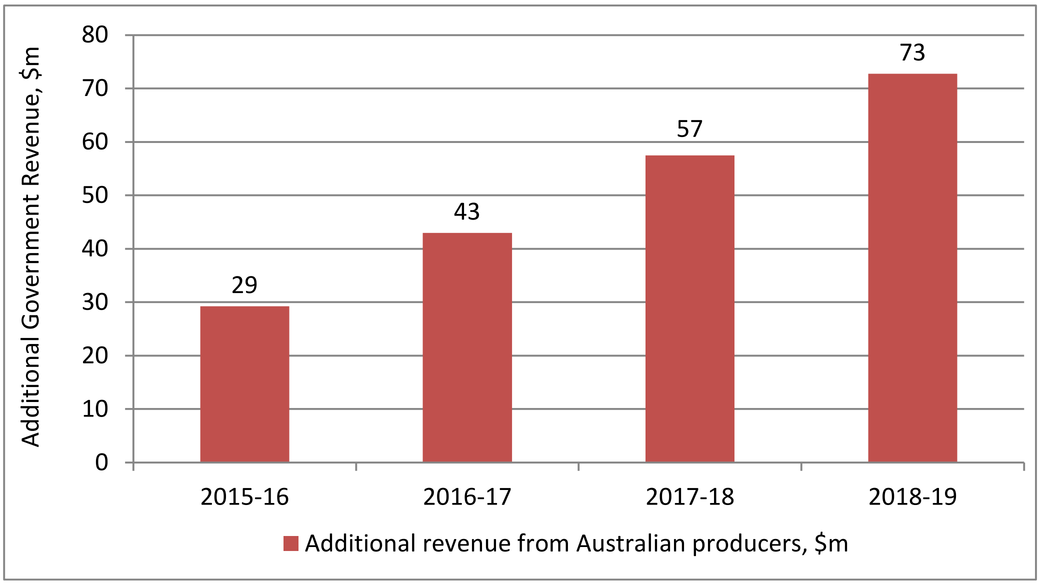
Findings

Estimated savings from removing the rebate from bulk and unbranded wine

The estimated government saving from removing the rebate from bulk and unbranded wine has been developed using an industry structure method. This method has been developed from those producers in the Australian Bureau of Statistics (ABS) catalogue 1329.0 publication and micro producers identified by the Australian Tax Office (ATO) who are currently eligible for the rebate.

Through the industry structure method, the government savings from removing the rebate on Australian bulk and unbranded wine is estimated to be approximately $73 million in 2018-19, as show in Figure 1. The removal of bulk and unbranded wine will also impact New Zealand producers. However, the New Zealand impact is shown in *Chapter IV – Repeal WET Act Provisions Allowing New Zealand Winemakers to Claim WET Rebate* and not included in Figure 1.

Figure 1: Update of WET – additional commonwealth government savings, $m



Source: *PwC analysis*

The industry structure method combines data from the ABS and ATO to give a complete picture of the Australian wine industry. This model is then used to estimate the total value of bulk and unbranded wine from Australian producers. The phasing out of the bulk and unbranded wine rebates have been applied to this model to show the estimated impact to government savings from the policy change. Further information on the methodology of this industry structure method is attached in Appendix A.

Table 3 below shows the total estimated savings from all Australian producers of bulk and unbranded wine

Table 3: Summary of phasing out WET rebate for bulk & unbranded wine findings

	Estimated savings ($m)					
Finlaysons' reference	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total savings ($m)**	**Notes**
III. Phasing Out WET Rebate for Bulk & Unbranded Wine Page 9-10	29	43	57	73	**202**	This analysis includes all sales of Australian bulk and unbranded wine, excluding producers claiming the WET rebate from New Zealand. The New Zealand producer rebate savings are included in *IV - Repeal WET Act Provisions Allowing New Zealand Winemakers to Claim WET Rebate.*

Data sources

The table below outlines the data sources and assumptions.

Table 4: Data sources and assumptions

	Item	Source
1	**Domestic sales volume by container type**	
	ABS Catalogue: 8504.0 - Shipments of Wine and Brandy in Australia by Australian Winemakers and Importers, March 2014: Table 1	http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8504.0March%202014?OpenDocument
2	**FOB price for wholesale wine**	
	Australian Grape and Wine Authority - database	http://www.wineaustralia.com/en/Winefacts%20Landing.aspx
3	**Wine imports**	
	Australian Grape and Wine Authority - database	http://www.wineaustralia.com/en/Winefacts%20Landing.aspx
4	**WET rebate detail**	
	WET rebate Australian claimants	file:'140801 ATO data original.xls', DATA Derived from SENATE ESTIMATES QUESTIONS 15/03/2013
	Total of rebate and refund	file:'140801 ATO data original.xls', DATA Derived from SENATE ESTIMATES QUESTIONS 15/03/2013
	Total value of WET rebate claim by Industry	file:'140801 ATO data original.xls', DATA Derived from SENATE ESTIMATES QUESTIONS 15/03/2013
5	**WET collected**	
	WET payable	Taxation statistics 2011–12, Table 1: Goods and services tax, Selected GST, WET and LCT items, 2001-02 to 2012-13
	WET refundable	Taxation statistics 2011–12, Table 1: Goods and services tax, Selected GST, WET and LCT items, 2001-02 to 2012-13
	Net WET	Taxation statistics 2011–12, Table 1: Goods and services tax, Selected GST, WET and LCT items, 2001-02 to 2012-13
	Net WET (Forward Estimates)	Mid Year Economic and Fiscal Outlook, 2013-14, Note 3: Taxation revenue by type
	NZ producer rebate	Taxation statistics 2011–12, Table 1: Goods and services tax, Selected GST, WET and LCT items, 2001-02 to 2012-13

	Item	Source
6	**Wine producers by size of crush**	
	ABS Catalogue 1329.0 - Australian Wine and Grape Industry, 2012-13	http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/1329.0Main%20Features22012-13?opendocument&tabname=Summary&prodno=1329.0&issue=2012-13&num=&view=
7	**Wine retail sales**	
	Off premises trade	Aztec liquor outlook 2014.pdf
	Domestic	Aztec liquor outlook 2014.pdf
	Imported	Aztec liquor outlook 2014.pdf

Source: Modelling Changes to Wine Equalisation Tax (WET) Producer Rebates

Key assumptions

- The proportion of bulk and unbranded wine produced is 20% of total wine produced.
- The WET rebate is reduced to 75 per cent in 15-16 and reduced to 0 per cent in 2018-19, reducing at 25 per cent per year.
- Growth in wholesale sales (domestic/imported): domestic 2.9 per cent - 3.7 per cent, imported 12 per cent.
- Growth in volume by container type, bulk (5 per cent), container unspecified (1 per cent), glass bottle (2 per cent), softpack (-2 per cent), total (1 per cent).
- The margin on wholesale sales F.O.B. price remains constant.
- The private label share of sales increase by 0.5 per cent p.a offset by a fall of 0.5 per cent of the share of unbranded wholesale sales.
- Share of bulk wine, private labels, unbranded sales that attracts rebate is at system, ie 29 per cent.
- Additional volume is absorbed by the producers in the largest two categories.

IV. Repeal WET Act Provisions Allowing New Zealand Winemakers to Claim WET Rebate

Task

PwC has been asked by WFA to model the savings in the WET rebate from repealing WET Act provisions allowing New Zealand winemakers to claim WET rebate.

Finlaysons' report notes that:

- Sections 19-5(2) (Entitlement to producer rebates for New Zealand participants) should be repealed to disallow eligibility to NZ entities via the separate scheme.

- In addition, the following sections should be repealed since, once the entitlement provisions in section 19-5(2) are removed, those sections become obsolete:

    - 17-10(2A) (Claims for wine tax credits);
    - 19-7 (Approval as NZ participant);
    - 19-8 (Revoking an approval as a NZ participant);
    - 19-9 (Notification of changed circumstances);
    - 19-10(3) and (4) (Exceptions);
    - 19-15(1C) (Amount of producer rebates); and
    - 33-1: (Dictionary) definition of 'New Zealand' and 'New Zealand participant'.

- The reference in section 19-25(4) to 'except in the case of a New Zealand participant' would also need to be removed.

Specifically, PwC has been asked to respond to Finlaysons' reference:

- 23 – Australia would also note that limiting the rebate in the manner proposed would be unlikely to reduce the volume of New Zealand wine sold in Australia due to the strength of the "*Malborough*" brand. In addition, even if certain New Zealand winemakers find it uneconomic to import into Australia in the absence of the rebate, their sales will be taken up by other New Zealand producers.

- 65 – PwC provide modelling that estimates:

    65.1 – the cost for New Zealand producers of shifting to "level playing field" arrangements; and

    65.2 – the number of New Zealand producers that would exit the industry or become ineligible for the rebate.

Findings

Estimated cost for New Zealand producers of shifting to "level playing field" arrangements & the cost of acquiring and maintaining a liquor licence and business premises

Based on PwC research and survey responses from WFA members, the cost of acquiring and maintaining a liquor licence and maintaining business premises in Australia is estimated to be approximately $100,000 per annum. This cost has been estimated to be the cost of a New Zealand producer shifting to a "level playing field" arrangement and continuing to claim the rebate.

The estimated business costs are shown in Table 6.

Estimated number of New Zealand producers that would become ineligible for the rebate

Based on the estimated business cost of approximately $100,000 (see Table 6), there is estimated to be 156 New Zealand producers not claiming a rebate sufficient enough to justify opening business presence in Australia in 2018-19. These New Zealand producers would not be able to justify the business costs and would become ineligible for the WET rebate under the Recommended Model.

The reduction in New Zealand producers claiming the WET rebate from the estimated business cost represents a further government saving of approximately $6.8 million in 2018-19.

Consumer brand loyalty for New Zealand products

Although there will be an overall loss in New Zealand wine sales from the recommended changes to eligibility, consumer brand and wine region loyalty could increase sales to the New Zealand producers that continue to export wine to Australia. A sensitivity analysis with an assumed substitution effect of 10 per cent found this could represent up to $700,000 in WET rebate in 2018-19 as Australian consumers continue to purchase New Zealand products.

Any substitution effect such as this will reduce the government saving from New Zealand producers. For example the assumed 10 per cent sensitivity analysis will reduce the government saving from New Zealand producers to approximately $6.1 million.

Phasing out New Zealand WET rebate for bulk & unbranded wine

In addition to the increase in government savings from Australian producers from the removal of the WET rebate for bulk and unbranded wine (as discussed in chapter III), there is also a further government saving from the reduction in bulk and unbranded wine from New Zealand.

Based on assumptions provided by WFA, approximately 75 per cent of all New Zealand bulk and unlabelled wine could be claimed by producers. This assumption has been applied to estimate the Australian government rebate savings from removing New Zealand bulk and unlabelled wine. From this, it is estimated that the savings from the removal of New Zealand bulk and unlabelled wine could be approximately 8.5 million in 2018-19.

Table 5 below summaries the total Australian government savings from the findings discussed above.

Table 5: Summary of repeal WET act provisions allowing New Zealand winemakers to claim WET rebate findings

	Estimated savings ($m)					
Finlaysons' reference	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total savings ($m)**	**Notes**
IV. Repeal WET Act Provisions Allowing New Zealand Winemakers to Claim WET Rebate Pages 10-14	7.9 total savings[2] (6.4 level playing field savings 0.6 market cannibalism reduction in savings 2.1 bulk and unbranded wine savings)	10.1 total savings[1] (6.5 level playing field savings 0.7 market cannibalism reduction in savings 4.2 bulk and unbranded wine savings)	12.3 total savings[1] (6.7 level playing field savings 0.7 market cannibalism reduction in savings 6.4 bulk and unbranded wine savings)	14.6 total savings[1] (6.8 level playing field savings 0.7 market cannibalism reduction in savings 8.5 bulk and unbranded wine savings)	**44.9** total savings[1] (**26.4** level playing field savings **2.6** market cannibalism reduction in savings **21.2** bulk and unbranded wine savings)	This analysis includes the cannibalism of producer sales taken up by larger producers still operating in the Australian market. This cannibalism rate has been calculated through a sensitivity assumption of 10% of lost New Zealand sales.

Data sources

The assumed business costs for maintaining business presence in the Australian marketplace are shown in the Table 6. These costs have been assumed from estimates provided from WFA and its members. [3]

The business costs will vary considerably depending on the business strategy. For example Table 6 below assumes a relatively small business with a rent of $55,000 per annum. A business strategy that supports activities such as wine tasting, sales and marketing may require a business location and fit out that would cost over the assumed $55,000 rental expense.

PwC has conducted research on the cost for maintaining business presence in the Australian market and found that the upper scale of business costs can exceed $400,000. Changing the assumed business presence cost to $400,000 considerably increases the number of New Zealand producers that would not enter the Australian market, estimated to be 229 producers. This assumption would increase the Government New Zealand rebate savings to $15.5 million (excluding the savings from the removal of New Zealand bulk wine from III - Phasing Out WET Rebate for Bulk & Unbranded Wine).

[2] Sums may not add due to rounding

[3] Provided to PwC by WFA

Table 6: Cost of Australian business presence

Cost Category	Estimate	Source
Company registration costs	$500	Australian Securities and Investment Commission website
Annual ASIC filing costs	$243	Assumed annual review fee through private company
Employee salary	$33,327	www.fairwork.gov.au minimum wages factsheet
Employee-related compliance costs	$9,998	Estimated to be an additional 25% - 30% of the basic wage paid to employees. Government of South Australia, The cost of employing someone (www.sa.gov.au)
Business premises costs	$55,000	Assumption developed through consultation with WFA and their members
Application for licence to sell liquor	$973	Average of licence costs across NSW, QLD, VIC and SA
Total business premise costs	**$100,041**	

Source: provided by WFA based on member input

These business cost are expected to vary depending on the level of business presence and business strategy of each producer. The employee salary and business premise cost are the two major contributors to the total business costs and are expected to be the most diverse. This analysis uses the Australian minimum employee wage rate. However alternative scenarios could increase this cost, such as assuming the average Australian salary or employment multiple employees.

The business premise cost is another highly subjective cost. One WFA member reported that this could be as low as $6,000 per annum. This analysis has assumed the average business premise costs of $55,000 per annum.

The level of New Zealand claimants of WET were sourced from Senate Estimates data and forecasted out to 2018-19. The table below shows the original data sourced from Senate Estimates data.

Table 7: 2011-12 New Zealand claimants of WET

% of max rebate	Value of rebate	No.	Estimated average rebate	$m
0-20%	$0 to $100,000	137	$50,000	6.9
20-50%	$100,000 - $250,000	32	$150,000	4.8
50-70%	$250,000 - $350,000	12	$300,000	3.6
70-100%	$350,000 - $500,000	24	$400,000	9.6
Total		**205**		**$24.9**

Source: ATO, file:'140801 ATO data original.xls', DATA Derived from SENATE ESTIMATES QUESTIONS 15/03/2013

Key assumptions

- Producers need to have separate business premises. This means we have assumed that there are no joint premises between two or more producers.
- There are no additional barriers to entry other than the business premise costs outlined in Table 6.
- Within each percentage of maximum rebate grouping, the average value of WET rebate has been used as a proxy for each producer rebate within that group.
- The New Zealand producer rebate value on bulk and unlabelled wine is 75 per cent of the total value of bulk and unlabelled wine imported into Australia.
- There is no growth in the value of New Zealand wine imported into Australia over the forecast period.

V. Allow second WET rebate on merger of two wine businesses

Task

PwC has been asked by WFA to calculate the government savings from Finlaysons recommended Transitional Measure. The recommended transitional rebate measures to allow the second rebate on a merger of two businesses which are entitled to the rebate to remain with the new entity but be phased out at 25% per year over 4 years. These transitional arrangements will be made available to the industry for up to 5 years from the date of implementation.

The analysis below allows two wine businesses to merge but still claim a second WET rebate. This Transitional Measure is phased out from 2015-16 at the rate of 25 per cent per annum over four years.

Specifically, PwC has been asked to respond to Finlaysons' reference:

- 71 – PwC provide modelling that estimates:

    71.1 – the expected take up of the Transitional Measure, and

    71.2 – the savings that would be generated

Findings

Four scenarios have been estimated and costed: 100 per cent, 75 per cent, 50 per cent and 25 per cent take up of the recommended Transitional Measure.

Take up of the Transitional Measures

Up to 318 producers in 2018-19 could benefit from the take up of the recommended Transitional Measure. These producers are all currently claiming above 50 per cent of the total rebate value and any merger would result in a total rebate value over the $500,000 cap. However this is a maximum estimation and in practice not all producers would choose to merge.

For each of the four take up scenarios, the potential take up is outlined in the below table.

Table 8: 2018-19 take up of Transitional Measure

Scenario	Total producer take up	Take up 50-70% of rebate value	Take up 70-100% of rebate value	Take up >100% of rebate value
100% take up	**318**	72	218	28
75% take up	**238**	54	164	20
50% take up	**159**	36	109	14
25% take up	**80**	18	55	7

Source: PwC Analysis

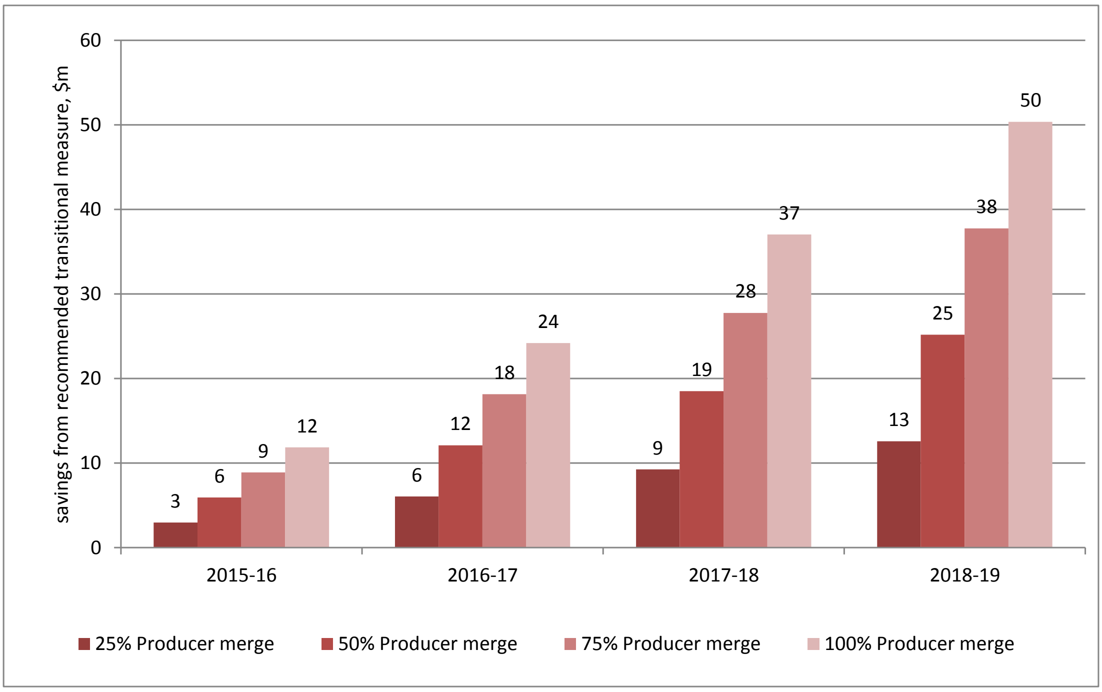
The biggest expected take up of the Transitional Measure would be producers currently claiming in between 50 per cent to 70 per cent of the total rebate value. The potential efficiency gains from a merge is relatively high for these producers, with relatively low reductions in rebate value over the four year period compared to producers already claiming a high rebate value. In 2018-19, there are estimated to be 72 producers claiming a rebate in between 50 per cent to 70 per cent.

Potential savings from Transitional Measure

Figure 2 below shows that in 2018-19, there could be up to $50 million in rebate savings to the government from the introduction of the Transitional Measure. The largest contributor to this estimated saving is producers currently claiming in between 70 per cent to 100 per cent of the total rebate value. This group alone has a maximum rebate saving of up to $39.5 million in 2018-19.

Figure 2 below shows the estimated government rebate savings from each of the four scenarios: 100 per cent, 75 per cent, 50 per cent and 25 per cent take up of the Transitional Measure.

Figure 2: Potential rebate savings from recommended Transitional Measure, $m



Source: derived from *Modelling Changes to Wine Equalisation Tax (WET) Producer Rebates* outputs

Table 9: Summary of allowing second WET rebate on merger of two wine businesses findings

	Estimated savings ($m)					
Finlaysons' reference	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total savings ($m)**	**Notes**
V. Allow Second WET Rebate on Merger of Two Wine Businesses Page 15	3 to 12	6 to 24	9 to 37	13 to 50	**31 to 123**	The range of savings is based on four scenarios ranging from 25% take up to 100% take up.

Data sources/methodology

Table 10 below highlights the original 2010-11 number of producers potentially impacted from the Transitional Measure. This table has been expanded to calculate the amount of producers with an incentive to merge and still claim a second WET.

Table 10: 2010-11 WET Rebate pool

% of max rebate	Value of rebate	No.	$m
50-70%	$250,000 - $350,000	41	12.3
70-100%	$350,000 - $500,000	174	74.1
>100%	> $500,000	17	8.5
Total		**232**	**$94.9**

Source: ATO, file:'140801 ATO data original.xls', DATA Derived from SENATE ESTIMATES QUESTIONS 15/03/2013

Key assumptions

- Mergers between providers that currently claim less than 50 per cent of the total rebate allowance have not been considered in this analysis, since their total rebate value is under the cap and would not be impacted by the recommended transitional measure.

- Take up of the recommended Transitional Measure is spread across three groupings listed in Table 2; 50-70 per cent, 70-100 per cent and >100 per cent of maximum rebate. It is assumed that these groups will be equally proportionally affected.

- No more than two producers merge together.

- The average percentage of rebate claimed for each grouping has been assumed to be consistent across the forecasted years. Table 11 outlines the assumed 2018-19 average rebate value claimed for each grouping.

Table 11: Assumed average rebate value claimed

% of max rebate	Average percentage claimed	2018-19 average rebate value claimed
0-20%	6%	$30,594.82
20-50%	30%	$152,172.60
50-70%	61%	$304,345.20
70-100%	86%	$431,155.70
>100%	100%	$500,000.00

Source: derived from *Modelling Changes to Wine Equalisation Tax (WET) Producer Rebates* outputs

Appendix

Appendix A Industry structure approach

Industry structure approach

The size of the Australian wine industry has been estimated and forecasted using a bottom up industry structure approach. This method has been developed from those producers in the Australian Bureau of Statistics (ABS) catalogue 1329.0 publication and micro producers identified by the Australian Tax Office (ATO) who are currently eligible for the rebate.

The ABS and ATO data by themselves do not capture the entire production of wine in Australia. To develop a complete picture of the Australian wine industry, the industry structure method combines these two data sources.

The model is then used to estimate the total value of wine produced by Australian producers over the forecasted period. This framework has been used to answer specific questions regarding bulk and unbranded wine in this report. The development of the industry structure method is provided in a step by step explanation below.

Development of the industry structure approach

The ATO detailed the recipients of the WET producer rebate in answers to senate estimate questions by number and size of rebate. An alternative approach is to examine the industry structure of the producers of wine to match those producing wine with those receiving the rebate. We match producers by size of production to rebate claimants by size of claim.

The ABS publication 1329.0 provides an estimate of the number of producers by size of crush. Table 12 details the number of producers by tonnes crushed and the production of litres of wine. Using this information we can assign an approximate value to the wine produced.

Table 12: Wine produced by size of crush, 2010 -11

Size of crush (tonnes)	Production '000L	No.
50 - 99	1,858	36
100 - 149	2,453	45
150 - 199	2,268	19
200 - 400	9,913	51
401 - 1,000	31,374	71
1,001 - 3,000	40,567	48
3,001 - 5,000	59,660	21
5,001 - 10,000	55,735	11
10,001 - 20,000	69,297	8

Size of crush (tonnes)	Production '000L	No.
20,001 or more	844,712	15
Total	1,117,837	325

It is difficult to assign an exact value of the wine for each individual producer as some may have a high value, per litre >$10, others low, used in the production of bulk wine for around $1 per litre. However, on average, the value of wine produced must equate to the wholesale value of wine sold. The values in Table 13 show an approximate value of domestic sales and associated WET for each producer given the size of their crush. Exports are the difference between the value of production and the domestic sales. The total of domestic sales sum to the total of the Australian produced domestic sales for 2010-11.

Table 13: Wine value, WET by size of crush per producer, 2010 -11

Size of crush (tonnes)	Production '000L	Value[4] $000's	Domestic wholesales $000's	WET $000's
50 – 99	52	$325	$260	$75
100 – 149	55	$343	$274	$80
150 – 199	119	$751	$526	$152
200 - 400	194	$1,223	$734	$213
401 - 1,000	442	$2,779	$1,390	$403
1,001 - 3,000	845	$5,316	$1,913	$555
3,001 - 5,000	2,841	$17,868	$6,431	$1,865
5,001 - 10,000	5,067	$31,868	$11,469	$3,326
10,001 - 20,000	8,662	$54,481	$19,607	$5,686
20,001 or more	56,314	$354,193	$127,468	$36,966
Total all production	1,117,837	-	$2,589,654	$751,000

Source: ABS 1329.0, derived

Next, each of the producers must be placed into broad value 'bins' based on their domestic sales. These bins have a wide range which means the majority of producers will fall entirely within one of the bins. Where they might fall into more than one bin, the quantity of production is split across the two or more bins using an approximate share.

[4] This values all wine produced at the average domestic price per litre. Final exports prices and value will be a different.

Table 14 shows the domestic sales bins that producers belong to. The values of the bins have been chosen to match the bins used by the ATO in the analysis of the WET rebate. The final row shows the number of producers in each bin. This is the result of the share in each bin multiplied by the number of producers of that size. For example, there are 51 producers of between 200 and 400 tonnes crushed, 100% of these belong in the $344,829 to $862,069 bin.

Table 14: Share of domestic sales by value, by size of crush per producer, 2010-11

Size of crush (tonnes)	$0 to $344,828	$344,829 to $862,069	$862,070 to $1,206,898	$1,206,898 to $1,724,139	Greater than $1,724,139
50 - 99	100%				
100 - 149	100%				
150 - 199	20%	80%			
200 - 400		100%			
401 - 1,000		20%	30%	50%	
1,001 - 3,000			20%	30%	50%
3,001 - 5,000					100%
5,001 - 10,000					100%
10,001 - 20,000					100%
20,001 or more					100%
No of Producers	85	80	31	50	79

Source: ABS 1329.0, derived

The next step is contrast to these producer bins value to the ATO rebate analysis. The ATO analysis shown in Table 15 has 1,387 producers claiming a rebate of less than 20%. The ABS 1329 publication doesn't capture micro producers (below 50 tonnes crushed). The ATO analysis is concluded to capture all the producers in this group receiving less than 20% of the maximum rebate.

Table 15: WET Rebate pool

% of max rebate	Value of rebate	No.	$m
0-20%	$0 to $100,000	1,387	41.7
20-50%	$100,000 - $250,000	214	32.1
50-70%	$250,000 - $350,000	41	12.3
70-100%	$350,000 - $500,000	174	74.1

% of max rebate	Value of rebate	No.	$m
>100%	> $500,000	17	8.5
Total		1,833	$168.7

Source: ATO, file:'140801 ATO data original.xls', DATA Derived from SENATE ESTIMATES QUESTIONS 15/03/2013

Excluding the 0-20% category where producers of less than 50 tonnes can apply for rebate, there are 446 producers receiving rebate over $100,000. This is in contrast to the 240 producers which are identified as having produced $344,829 of wine or more. The additional claimants of WET rebate above those identified producers are likely to have manufactured or blended wine produced from one or more of the larger producers. This is confirmed when we compare those producers claiming the maximum rebate. Only 17 entities claimed the maximum $500,000 rebate when value estimates imply 79 producers are large enough to have claimed the full rebate.

If the definition of the rebate is changed so only producers of wine are eligible for the rebate, thereby removing any rebate from the on-sale of wine to related or unrelated entities for processing.

Based on the volume of the crush and average wholesale price per litre, 240 of the 325 producers would generate enough wholesale domestic sales revenue to qualify for a rebate greater than 20% of the $500,000 cap (Table 16). This compares with the 446 recipients of the greater than 20% of the rebate in 2010-11. Based on the average amount of rebate received in each of the bands and the revised number of eligible producers of wine from the ABS 1329 publication, it implies a total rebate of $122 million. This compares with the $168.7 million identified by the ATO claiming the rebate involved in grape growing or manufacture of wine industries in 2010-11.

Table 16: Producer only WET Rebate recipients, 2010-11

% of max rebate	No.	$m
0-20%	1,387	41.7
20-50%	80	12.1
50-70%	31	9.3
70-100%	74	31.5
>100%	55	27.5
Total	1,627	122.0

The number of recipients of the rebate identified by the ATO has continued to rise since 2010-11. The last available figure in 2011-12 showed 501 recipients receiving more than 20% of the rebate. As the ABS 1329 publication was discontinued, no further facts on the change in the number of producers are available.

Appendix F

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Appendix F

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