

# AUSTRALIA'S FUTURE TAX SYSTEM Review

Submission from:

## TASMANIAN ASSOCIATION OF MICROBREWERS (TAMI)<sup>1</sup>

**We wish to express our support of the submission made to this review by the Australian Association of Microbrewers Inc.**

### **Framing Questions as suggested by the review:**

- What major challenges facing Australia need to be addressed through the tax-transfer system?
- What features should the system have in order to respond to these challenges?
- What are the problems with the current system?
- What reforms do we need to address these problems?

### **MAJOR CHALLENGES FACING AUSTRALIA THAT NEED TO BE ADDRESSED**

The **complexity**, as well as the **inequity**, of the taxation system in relation to alcoholic beverages.

**High excise burden** on small brewers; in the main, these are small businesses based in rural and regional Australia.

**Inequity of the taxation system on beer** produced by small brewers compared with wine produced by small wineries.

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<sup>1</sup> Written by & prepared for TAMI by Jane Huntington, The Two Metre Tall Company Pty Ltd

## FEATURES TO RESPOND TO THESE CHALLENGES:

### 1. WET Equity – “A Fair Go For All”

**Increase the current Microbrewery Excise Refund** maximum from \$10,000 to the same maximum amount as the wine industry producer rebate; currently \$500,000 per annum.

*NB. Beverages subject to the Wine Equalisation Tax are: grape wine (including sparkling & fortified wine), grape wine products (i.e. Marsala, vermouth, wine cocktails & creams), other fruit wines & vegetable wines, cider & perry, mead (including fortified mead) and sake.*

### 2. Change the definition of ‘microbrewery’ under the excise act.

Currently set at 30,000 litres maximum production, the Microbrewery Refund of up to \$10,000 is available to microbreweries with an annual production <30,000 litres only.

In Australia, the cap of 30,000 litres means the excise rebate is only available to ‘hobby’ or extremely small breweries.<sup>2</sup> By comparison, all small wineries pay little or no Wine Equalisation Tax on their domestic wine sales; all wineries are eligible for a producer rebate of up to \$500,000 representing a rebate on a sales value of approx \$1.7 million.

A business producing 30,000 litres of beer per annum would have approximate turnover of \$100,000. These breweries begin to pay the full excise rates compared to wine producers who only start to pay WET when they reach \$1.7M turnover. This demonstrates an enormous disparity.

By comparison, the United Kingdom defines a small brewer as having an annual production of <500,000 litres and offers these businesses 50% duty relief.  
*(ref. HM Revenue & Customs 12 March 2008 BN91)*

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<sup>2</sup> See Appendix B; **Profit & Loss Statement – Modeling** which shows that a brewery business producing 125,000 litres is not profitable under the current excise structure.

## **PROBLEMS WITH THE CURRENT SYSTEM & REFORMS NEEDED TO ADDRESS THESE PROBLEMS:**

### **1. Inequitable Tax Rebates – Wine cf. Beer**

The excise burden currently borne by microbrewers throughout Australia is inequitable. The high cost to business is stifling investment and restricting industry opportunities.

The \$10,000 Microbrewery Refund has not been revisited in 8 years; in this time excise rates have increased 17 times, thereby reducing the effective assistance afforded by the refund.

Excise rates are increased by CPI every year in February & August while the refund has remained static since it was introduced in July 2000.

The refund afforded small beer producers requires urgent review and updating.

### **2. Costs of administering & complying with the system; Move excise lodgement for small businesses to the Business Activity Statement.**

Breweries must lodge excise returns prior to 4pm each Monday & pay the excise liability for the previous week's sales. (*Assuming they have a Periodic Settlement Permission*)

Currently excise liabilities are paid within a maximum of 7 days of the goods leaving the brewery. Businesses will often be paid for these goods within 30 days but regularly much later than this. Cash flow is the issue here for many small brewers. Anecdotally, some microbrewers avoid moving stock from their under bond store for sale as they know they cannot afford the excise bill that will ensue the following Monday. The situation has the effect of stifling sales activity.

Breweries should be allowed to lodge Business Activity Statements (BAS) for GST purposes as well as excise lodgement. Wineries already report WET via the BAS.

A huge benefit to small brewers would be the ability to **lodge excise returns with their Business Activity Statements quarterly** as winemakers are able to do. Not only would this reduce administrative costs but it would provide cash flow benefits to small business.

### **3. Definitions - Confusion**

Beer (hops/grain), mead (honey), cider (apples), perry (pears), sake (rice) & wine (grapes, fruit, and vegetables) are all alcoholic beverages made using agricultural inputs. Beer is the only beverage of agricultural origin considered to be liable for excise not WET and hence is not eligible for a maximum \$500,000 producer rebate on tax liabilities.

In the main, small breweries are small businesses based in rural and regional Australia similar to small wineries, small cideries, small meaderies etc. It is difficult to understand, let alone accept, the gulf that exists between these businesses from a taxation point of view.

The tax system needs to review its definitions in relation to alcoholic beverages.

### **4. OH&S concern - Out dated excise item classifications**

The current excise tariff classification system has ***not responded to requirements for improved workplace health and safety practices in breweries***. It is common practice for breweries to use 50 litre beer kegs for draught beer sales. This size keg attracts a lower excise rate than beer packaged in containers of less than 48 litres. However, the use

of 18-20L kegs would reduce the unit weight of a keg from 65kg/unit down to around 30kg/unit, providing much greater ease of handling and improved OH&S outcomes.

The on-premise purpose of these kegs is the same as the 50L kegs and they should not be taxed at the higher, small-pack container rate. A change to the classification code, resulting in a lower excise rate for smaller kegs would encourage their utilization across the micro brewing industry, thus lowering the OH&S implications for these breweries which are typically characterized by low levels of keg handling automation.

The Federal Government can encourage the use of smaller beer kegs to improve OH&S practices in breweries by ***revising the excise rates charged in relation to container size*** of packaged beer.

## ECONOMIC COST TO GOVERNMENT TO IMPLEMENT CHANGES<sup>3</sup>

### Economic Impacts:

58% of Australia's microbreweries are located in non-metropolitan areas contributing directly & indirectly to rural & regional economies.

Microbreweries *currently* make an estimated total economic contribution to the Australian economy of **\$545.7 million**.

The microbrewery industry in this country is *projected* to make an estimated contribution to the Australian economy as follows:

\* **\$924.8 million** by 2013 under the existing excise regime.

If the excise regime is reformed:

\* **\$1,578.3 million** by 2013 under the proposed excise reform

If Government restructures excise for brewers by increasing the producer rebate, they will increase the microbrewery industry's economic contribution by a huge \$653.5 million.

### Tax & Duty Payments by Microbreweries

If government were to introduce a producer rebate for brewers to a maximum \$500,000 by revision of the excise legislation, the estimated net cost would be as follows:

	CURRENT EXCISE REGIME	CURRENT EXCISE REGIME	Re- Structured Excise Regime	Re- Structured Excise Regime
	2008 (\$000)	2013 (\$000)	2008 (\$000)	2013 (\$000)
<b>Taxes Estimated</b>				
Excise Payments	22,995.6	42,705.1	22,995.6	18,144.2
Net GST Collected	12,964.5	24,076.3	12,964.5	37,580.2
Statutory Payments	18.6	27.1	18.6	39.9
Payroll Tax	1,323.6	2,458.0	1,323.6	3,836.7
Rates, FBT & Other Taxes	3,922.6	7,284.6	3,922.6	11,370.4
Bank Taxes	905.3	1,681.2	905.3	2,624.2
Taxation on Wages & Salaries	23,031.1	42,771.0	23,031.1	66,760.5
Tax on Company & Net Business Income	1,885.7	3,502.0	1,885.7	5,466.2
<b>TOTAL</b>	<b>67,047.0</b>	<b>124,505.4</b>	<b>67,047.0</b>	<b>145,822.1</b>

SOURCE: Street Ryan estimates from projection & financial records of microbrewery organizations.

*In summary*, excise payments made to government would fall but the total taxes & statutory charges are expected to increase under a restructured excise regime. These figures assume a restructured regime would provide brewers a similar producer rebate currently afforded wine producers.

<sup>3</sup> Street Ryan & Associates Pty Ltd, **Analysis of Australian Microbreweries: Facts & Economic Impact**, Updated September 2008

## CONSULTATION:

We ask that the Review Panel engage in direct consultation with the Australian Association of Microbrewers Inc on this matter for a broader understanding of the impacts the excise system has on our industry.

Thank-you for taking the time to consider this submission from the Tasmanian Association of Microbrewers.

Please contact us should you require any further detail or clarification on the issues outlined in this document.

**Signed by Mr. Owen Johnston**

President (Public Officer)

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See attached below:

**Appendix A**      **Small Brewery Businesses – Case Studies**  
*5 Tasmanian micro brewery businesses have provided their case studies*

**Appendix B**      **Profit & Loss Statement Modeling<sup>4</sup>**  
*Example of a typical microbrewery:*  
- Producing 125,000 litres p.a  
- Annual turnover \$500,000  
- Under current excise regime; makes a financial loss

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<sup>4</sup> Document sourced from Australian Association of Microbrewers, contact Cam Hines

## APPENDIX A

# Tasmanian Association of Microbrewers (TAMI)

## BACKGROUND

The Tasmanian Association of Microbrewers is being formed in 2008. We represent & support the collective interests of small brewers/beer producers in Tasmania.

These businesses are:

The Two Metre Tall Company Pty Ltd  
Moo Brew Brewery, Moorilla Pty Ltd  
Ironhouse Brewery  
Tasmanian Chilli Beer Company  
Taverner's Mead (Cradle Honey)  
Seven Sheds Pty Ltd  
Hazard's Ale (Freycinet Vineyard)

It is interesting to note that 3 of these businesses have strong links to the wine industry as winemakers & vineyards thus reinforcing the synergies between the boutique wine & beer industries.

## SMALL BREWERY BUSINESSES: CASE STUDIES

It is important for the Review Panel to develop an understanding of small brewers in today's market. Five of our member breweries have provided business profiles below. In summary, all businesses have **<5 employees**. 4 of the 5 breweries are in **rural & regional areas** of Tasmania with the 5<sup>th</sup>, Moo Brew located on the northern fringe of Hobart and surrounded by their own vineyard. Some brewers **produce** their own inputs such as honey, grain & hops. 2 of our businesses are **primary producers** as well as brewers.

### 1. The Two Metre Tall Company Pty Ltd

Owner/Operators:	Jane & Ashley Huntington
Head Brewer:	Ashley Huntington
Location:	Hayes, Derwent Valley, Tasmania
Established:	2006
Employees:	2 (ourselves)
Current Annual Beer Production:	50,000 litres

#### Brewery Background:

A qualified winemaker of 15 years experience, with 7 years as General Manager/Senior Winemaker in the south of France, Ashley Huntington turned his hand to brewing real ale on his return to Australia in 2006. Given the explosion in the number of small wineries, the Huntington's saw a real opportunity to push the boundaries of beer and develop a beer business based on the vineyard/winery model. They believe their estate farm/brewery to be unique in the world.

They are establishing their 600 Ha farm along organic principles and are now brewing their real ale surrounded by *their own barley crops and hop fields* (as well as running a breeding stock of nearly 100 beef cattle). Two Metre Tall Real Ales are working hard, despite more than 3 recurrent years of drought & a high excise bill, to get their small, family, value added farming business up and running.

## 2. Moo Brew Brewery, Moorilla Pty Ltd

Owners/Operators:	David D Walsh
Head Brewer:	Owen Johnston
Location:	Hobart, Southern Tasmania
Established:	2005
No. Employees:	5
Current Annual Beer Production:	~120,000 litres (Projected to reach 130,000 litres by 01/01/2010)

### Brewery Background:

Moo Brew is the synergistic product of Moorilla Wine, Art and Micro brewing philosophy. Emerging from Moorilla's roots of intellectual and emotional engagement, freedom and pleasure, together with an expression of artistic and iconoclastic drive, Moo Brew's beers are the vector for delivery of choice, diversity and quality back to the consumer. Moo Brew seeks to leave a lasting impression on the mindscape of beer lovers and inspire freedom of thought with an experience previously unavailable in beer.

Moorilla continues to produce wine and beer together from the one estate. Both processes are founded on agricultural crops and conversion of raw material into quality products. Both produce ~120,000L p.a. Only the *microbrewery* pays excise, with the WET rebate for small producers, even though the alcohol content is less than half of wine. This inequality in the tax system is contributing to 24% of our cost of sales and is inhibiting the growth of our business.

## 3. The Ironhouse Brewery

Owners/Operators:	John White/Michael Briggs
Head Brewer:	Michael Briggs
Location	Ironhouse Point, East Coast, Tasmania
Established:	2007
No. Employees:	4
Current Annual Beer Production:	50,000 litres

### Brewery Background:

Ironhouse Brewery has been in operation for 12 months. Our objective in opening a microbrewery on the East Coast of Tasmania was to create *a visitor experience to coincide with the already existing and thriving wine tourist route*. The brewery is the only one of its kind in its region. Ironhouse Brewery employs 4 locally sourced staff (head brewer, marketing officer, and 2 assistants).

The dramatic rising costs in materials and the current tax system are making it difficult for small businesses like us to develop and grow to our full potential. With a tourism focus and creating local employment opportunities, help is needed NOW!!!



#### 4. Seven Sheds Pty Ltd

Owners/Operators:	Willie Simpson & Catherine Stark
Head Brewer:	Willie Simpson
Location:	Railton, North-West Tasmania
Established:	2008
No. Employees:	2
Current Annual Beer Production:	<30,000 litres (Projected to reach 50,000 litres by 30/06/2012)

##### Brewery Background:

The first brewery to operate in north-western Tasmania since 1907, Seven Sheds combines a brewery, a meadery and a hop garden in the middle of Railton. The Seven Sheds tasting room was opened by Federal Tourism Minister Martin Ferguson MP in May 2008 and Seven Sheds also provides brewery tours and small group functions. Director and brewer/mead-maker, Willie Simpson, has been a *beer industry commentator for over 20 years* and is the author of three books about buying, enjoying and brewing beer in Australia. Manager, Catherine Stark, is a Bachelor of Business in Tourism and has ten years experience developing and managing *tourism enterprises* and services in Tasmania. Marketing activities include a website with online purchase facility; and networking effectively with food and wine producers, select liquor outlets, other microbreweries and tourism operations for referrals and wholesale business.

#### 5. Taverner's Mead (Cradle Honey)

Owners/Operators:	Lindsay and Yeonsoon Bourke
Head Brewer:	Lindsay Bourke
Location:	Launceston, Northern Tasmania
Established:	1988
No. Employees:	2
Current Annual Beer Production:	<30,000 litres

##### Brewery Background:

We are a small company that has expanded into ale brewing in order to *diversify and value-add to our honey production*. Our primary business is *honey production and crop pollination*. Pollination is essential to the rural sector for production of crops and we supply these services across the Northern half of Tasmania. As beekeepers, we are *primary producers*. The recent acquisition of another apiary business makes us the largest honey producers in Tasmania. We have extraction facilities in Launceston and Sheffield. A third of our ale sales income is expended on excise. Although our target market is in the "boutique" ale range, our *profit margin is very small* in order to be competitive. We feel strongly *disadvantaged in comparison to the wine sector* and the concessions available to winemakers and request that we be treated in a similar manner with respect to excise/wine equalisation tax. Although we would like to increase production there is little incentive to invest large amounts of money for minimal return.

APPENDIX B

**Profit & Loss Statement - Modelling  
For a \$500,000 Turnover Microbrewery**

<b>Income - 125,000 litres</b>		
Bottle Sales		
Keg Sales		
<b>Total Income</b>	<b>\$500,000.00</b>	
<b>COGS</b>		
Malt & Hops		
Yeast		
Dextrose		
Bottles		
Labels		
Caps		
Boxes		
6-Packs		
Total COGS	\$127,226.00	25.44%
<b>Freight</b>	\$19,432.00	3.80%
<b>Occupancy Costs</b>		
Electricity		
Gas		
Rent		
Insurance		
Total Occupancy Costs	\$74,813.00	14.90%
<b>Bank &amp; Interest Charges</b>	\$1,800.00	0.36%
<b>Admin Costs</b>		
Accountancy		
Bookkeeping		
Govt Fees		
Postage		
Licences		
Printing & Stationary		
Subscriptions		
Telephone		
Internet		
Total Admin Costs	\$21,551.00	4.30%
<b>Payroll Expenses</b>		
Gross Salaries		
Superannuation		
Work Cover		
Training		
Total Payroll Costs	\$149,344.00	29.80%
<b>Excise</b>	<b>\$134,623.00</b>	<b>26.90%</b>
<b>Total Expenses</b>	<b>\$528,789.00</b>	
<b>Profit/Loss (pre depreciation)</b>	<b>-\$28,789.00</b>	

