



Australian Distillers Association

Submission to Deregulation Agenda – Streamlining excise administration for fuel and alcohol

Summary of recommendations

- Producers who remain under the \$350,000.00 annual threshold not be required to register for excise and be required to submit returns.
- Align and incorporate the reporting and payment of excise with Business Activity Statements.
- That indexation of excise in line with CPI is abolished, or at least, paused for three years in order to recover the impacts of Covid related impacts to the economy.
- If indexation of excise is not frozen or removed, we recommend that it be affected only once per year, and reasonable notice be given before it is passed on.
- The Australian Distillers Association and Australian Tax Office produce a joint education campaign that included a user-friendly guide and video library to assist producers in their obligations and requirements.
- The Deregulation Taskforce should be aware of the BlockChain pilot being conducted by Department of Industry, Science, Energy and Resources and communication between the two is open to avoid duplication or waste.
- Samples, for both testing and consumer samples, should not be required to pay excise, and permission should not be required.
- The manufacturers license register is available to industry associations in order to work cooperatively to ensure a compliant industry.

Australian Distillers Association Inc (ADA) is a member-based peak industry body for Australian craft distillers and was founded in 2004. The ADA has undergone significant growth in recent years and expects to continue the growth in numbers of distillers, and the complexities that members will face.

There are now over 400 distilleries across Australia from Darwin to Davenport and from Margaret River to Manly – a marked increase since 2014, when Australia had just 28 distilleries. Our industry directly supports over 5,000 jobs and supports a further 15,000 jobs throughout the supply chain, from primary producers to the hospitality and tourism sectors. Significantly, more than 60% of these businesses are in rural and regional areas, bringing important economic benefits to these communities.

The Australian Distillers Association welcomes the review by the taskforce.

The Australian Distillers Association is a member of **Spirits & Cocktails Australia**, which is the peak body for the distilled spirits industry operating in Australia. We support and endorse the submission made by Spirits & Cocktails Australia.

This submission outlines some of the vagrancies that have an impact on the domestic producers.

This review comes swiftly on the back of the significant, sensible and much welcomed by industry changes that came into effect on 1 July 2021, that being the full remission of up to \$350,000 per year of excise payments that have already had direct impact creating hundreds of jobs in the domestic distilling community. Australian Distillers are already putting the full remission into creating skilled jobs, especially in the regions, or to much needed capital improvements supporting jobs in the Australian manufacturing sector.

The Tasmanian Spirits Industry is expected to reach \$3Billion in annual production value within the next two years alone. 53% of Tasmanian Distillers plan on increasing their number of employees this financial year, in spite of the effects of Covid.

Whilst the industry is growing, the burden of red tape could be reduced whilst maintaining the integrity of the excise regime. Australian Distillers note the burden of licensing and reporting in many cases is not unnecessarily painful, but is more of a nuisance. Previously, domestic producers were required to report periodically and apply for a 60% rebate of excise paid up to \$100,000.00 annually. With the change from 1 July 2021, the majority of Australian distillers will not ever pay excise. We estimate that up to 200 of the 300 Australian distillers will not pay any excise.

Therefore, the task of completing periodic returns for these businesses is unnecessary. Our proposal for the businesses that will not pay excise, they should be able to opt out of the requirement to lodge periodic returns. Whilst the form produced by the Tax Office is not complicated, it is unnecessary for the businesses that will be under the \$350,000.00 annual threshold.

Australian distillers apply for an excise license, issued by the ATO, that needs to be reviewed every three years. We propose that when distillers apply for their license and renew it every three years, they should be able to indicate whether they expect to remain under the \$350,000.00 annual threshold. If they are not likely to pay excise, they should not be required to ever complete the periodic reporting. This is similar to Australian Businesses who remain under the \$150,000 threshold requirement to register for GST. The Tax Office does not require these businesses for GST and comply with the reporting. Similarly, we suggest that distilling businesses that remain under the \$350,000 threshold not be required to register for excise. Because there is no exposure to paying excise, there is no excise revenue risk for Government to consider. It would also mean that there would not have to be other permissions such as movement and destruction that would no longer be required.

Recommendation

Producers who remain under the \$350,000.00 annual threshold not be required to register for excise and be required to submit returns.

If the requirement to submit returns is maintained, the reporting should be aligned with other reporting and payments. Similarly, for businesses that are above the \$350,000.00 annual threshold, the periodic reporting and payments should be aligned with the Business Activity Statements. This less frequent reporting requirement would ease the administrative burdens for those who wanted to take advantage of this.

Recommendation

Align and incorporate the reporting and payment of excise with Business Activity Statements.

We are of the firm view that the increase in excise with CPI is fundamentally unfair and discriminating against Australian distillers because the impact of compounding increasing further differentiates spirit production from beer and other categories. Because our base rate is higher, the CPI increase disproportionately increases the excise between categories and makes Australian Craft spirits less affordable compared to other alcohol category producers. Australian Craft producers sell their products through retail outlets and on premise sales. Covid and lockdowns have dramatically impacted sales of their products in the on premise component of their sales channel. Particularly distillers in regional areas whose majority of their sales were through their distillery door, the impact of border closures and lockdowns have had a significant impact on their business. As Australian Craft producers climb out of the impact that has been caused with Covid, we request that, at a minimum, the indexation of excise is paused for three years in order to assist in the recovery of their businesses.

Recommendation

That indexation of excise in line with CPI is abolished, or at least, paused for three years in order to recover the impacts of Covid related impacts to the economy.

Currently, the indexation of excise occurs bi-annually, and very short notice is given to producers of the actual rate. This impacts producers because they are unable to negotiate price increases with distributors and retailers. This results in producers absorbing the increase and erodes their margin. If excise was increased only once per year, notice should be given for producers to factor the rate into price negotiations. Therefore, we propose that if indexation is not frozen or removed, it should only be increased once per year from the financial year. Then the increase should come into effect three months later. That is, CPI increase is advised on 1 July each year with the increase in excise come into effect on 1 October each year. This change would provide more certainty and minimise disruptions to businesses.

Recommendation

If indexation of excise is not frozen or removed, we recommend that it be affected only once per year, and reasonable notice be given before it is passed on.

The complexity of the excise system is frustrating and daunting for many new entrants. Many people interested in distilling, or others who have recently begun their distilling journey contact the Australian Distillers Association for advice, mentoring and fact checking. Many Craft distillers are brilliant crafts people with a passion for their product, but not necessarily adept at the bureaucratic and regulatory requirements. The Australian Distillers Association receives excellent and timely advice from the ATO and we thank them for their professionalism and support. We propose to develop an education partnership where we would work with the ATO to develop an information kit and a series of videos for new entrants to the market and for those who wanted to ensure they are complying.

Recommendation

The Australian Distillers Association and Australian Tax Office produce a joint education campaign that included a user-friendly guide and video library to assist producers in their obligations and requirements.

The Australian Distillers Association is currently participating in a pilot with Convergence.Tech that has the objectives as follows

- reduce compliance costs for businesses
- ensure buy-in from regulators
- bolster blockchain literacy and contribute to the overarching objectives of the national roadmap
- develop blockchain solutions for government and showcase to industry the viability of the regulatory efficiencies of blockchain
- support the inclusion of blockchain in broader policy work to increase management capability around digital technologies.

We are committed to working cooperatively with Government to ensure there is integrity within the excise regime. We are committed to be as cooperative and transparent as possible. We are mindful that the block chain pilot has overlapping timeframes as the Deregulation taskforce and hope the Australian Government is ensuring that work is not being duplicated, wasted or counter productive.

Recommendation

The Deregulation Taskforce should be aware of the BlockChain pilot being conducted by Department of Industry, Science, Energy and Resources and communication between the two is open to avoid duplication or waste.

Many Australian distillers provide samples at their distillery door. Excise is required to be paid on the small sample provided to a potential consumer. The 5ml of sample is not a threat to the Australian economy, but for many small and medium sized distillers, the sampling of their product is a crucial part of their sales process, and even though they receive no income, they are still obliged to pay excise on the sample. In cases where samples are used for testing and evaluation, records must be kept, and approval sought for each time a sample is required. This administrative burden is disproportionate to such small sizes.

Recommendation

Samples, for both testing and consumer samples, should not be required to pay excise, and permission should not be required.

At various times the Australian government refers to 400 manufacturing licenses being granted for Distilling within Australia. The Association is concerned that the number of distilling activities is not accurate. Many of our members are concerned with the “backyard” distillers who present not just a risk to the tax gap, but importantly, if someone is culturally opting out of registering their license they may be taking other non compliance issues such as safety, environmental obligations and local government requirements. We believe that distilling in Australia is rightfully regulated and should be held to the highest standards of safety and accountability. We request that the manufacturers license register be made available to industry associations, or others with a genuine reason, in order to assist in the compliance of safety, environmental and reporting standards. This will lead to a safer more sustainable industry.

Recommendation

The manufacturers license register is available to industry associations in order to work cooperatively to ensure a compliant industry.

The Australian Distillers Association has supported the taskforce at every level because we support to the commitments the Government has made to streamlining the process for Australian Craft distillers. We have encouraged our members who have participated in the “factory floor” review in 2021, we have worked with KPMG in the survey design and encouraged members to participate in the survey. We have a shared commitment to improving the process for Australian Craft producers and remind the task force that as an association we will continue to assist as well as offer our members resources and intelligence if you have further need for clarification.

Please feel free to contact me to discuss on 0418 610 489 or paul@australiandistillers.org.au at any time.

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