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# Grapes of math: tax break spurs glut

**Mark Fenton-Jones**

Winemakers, who have welcomed the federal government's review of non-forestry management investment schemes (MIS), have until September 12 to make their submissions.

One grower who will be doing so is Adelaide lawyer Mark Hamilton, who owns Hamilton's Ewell Vineyards.

"I welcome the inquiry and urge winemakers and grapegrowers to make submissions making it clear that the industry will remain in oversupply for many years to come without even one more vine being planted," Mr Hamilton told *The Australian Financial Review* this week.

"High net-worth taxpayers should reject representations made by MIS promoters that there will be a profitable market for grapes from any new plantings. The only profits made will be by the promoters."

A letter from the office of Assistant Treasurer Chris Bowen said the review would examine the economic, social and environmental impact of non-forestry MIS.

Earlier this year Mr Hamilton described the continuation of tax-break driven vineyard development at a time of grape oversupply as "utter and complete madness" and called for the government to axe tax breaks on grape industry MIS.

He criticised investment schemes for vineyard plantings as giving large benefits for their promoters and Collins Street farmers at the expense of long-term grape growing families.

"For the government to allow high net-worth taxpayers to avoid paying tax by writing off the cost of development over four years has brought about reckless vineyard investment by people with no real interest in the industry, for the sole purpose of gaining a tax deduction," he said.

**Growers want the government to weed out tax-break vineyards.** Photo: ERIN JONASSON

In his view, falling grape prices in an oversupplied market have caused hardship among families in the industry. Statistics supplied by Mr Hamilton indicate that the wine industry requires 1.6 million tonnes of wine grapes a year to meet current demand and projected growth, but the 2006 vintage yielded 2.1 million tonnes, with the 500,000 tonnes surplus causing prices to collapse.

"Australia does not require even one more grapevine to be planted and is unlikely to do so for at least a decade," he said.

About six MIS vineyard plantings covering 1900 acres are planned for South Australia's Riverland and Barossa Valley, Wentworth in NSW and Ballarat in Victoria at a time when export demand has softened.

According to the ninth annual financial benchmarking survey of the wine industry by Big Four accounting firm, Deloitte, the export market is significant for all wineries. "[It] ranges from 12 per cent for [up to $1 million] wineries, to 70 per cent for $20 million plus wineries. In our opinion, export plays a key role in achieving sales growth," it said.

The Winemaker's Federation of Australia is also expected to make a submission. A spokesman said it was hard to make an argument for huge plantings in the present market conditions, but each scheme should be considered case by case.

While the federation is completing its submission, the general thrust will be that schemes be structured according to "strict business principles" and provide transparent information.

Deloitte found that winemakers with turnover below $5 million produced low earnings before tax. "The $1 million to $5 million segment had an average gross margin of 35 per cent of revenue compared with a suggested sustainable level of 50 per cent in the benchmarking guides," it said.