

29 August 2008

Letter to the Editor: The Week That Was, WBM (Australia's Wine Business Magazine)

LETTER TO THE EDITOR

I am co-proprietor of Hamilton's Ewell Vineyards. I am also a commercial solicitor at Grope Hamilton Lawyers. Part of the commercial work I do is for clients in the Australian wine industry. On August 1 the Federal Government released an issues paper regarding the future of non-forestry managed investment schemes, which covers the Australian grapegrowing sector.

There has been significant debate regarding impact of MIS. I have previously written to state politicians supporting the abolition of accelerated taxation benefits. These benefits have fuelled unnecessary vineyard development, a cause contributing substantially to Australia's grape surplus position, for the benefit of promoters of such schemes and the disbenefit of existing participants in the Australian wine industry.

The motivation for these 'investors' is not an involvement in a profitable wine industry enterprise but principally to obtain a tax deduction and, hopefully, a residual asset. The accelerated tax deduction acts as an incentive for the planting of unnecessary vineyards. Many are established without having commodity (grape) contracts.

Often the investors are in fact effectively ripped off with the 'investment' required per hectare. In the letter I received from Mr James Sorahan from the Office of the Assistant Treasurer, the Honourable Chris Bowen MP, in relation to the MIS review, it is stated:

"There has been significant debate regarding the impact of MIS. To assist in the identification and quantification of the impact of MIS, the issues paper seeks submissions from interested parties. In particular, the issues paper requests submissions to consider: Whether MIS have a tax advantage; How well the MIS performs; What is the impact of MIS on inputs, the environment and regional areas; and What is the effect of MIS on commodity markets."

The letter then proceeds:

"The submissions received will be considered in the review of the costs and benefits of non-forestry MIS. This review will examine the economic, social and environmental impact of non-forestry MIS."

Cont.

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The closing date for submissions is Friday 12 September. I urge WBM readers to write to Mr Sorahan making their views on the effect which MIS, and associated accelerated taxation benefits, have on the existing Australian wine industry. The industry consensus is that Australia has a recurrent need for approximately 1.6 million tonnes of grapes per annum with a structural capacity to produce 2.1 million tonnes in a standout season. In a normal season, industry consensus is that the structural surplus would be in the order of 200,000 to 300,000 tonnes. Globally speaking, the developed world is in a recessionary mode with declining consumer spending, including Australia's major wine purchasing markets. Australia needs additional vines planted, over the next 10 years at least, like a proverbial hole in the head. Any additional plantings will feed straight into oversupply at a time of decreasing demand, leading inevitably to lower grape and wine prices, due to an oversupply of wine. The law of supply and demand cannot be ignored or beaten.

Submissions can be sent to:

Mr James Sorahan
Taxation Advisor
Office of The Honourable Chris Bowen MP
PO Box 6022
PARLIAMENT HOUSE CANBERRA ACT 2600
Facsimile: (02) 6273 4125

Kind regards
Mark Hamilton