Title:
Statement from the Premier - Wine tax and Prime Minister's 'Valuation of Wine and Brandy Stocks for Income Tax purposes

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STATEMENT
from the Premier

Date 3/12/75

Embargo

State Administration Centre,
Victoria Square, Adelaide,
South Australia 5001
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Ever since the Commonwealth Government introduced the Wine Tax proposals affecting the valuation of wine stocks and eliminating the differential excise for brandy, these have been bitterly opposed by the South Australian Government.

Together with the Wine & Brandy Producers Association, we have made continued representations to the Federal Treasury, pointing out the difficulties with which the industry would be faced if the proposals proceeded. We believed that we had got some sympathetic hearing when Dr. Cairns was Treasurer, but no final determination had been made before he left that office, and we had to begin with the new Treasurer. We have discussed the matter with him at length and constantly, and he asked fortime to have his Treasury office examine our proposals again.

I have now been handed a note by the Prime Minister containing three measures which will provide some relief. In the case of proprietary wine companies, the relief from now on will be, in many cases, very considerable, and numbers of those people with acute liquidity problems will be much better off than without the change.

I must say, however, that while I am very pleased that we have at last achieved a major breakthrough, the Commonwealth did not go as far as we believe is necessary to assist the industry, and we intend to keep at the Federal Government about this.

I am publishing details of the proposals, which are quite complex.

I notice that the Federal Liberal Party has said that it would remove the amendments to the Income Tax law in respect of wine companies when returned to office. In view of the fact that a Federal Liberal Government imposed the wine excise tax originally, one can only be cynical about their professed interest in the industry at this time.

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STATEMENT
from the Premier

Date 7/7/75

Embargo

State Administration Centre,
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The Prime Minister's note to me contained three measures which will provide some relief to the cash flow position of the wine industry in the coming years.

Firstly, the Federal Government will extend, for all winemakers, the period over which they can repay the extra or deferred tax, from five years to seven years. As the first year's extra taxation was already due to have been paid in the last quarter of the financial year just finished, the Federal Government intends the longer term - six remaining years, instead of four - to be used to obtain a lower annual requirement to quit the balance of tax.

Secondly, a concept of true taxable income is to be used for each year's income after the 1973/74 year. On this income, winemakers will have a ceiling of no more than 15% above current company tax rates assessed on incomes in any of the remaining years. If actual tax assessed goes above this ratio of true taxable income, then the balance of tax will be allowed to be carried on to later years. For certain wineries, with heavy stocks at the time Section 31A values were abolished, this could mean a very considerable extension in time to pay.

Thirdly, for private or proprietary companies, who under the present operation of Division 7 of the Income Tax Assessment, would have had to distribute 50% of an after-tax income which has been, theoretically, but not in cash terms, greatly raised, the Tax Act will be amended. For income years 1974/5 and in following years, distribution will be able to be held down without attracting the present penal tax rates, to such levels as if no higher valuations had been added to taxable income through the abolition of the Section 31A deferred tax concession.

Summarising, the State Government is at the same time both pleased that a substantial extension of time to pay will be granted to firms most seriously affected, due to their large holdings of maturing wine stocks, and disappointed that the Federal Government did not go further and revert to the Section 31A system.

A major relief which the State Government will be pressing for is to apply the new measures back to the first income year, 1973/74, payments of tax and dividends for which have just been finalised. These higher cash outflows have had a damaging effect on the current cash position, and on the prospects for 1976's vintage operations.

The major benefit of the new proposals of the Prime Minister is the recognition of the special problems of the proprietary wine companies by limiting the dividend payments required for avoidance of penal tax rates. This measure was strongly advocated by the State Government as essential to their financial health and probably their survival.

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PRIME MINISTER

Valuation of Wine and Brandy Stocks for Income Tax Purposes

The Australian Government has given further consideration to the amendments made to the law in 1973 to ensure that wine and brandy stocks are valued for income tax purposes on the same bases that apply generally in fixing the tax liability of firms in other industries.

The 1973 amendments applied the general valuation rules to wine and brandy stocks and gave the industry a 5 year period over which to pay the tax on the income relieved from liability by the former concession.

The assessments that winemakers have recently been called on to pay cover the first of the transitional years. Generally speaking, they have resulted in the industry paying tax at about the same effective rates as apply to taxpayers in general. There are, however, indications that some firms that have benefited considerably from the concession in the past could face heavy demands on their finances if they are required to clear up the balance of the deferred taxes over the next 4 years.

The Government has accordingly decided to vary the transitional arrangements to ensure that a sufficiently long period is available to meet the circumstances of individual firms.

First, the general transitional period will be extended by a further 2 years for all winemakers. It will thus extend up to the end of the income year 1979-1980.

Second, where the deferred tax payable in an assessment would be greater than 15 percent of the firm's taxable income for the year, calculated on the basis applying to taxpayers generally, the excess over 15 percent will be deferred for payment for such time as is necessary to ensure that the repayment of tax does not increase the taxation rate by more than 15 percentage points. In effect, this will mean that the transitional period will be tailored in these cases to individual circumstances.

Third, and very importantly in terms of cash flow considerations, the private company provisions of the income tax law will be amended to ensure that the dividends payable each year by private winemaking companies, to avoid the imposition of undistributed profits tax, will not be increased above the level that would be payable if there was no adjustment to be made to income in respect of previous years deferred taxes.

With the proposals I have outlined, all businesses holding stocks of wine and brandy that have been valued below cost price will be assured that the former concession will be phased out over periods long enough to ameliorate the effects on their finances of paying the deferred tax liability.

5 JULY 1975