National Farmers' Federation

Response to Re:think Tax Discussion Paper

Reform of the Taxation System

May 2015

NFF Member Organisations

AGFORCE

ALPA

Animal Medicines Australia

Australian Livestock Exporters' Council ALEC

Australian Dairy Farmers

Australian Pork

Australian Veterinary Association

Pure Beechworth Honey 100% Pure Australian Honey

CANEGROWERS

Cattle Council of Australia

Corporate Agricultural Group

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dfa driedfruits australia

Future Farmers Network

Goat Industry Council of Australia inc

GrainCorp

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New South Wales Irrigators' Council

The Pastoralists' Association of West Darling

RGA Ricegrowers' Association of Australia Inc

Ridley

Ruralco Holdings Limited

Sheepmeat Council of Australia

TFGA Agriculture's Future ↔ Your Future ↔ Our Future

Victorian Farmers Federation

WAFarmers The Western Australian Farmers Federation

WoolProducers Australia

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Introduction

As the voice of Australian farmers, the National Farmers' Federation (NFF) welcomes the opportunity to make a submission in response to the Tax Discussion Paper.

The NFF welcomes the renewed recognition by the Australian Government of the importance of the agriculture sector to the wealth and wellbeing of all Australians as one of the five pillars of our economy. The NFF is committed to advancing Australian agriculture by developing and advocating for policies that support the competitiveness, profitability and productivity of Australian farmers and agribusinesses.

It is widely acknowledged that the coming decades provide vast opportunity for Australian agriculture. This opportunity is centred on the growing global middle class, most of who reside in our Asian region. This middle class – in China, in Indonesia, in India and beyond - has an ever increasing demand for safe, high quality food and fibre – a demand that Australian farmers can help to satisfy. Support and commitment to the agriculture sector must extend beyond just the short term government election process. The sector requires long term bipartisan commitment to ensure the sector has the ability to reach its potential.

The commitment to review and improve the tax system is a vital step in translating sentiment and opportunity into meaningful action. Action is required to support the competitiveness of the agriculture sector as a whole, a sector that must be founded on profitable, competitive and sustainable farm businesses. Comprehensive tax reform has been identified as one way of underwriting this productivity and economic growth, while also stabilising the broader monetary position. It should be considered as part of a broader economic reform agenda to improve policy and constrain inefficient expenditure.

The commitment to review the tax system must be undertaken in collaboration with the number of other government policy processes including the Northern Australia White Paper, the review of Competition Legislation (Harper Review) and specifically the Agriculture Competitiveness White Paper. The NFF is of the view that collectively these key initiatives will help shape the policy settings that will underpin the future of the agriculture sector in Australia.

The NFF is of the view that these initiatives must deliver outcomes that:

- maintain and build on our competitive advantages –our favourable soils, water and climate, our world class biosecurity and food safety systems, and our research and development institutions;
- overcome some of our challenges – including the inefficiency of our supply chains and the supply of skilled labour; and
- secure fair, transparent and competitive access to our key markets – domestic and international.

The future prospects for Australian agriculture are enormous as emerging markets and global suppliers seek a reliable supply of safe, quality and sustainable food and fibre products. An innovative and profitable agricultural sector is vital to enable Australian farm businesses to compete in global markets.

The NFF recognises that tax is a multifaceted area given the Federated structure and complexity of the current tax system. We appreciate that not all initiatives or policy reforms can be achieved overnight. This however should not prevent the Australian Government from embarking on areas of important long term tax reform for the entire economy and specifically measures that will boost the competitiveness of what is an extremely bright future for the Australian agriculture industry.

Principles of taxation for the agriculture sector

NFF holds a clear view that intrinsic to the policy responses to the issue of tax reform, is the nature of Australia's federation. Coordinated cross-jurisdictional action is imperative to the success of any changes to the taxation system. Focussing on federally administered taxes alone will not be enough to realise the full benefits of the proposed reform. Many of the taxes that have the most adverse effects on the farm business sector, such as stamp duties, are levied by states and territories and form a significant component of the total taxation base. Equally, many of the services enjoyed by Australians such as health and education are delivered by the states. State and territory governments need to be fully embraced in any reform process to ensure their support and recognise that any reduced revenue base associated with improving the efficiency of the tax system will be replaced with alternative, sustainable sources.

Given Australia is a relatively small, open and developed economy operating in an increasingly globalised world, there is increasing pressure for Australia's tax system to foster an agriculture sector that is internationally competitive. Australia has experienced nearly a quarter of a century of uninterrupted economic growth. As a result, Australians continue to have some of the highest living standards in the world. Over the next few decades, the challenge for Australia is to maintain and improve standards of living through economic growth and the agriculture sector can be a major contributor to this.

In reforming the tax system NFF subscribes to the following principles:

- Agriculture as an income generating sector continues to contribute to funding the efficient delivery of public services and infrastructure that contribute to reasonable living standards for all Australians, including those in regional, rural and remote areas.
- The taxation system should be equitable, as simple as possible, transparent and be designed to be fair across social levels, generations and states/territories.
- The taxation system should be efficient (as should government spending) with compliance/business structuring costs minimised as much as possible.
- The taxation system should facilitate the growth, investment and competitiveness of agriculture.
- Taxes should be reduced on transactions and investment and more reliance should be placed on taxes which have less impact on economic growth. We need fewer, more efficient taxes.
- The specific circumstances and characteristics of the agriculture sector and rural communities must be recognised appropriately within the tax system including factors

such as the variability of income, and the limited capacity to pass on increased costs or taxes.

- The tax system should not impede adjustment and industry succession and encourage new entrants and investment into the sector.
- To capture the economic activity and diversification opportunities represented by growing international food demand, tax settings favouring investment and ongoing R&D into Australian agriculture should be implemented.
- As significant stewards of natural resources, delivering multiple ecosystem services, the tax system should offer opportunity to incentivise primary producer activity that results in broader public good and environmental outcomes.

The NFF recognises these principles can be seen as conflicting. Achieving the economic objectives of a more efficient and simple tax system may create challenges for other principles. It is therefore be necessary to balance these competing principles with the overarching objective of tax reform and the recognising that the role of the tax system is to fund key services for the Australian community alongside a growing, innovative and competitive business environment.

Agricultural Tax Base

As of 2014 there are approximately 115,000 farm businesses in Australia, of which 99% are family owned.

In 2012-13 the agriculture, fisheries and forestry sector had $665 million in taxation liabilities, with companies covering $430 m, individuals $133 m and goods and services tax (GST) of $103 m. Fringe benefits tax (FBT) added a further $18 m but this was offset by a net loss of $18 m in the Excise, luxury car tax and wine equalisation tax (WET) categories. Agriculture's contribution represented 0.5% of total industry collections with industry taxpayers on average having a lower taxable income than businesses of the same structure in the general economy.

Statistics from the ATO[1] for the 2011/12 financial year indicate that business structuring in Australian agriculture is dominated by family partnerships (46%), followed by sole traders/individuals (31%), trusts (14%) and companies (8%). Of note the agriculture, forestry and fisheries industry grouping represents about 30% of all Australian partnerships, 7% of sole traders, 4% of trusts and just 2.1% of companies. However, the number of unincorporated business structures in agriculture is declining over time as business owners seek to more flexibly and effectively manage income and business assets as well as legal and tax/duty liabilities[2].

[1] Taxation statistics 2011–12: Selected taxation items, by industry for 2011–12 income year and 2012-13 financial years, Australian Taxation Office.

[2] Connolly, E, Norman, D, and West, T 2012, Small Business: An Economic Overview, Small Business Finance Roundtable, Sydney; and Bishop J, and Cassidy N 2012, 'Trends in National Saving and Investment', Reserve Bank of Australia Bulletin March Quarter 2012, Reserve Bank of Australia, Sydney.

Current provisions relating to agriculture

Importantly Australian agriculture receives very low levels of support from public funds totalling only 1.9% of gross farm gate receipts in 2013, down from 10% in the early 1990s, and compared to an OECD average in 2013 of 18.2% and 7.4% in the United States[3]. Countries like Norway, Japan, Switzerland and Korea retain policies that provide over half of their farmer's gross receipts and countries like Brazil and Russia that compete with us have either increased support levels or maintain support (Russia over 15%).

NFF maintains a strong level of support for the range of existing agriculture-sector-specific concessions and mechanisms that are currently in place. This includes the retention of provisions relating to: income averaging; Farm Management Deposits (FMD); capital expenditure deductions (water, Landcare, telephone and electricity); fuel tax credits; valuation of livestock from natural increase; treatment of abnormal receipts and disaster-related measures (forced disposal of livestock, spreading insurance recoveries, etc.); deferral of profit on second wool clips; and the asset depreciation provisions, tax relief under hardship, and zonal tax offsets available to all taxpayers depending on their location.

This section of the submission will provide comments on the specific concessions and opportunity for improvement and streamlining.

<u>Maintaining Australia's rural research and development model</u>
A key source of improved competitiveness and growth in agriculture has and will continue to be the generation of new knowledge and technology, delivered through R&D.

The slowing pace of productivity growth in the Australian agricultural industries presents risks to the competitiveness of the sector, particularly given the production and price risk in Australia exceeds that faced by international competitors.

Significant challenges exist for Australian agriculture and one way of responding to these challenges is to encourage investment in R&D and the associated extension or application of the outcomes from the research. Delivering better quality and more competitively priced food and fibre; improving environmental and animal welfare outcomes; responding to climate variability and climate change; dealing with emerging biosecurity threats; and adapting to energy and resource scarcity mean that there will be greater demands for innovation in agriculture. The capacity for rural research and development to make a significant contribution to these challenges, which have far reaching implications for all Australians, is evident from the high returns identified from past research through the various published studies on returns on investment from rural research and development. The challenge is to make sure the agricultural innovation system works in partnership with the tax system. This means that the research effort is maintained and strengthened and it can deliver the innovation required and encourage further investment.

Any changes to the R&D Tax Incentive must not come at the expense of other RD&E mechanisms. A range of measures will be important to ensure the Australian farm sector

[3] http://www.oecd.org/tad/agricultural-policies/producerandconsumersupportestimatesdatabase.htm#tables

remains globally competitive and improvements to the R&D tax incentive may play a larger role into the future if made more easily accessible for agribusiness.

Further Government action of relevance would include exploration of changes that encourage market responsiveness and collaboration along the supply chain, including through improving tax incentives, regulatory settings, intellectual property protection and access to proven technologies (such as genetically modified crops).

Income averaging

Within a progressive income tax system there is the potential for period inequity in the taxation of people and non-incorporated businesses whose incomes fluctuate between assessment periods compared with those who earn a more stable income. The majority (80 – 90%) of Australian primary producers use the tax averaging provisions to reduce this effect of fluctuating incomes on tax payable and can operate together with FMDs, or separately, which may possibly be more effective in reducing period inequity. Tax averaging allows current taxable income to be assessed at the tax rate applicable to their average income in the current and the four preceding years.

NFF is of the view income averaging should be maintained to minimise the extent that variable timing of income influences tax liabilities over time. There is merit in investigating how farmers opt back into income tax averaging provisions to recognise changing circumstances or on the basis of having received adverse advice in the past from an accountant. It would also be desirable if PAYG provisions were streamlined to manage tax expenses impacting in times of low cash flow within the annual cycle as well.

Farm Management Deposits (FMD)

The Productivity Commission have reported that Agricultural activities, because they generally have a larger environmental component, are different to production systems elsewhere in the economy. Many of these physical and biological factors, such as variations in rainfall and the onset of disease, are largely outside the control of farmers, yet they can have a significant effect on the level of production, input use, prices and the performance of farms.’

The NFF views the FMD Scheme as a valuable financial risk management tool for farmers to help smooth the uneven income streams that are common in agriculture due to climate and market variability. FMDs can assist individual farmers to build their self-reliance and improve resilience to future disruptions to production. The NFF seeks improvements to make the scheme more flexible including linkages to existing or new financial programs, consideration of expansion to the scheme to broader business structures and measures to improve access and withdrawal provisions to ensure their success as a risk management tool for farmers.

The FMD Scheme is successful in assisting eligible primary producers deal more effectively with variability in cash flows (tax management and income smoothing) and helps them to manage their financial risk in low-income years by building up cash reserves and ultimately improving self-reliance. As at end March 2015 there was about $3.5 billion held in FMDs nationally in 42,100 accounts. FMDs enable pre-tax primary production income to be set aside in years of higher income and drawn down in poorer income years, such as during drought. Income deposited into an FMD account is tax deductible in the year the deposit is made. It becomes taxable income in the year in which it is withdrawn. It is also useful for addressing variable incomes for those who have opted out of income averaging.

Currently the ATO have taken the position that where a Farm Management Deposit (FMD) is withdrawn it is not considered income from the business activity unless the money is reinvested back in the business. Even though the income may have been generated by the same business as when the FMD is withdrawn in a loss year, unless the cash associated with the FMD is used back in the business, the FMD withdrawn will itself count towards the $250,000 other income cap. If this income cap including the FMD withdrawal exceeds $250,000 it would result in the FMD withdrawn amount being taxable and the business loss being quarantined.

In considering any adjustments to FMDs the NFF is of the view the government should examine the merits of:

- Increasing the FMD deposit limit, preferably in line with multiples of annual input costs for enterprises or alternatively to $1 million.
- Re-establishing early access provisions to FMDs in times of severe drought.
- Extending direct access to FMDs to companies and to agribusiness trusts given the changing structuring of primary production businesses.
- Raising further the off-farm income limit as well as off farm income may be what allows a person to continue to farm and provide funds for capital improvement; and
- Enabling FMDs to act as an off-set to other farm loans held at the authorised financial institution to maximise the financial value of that reserve.

<u>Treatment of abnormal receipts</u>
These provisions relate to forced disposal of livestock or double wool clips due to drought or other natural disasters and allow profits to be deferred over the following five years (or used to reduce the cost of replacements in any of the five years, with any remaining profit included in assessable income in the fifth year) or to the following year respectively. These concessions are easy to access and are valuable in terms of smoothing out the variability of income and the tax implications of income during extreme weather events.

<u>Diesel Fuel Tax Rebates</u>
Diesel fuel is a critical business input for regional businesses and communities given their distance from the electricity grid, road networks and characteristics of the industries operating heavy equipment. Many regional and remote businesses therefore operate on private roads, not publicly funded roads, and rely on diesel generators for electricity.

Fuel Tax Credits are underpinned by sound tax policy principles. The purpose of the Fuel Tax Credit (FTC) scheme is to:

– Ensure fuel used as a business input is not taxed; and
– Ensure excise is not imposed on non-transport use of fuel.

By removing tax on fuel (less a road user charge for on-road), the FTC scheme reflects the policy principle that tax should not be imposed on business inputs. It is the same principle that underpins the GST system whereby tax is not applied on business to business transactions through input tax credits.

Retaining fuel tax rebates is critical for agriculture. Approximately 45% of claimants for fuel tax credits in 2012/13 were from the agriculture sector this represented 12.6% of the total fuel tax credits paid[4].

FTCs fully offset excise imposed on fuels used off-road. This not only recognises the tax policy principle that tax should not be imposed on business inputs, it also reflects that excise represents an implicit user charge for roads and that excise was originally introduced to fund and maintain roads. The diesel fuel tax rebate for farm businesses using vehicles off-road is critical for the competitiveness of agricultural industries. The rebate recognises that the purpose of fuel taxes is to recover the costs of road damage – and thereby pay for the maintenance, renewal, and upgrade of roads. When a farmer drives a tractor, header, or truck on the farm they should not be paying fuel taxes. Off-road farming activities do not use publicly funded roads and therefore should not pay an implicit road user charge. Rebates for off-road use of diesel fuel have existed ever since excise was extended to diesel in 1957 in line with this principle.

NFF is of the view the government should seek to harmonise the fuel tax credits system to include aviation gasoline that is used for agricultural purposes with that for other fuels used for agricultural purposes.

Luxury car tax

Given the necessity of this technology for safe driving in rural and remote areas, NFF supports the continuation of the concessions for four wheel drive vehicles used in these areas from the luxury car tax.

Primary Producer Registrations

A number of state governments provide a discounted registration for primary producer vehicles. These schemes recognises the low mileage used by the majority of farm vehicles, and the fact many farm vehicles are predominantly operated on or around the farm. Given the cost of registration is currently a proxy for road use and wear, it is both equitable and necessary that these vehicles continue to receive a concessional registration charge. The schemes also enable farm businesses to register the optimum number of vehicles for use during peak times.

[4] Australian Tax Office, Taxation statistics 2011–12: Selected taxation items, by industry for 2011–12 income year and 2012-13 financial years

Improvements to the tax system for agriculture

<u>Incentivising investment</u>

Ongoing productivity gains are necessary for primary production businesses to compete effectively, offset terms of trade declines and achieve profitability that flows into tax revenues. Recent ABARES evidence points to a slowdown in the rate of productivity growth within agriculture, as a result of adverse seasonal conditions such as drought and a less than optimal intensity of public and private investment into RD&E.

Investment in infrastructure and transport regulatory reform is desperately needed by the agriculture sector. Investment and reform is required to drive down the cost of transporting our products from the farm gate to the world. Priorities must be to review the tax system to ensure the settings are right to encourage investment to progress critical initiatives such as the east coast rail network, reforming the regulation of ports and shipping, and comprehensively mapping the bottlenecks in our road-based supply chains. Developing relevant and innovative tax provisions that attract both private and foreign investment will be critical.

NFF is of the view there is a need to further incentivise investment into agricultural RD&E and this could occur through the tax system. Companies have access to the R&D offset mechanism but as these legal structures cover just 8% of agriculture, additional incentives for non-incorporated entities would be valuable. Tax incentives should be available for developers and primary producers to invest in efficient input use technology, such as for precision farming, digital technology, telemetry, drones, etc. However, as previously indicated, this must not come at the expense of Australian agricultures world class levy funded R&D system.

In terms of attracting investment the government should review tax laws relating to high income investors and negative gearing of rural investments. There is a view to suggest investors could receive similar tax benefits of negative gearing for investing in rural Australia as they receive now on commercial and residential real estate. Appropriate options for investors could improve and develop rural properties and improve land productivity, injecting capital and creating employment across rural Australia. These investors prior to the current laws being enacted, were major contributors to the local rural economies and communities. Such provisions could assist in attracting investment back to the bush. These investors will simply be shifting their tax deductions from passive commercial and residential real estate to active agricultural investment, creating flow-on benefits for not only rural Australia, but all Australians. In addition consideration should be given to possible tax concession provisions being made available for investors to separate their land assets from their operating farming business. The benefits of separating the real estate component (the property) from the operating business relates to alternative options for farm scale expansion, succession and retirement. This would also increase productivity by investors buying the land (eg Superannuation funds), receiving rent for the land and farmers farming the land without the outlay for the land. The Grains Research & Development Corporation have done work on this concept and it encourages next generation farmers to operate a business without the cost of owning the land, whilst giving retiring farmers a reliable and secure income from the rent of the land – (see www.grdc.com.au).

Climate change

Domestic tax policy settings aimed at meeting our international climate change commitments must not place Australian agriculture at a competitive disadvantage to its competitors or hamper Australia's ability to meet the growing global food production challenges. Government must continue to facilitate and support the participation of agriculture in voluntary domestic climate policy initiatives through relevant and appropriate taxation policies that do not place additional costs onto the production sector. A continued focus on the research and associated taxation considerations is required to develop cost-effective emissions reduction technologies to unlock the potential for further abatement in agriculture.

Superannuation

The current taxation of superannuation benefits and within superannuation funds is very generous. While providing incentives in superannuation to encourage taxpayers to save for their own retirement is desirable there should be appropriate contributions to tax revenue. For instance it is not uncommon for taxpayers to have multiple millions of dollars invested in superannuation (particularly where large contributions were made prior to the introduction of the contributions caps) where earnings are taxed at 15% generally or are potentially tax free if they are in pension phase. Many farmers will have the majority of their wealth tied up in the family farm which is sold to fund their retirement. While the small business capital gains tax concessions may ultimately reduce or eliminate this tax for some taxpayers there is at least a limit set on it and various limitations to allow the placement of sale funds into super. It seems inequitable that the choice of investment type can make such a significant difference to the tax burden.

A fair compromise would be to apply tax to super funds in pension phase – but say at half the rate applicable to the accumulation phase. This would mean a rate of 7.5% tax on normal earnings and 5% on capital gains. Such a tax would not be complex to implement, would retain simplicity and would provide a level of fairness to the system.

Many farmers do not have surplus funds available to invest regularly into a superannuation fund and so for many the sale of their farm provides the funds for their retirement and effectively forms their superannuation. With 23% of farmers being aged 65 and over in 2011[5], many farmers continue to farm beyond the pension age and then sell this asset, often after the age of 75. NFF understands that under the current rules these producers are precluded from placing any proceeds into superannuation in this situation. These situations should be addressed by making changes to the superannuation settings for those who continue to work and sell after age 75.

Non-commercial business loss rules.

The existence of a $250,000 income cap requirement in the non-commercial business loss rules was stated as being aimed at preventing hobby losses from being used to reduce other taxable income. Hobby losses were never able to be used to reduce taxable income and this measure has resulted in losses from legitimate business being quarantined when an individual's income from other sources exceeds $250,000. This results in losses from business activities being quarantined yet investment losses such as negative gearing on property rentals being allowed to offset any other form of income. There is no consideration to the scale of activity being undertaken in a primary production business.

5 ABS, 1301.0 - Year Book Australia, 2012

Municipal Rates

NFF is of the view that farmers pay an unfair proportion of state based taxes and rates in rural and regional areas. For example, Victoria's farmers shoulder over 44 per cent of the business rates burden in regional Victoria, but the value of farm gate production is estimated at only around 5 per cent of regional economic output. Rural councils in all states face significant sustainability issues, with declining populations and escalating infrastructure maintenance costs. The 2014/15 Commonwealth Budget froze the indexation of local government grants for three years, resulting in a funding gap and rural and regional councils will be hardest hit by this loss of revenue.

Stamp Duty

Stamp duty has become significantly inefficient and distortionary. Stamp duty is charged on many transactions common to farm businesses such as motor vehicle registration and transfers, farm insurance, and transfer of land. In many instances stamp duty is charged after the goods and services tax (GST) is added to the price of goods or services – thereby creating a tax on a tax. Stamp duty increases the cost of transferring assets between businesses, increases the cost of insuring farm businesses, and increases the cost of purchasing land for production.

Fire Services Property Levy

The use of Capital Improved Value to determine the Fire Services Property Levy (FSPL) in the states (such as Victoria) has created inequities for land intensive businesses in high land value areas. In these cases the FSPL is exacerbating the already inequitable burden of municipal rates, where land value is not necessarily reflective of capacity to pay.

Incentives for rural employment

The tax review should consider employment arrangements and provisions applying to farm workers so that the ancillary benefits of farm-based work are not compromised by the taxation system. For example housing is a key issue for attracting rural workers. Further, the recent decision to remove the tax free threshold from working holiday-makers will have implications for labour supply in agriculture, particularly in many areas where it is difficult to attract a local workforce.

NFF is of the view that the tax review should consider and examine the appropriateness of tax incentives to entice people to live and work in regional and remote areas including zoning taxation whereby people living a certain distance from the metropolitan areas would gain a tax advantage to encourage growth in regional and remote areas.

Payroll Tax

The current payroll tax arrangements create distortions by reducing the incentive to hire more workers, creating a barrier to business expansion, and impacting on labour intensive industries. Food production, processing, and packaging are often more labour intensive than other industries, and must compete internationally with countries with substantially lower wage rates. The payroll tax exacerbates this issue for the agricultural and food processing industries.

Definition of small business

For the purposes of tax law a small business entity is defined as a business with less than $2 million of aggregated turnover. Small business' make up a large proportion of the agriculture sector providing 82 per cent of agricultural outputs and 83 per cent of employment. The current definition of small business excludes a significant proportion of the agricultural sector from tax concessions allowable for small business, particularly those in intensive agricultural production systems such as pork or chicken that have a high turnover but relatively low profit margin. While the industry welcomes the 1.5 percent reduction in the company tax rate and 5 per cent discount for unincorporated business income announced in the 2015-16 Federal Budget, many farm businesses are excluded from obtaining concessions granted to small business. The ceiling should be increased to enable medium and large agricultural entities to access the concessions currently only allowable for small business, particularly recognising the growth in scale of modern farming businesses to remain competitive.

While a specific figure has not been not been determined, the NFF is of the view that expansion of the Small Business Definition should be investigated by Treasury and consideration be given to improved methods of defining small business, rather than arbitrary income and asset limits (for example a better test for the tax discussion may be reference to the number of FTE employees).

Accelerated Depreciation

Maintaining Australian agricultures competitiveness and reputation for food and fibre quality and safety requires that farm businesses are encouraged to invest in the latest research and innovation. The ability to incorporate improved technology and infrastructure is vital for agriculture to expand and innovate and maintain Australia's strong reputation as a reliable supplier of food and fibre products for both the domestic and international markets. Many agricultural industries are at risk of production contraction if these capabilities are inhibited in any way. It is therefore necessary to be able to offset the high costs of capital improvements that facilitates this investment as quickly as possible. One of the most effective methods of achieving this and encouraging investment in new, modern facilities and equipment is through an ability to write down the value of these assets as quickly as possible through accelerated depreciation.

The period over which an asset can be depreciated for tax purposes needs to be commensurate with the actual on-farm life of the asset to encourage farmers to upgrade to newer technologies more quickly and so enhance productivity. Accelerated depreciation of farm assets to encourage increased investment in new infrastructure and technology (i.e. production of electricity from biogas) thereby reducing costs while improving productivity, profitability and environmental outcomes. NFF is of the view that the current low levels of depreciation on many farm assets impedes the uptake of new technology and stifles innovation.

The NFF welcomed the decision by the Federal Government and advocacy by the Minister for Agriculture Barnaby Joyce, to bring forward introduction of accelerated depreciation of fodder, fencing and water assets to the night of the 2015 Federal Budget. The decision to bring the commencement date forward will be welcome news for farmers and small businesses across the country - particularly those struggling with drought or preparing for El Niño conditions forecast for Eastern Australia.

Further to this the NFF would seek a review of the uptake of the provisions for accelerated depreciation for water, fodder and fencing and subject to the outcomes of the review, seek formal consideration of increases (of up to $100K) to the financial provisions to encourage greater investment in innovation, technology and equipment from the farm business sector. In addition, to assist with cost pressures facing the farm sector and to assist sustainability of industry and allow for environmental improvements the NFF requests the government extend the accelerated depreciation provisions to energy saving asset purchases – for example, solar energy systems.

Treatment of companies

While less than 10% of agricultural businesses are currently incorporated, a permanent reduction in the company tax rate would be welcome, with the expectation that progressively more broadacre businesses will move to that structure in future, for example as a trustee trading on behalf of a family trust structure and beneficiaries.

Capital Gains Tax

Arguably, Capital Gains Tax (CGT) is the most economically damaging tax for Australia's small business sector. It is an active disincentive to risk-taking and entrepreneurship, deterring investment and job creation. Upon the sale of an asset or business, CGT detracts from the amount of capital which may be used to re-invest in other more productive assets.

The NFF is of the view that CGT has an economically detrimental 'lock-in' effect that causes an asset to be retained to avoid realising a liability even though proceeds could be deployed elsewhere and achieve higher returns. Moreover, many farm business owners can have negligible superannuation savings and use the value built up in their business for post-retirement income. The potential narrowing of the options available to reduce the impact of CGT will make achieving a reasonable retirement income more difficult.

There is a real impact of the CGT on farm family succession and drought management, e.g. CGT applied during the sale of assets to meet increased enterprise costs during a drought. Complex CGT rules also apply to family trusts and companies. To aid succession and consolidation of smaller, more marginal properties consideration should be given to providing a CGT concession in these cases, and aligned with the removal of stamp duty as has occurred in some states such as Queensland for intergenerational transfers. This will be valuable in the recovery period from the current drought covering over 80% of Queensland given low financial reserves generally existing in enterprises in these areas. Existing CGT concessions generally applying to small business (including exemptions at retirement, 50% reduction in business asset capital gains, and rollovers to new assets within 2 years) should continue.

The NFF seeks support from the government to assist in the intergeneration management of assets by the commitment to exclude capital gains tax liability for intergenerational farm asset transfers. This would go a long way towards lining up Federal and State commitments where NSW and Victoria currently have exclusions for stamp duty on such transactions. The NFF views this as a simple and low cost commitment from the government that would ease some of the financial burden for new entrants into the farm sector, and also help respond to the growing concern in the sector relating to the ageing workforce with the average age of farmers approximately 58 years.

Road user charging

The Henry Tax Review recommended the development of mass-distance-location pricing for heavy vehicles, to ensure that heavy vehicles pay for their specific marginal road-wear costs. The Review included recognising that farm vehicles may be used infrequently and on a limited range of roads and so the cost/benefit of maintaining telemetry devices for charging are likely to outweigh any efficiency benefits and so a regime based on self-assessment of distance and roads travelled may be better (Recommendation 62). It should also be recognised that road user charging of transport operators will likely be passed back to the primary producers who contract the shipment. Recommendation 64 also included an additional loading on heavy vehicles on routes where road freight is in direct competition with rail where this improves the efficient allocation of freight between transport modes. It should be noted that in a number of states there are significant limitations on access to rail for seasonal primary production goods where this is in competition with consistent resource sector demand. As such additional loading on road transport where reasonable alternatives do not exist to would be inequitable.

Tax loss trading

NFF supports the Australian government further investigating tax loss trading to assist farm cash-flow in low-income years. This is to examine viable structuring of the scheme and to ensure there are no adverse consequences, such as perversely incentivising the artificial creation of tax losses.

NFF is of the view that the approach to negative gearing could be reviewed and more effectively dealt with by greater use/strengthening of the non-commercial loss rules rather than ‘abolition’ of the right to deduct interest or restrictions on borrowing ratios and consider such a restrictions an unreasonable fetter on the freedom to finance a business/investment as each individual or entity sees fit. Consideration should be given to the abolition of the ability to vary PAYE instalments to reflect anticipated losses.

Goods and services tax (GST)

There has been considerable discussion in relation to increasing the rate or broadening the base of the Goods and Services Tax (GST) as a key reform to the current tax system. In acknowledging the current tax revenue base available to the government and the expenditure required, particularly in relation to the ongoing level of services in rural and regional centres, NFF is of the view that detailed analysis is required to assist in the consideration of any decision particularly relating to benefits that might be gained from an increase in the rate or a broadening of the base. It is clear that the issue must be considered and examined in any discussion on revenue generation.

Should the outcomes of the analysis lead to any decision on broadening the base (to include fresh food for example) then unambiguous consideration must be given to allocating a specific proportion of any additional income stream towards supporting public good outcomes in rural and regional areas.

Tax treatment of water

Currently water in situate on a property at the time of purchase of that property not being able to be claimed as a tax deduction either on acquisition or as the water is utilised (as per the ATO’s published position in ATO ID 2013/49). Upon a property purchase a taxpayer pays for many items inclusive on that property – from a standing crop to consumables through to water in a dam. Stored water is extremely valuable and can be quantified. Water in storage facilities is not fundamentally different to any other consumable (e.g. chemicals in a drum) but due to it being acquired with a capital asset (the land) it is not tax deductible. The NFF is of the view that this is inequitable and results in additional technical problems in how to deal with this water subsequently from a tax perspective.

Conclusion

Despite around two decades of largely continuous economic growth, a stable government and a diverse population, it is becoming increasing clear that with an ageing population, growing debt and ongoing decline in international competitiveness, unless governments make fundamental change to the economic settings, Australia faces a future that is not as prosperous as many would like. Government tax revenue is not keeping pace with the communities demand for services. Continual cutting in spending by government is unlikely to be the panacea.

Australia's continued economic wellbeing depends on all levels of government facilitating an environment that drives economic growth and ensures current living standards can continue or improve while also protecting the prosperity of future generations. A range of measures will be required to meet the economic challenges and contribute to the continued prosperity. Comprehensive tax reform must be a major part of the solution to continued economic growth in the broader economy but specifically for the agricultural sector. This review of taxation provides a real opportunity for change.

The outcome of this tax review should be to ensure the fiscal sustainability of all levels of governments and enable them to provide the services that Australians particularly in rural and regional areas require. It should result in a strengthened economic platform on which our country is based including ensuring that all Australians can enjoy the highest possible standard of living and also provide a safety net to those most in need.

The agricultural sector and regional communities as a whole are directly exposed to some of the nation's major policy challenges in the short to medium term. Taxation has the potential to play a major role in influencing the behaviour of Australia's farming community and, if used effectively, induce positive outcomes for the economy, the environment and society.

This review of taxation must bring taxation based mechanisms that complement and deliver equitable outcomes in areas such as improved investment in infrastructure, innovation, climate change mitigation, drought preparedness and environmental stewardship. Overriding principles of avoiding taxing business adjustment, fairness and equality, avoiding negative distortions and inflationary outcomes should be adhered to.

For further information please contact:
Tony Mahar
Deputy Chief Executive
National Farmers' Federation
tmahar@nff.org.au