Spokesman on Infrastructure, Environment and MIS
W. McClumpha
Box 461 Red Cliffs 3496
0427 243133
billblock@bigpond.com

Victorian Farmers Federation
Sunraysia Branch
Branch of the Year 2007

Secretary: George Paolucci
Box 487 Red Cliffs 3496
Mobile 0409 331 136
giorgiopao@bigpond.com

VICTORIAN FARMER'S FEDERATION SUNRAYSIA BRANCH

SUBMISSION TO THE TAXATION DISCUSSION PAPER

1-BACKGROUND and EXECUTIVE SUMMARY - VFF Sunraysia Branch has a membership base primarily involved in irrigated horticulture in the Sunraysia district of North Western Victoria. Industries represented are wine, citrus, almonds and dried vine fruit. Along with taxation issues, including wine taxation and the GST, the branch takes a special interest in water policy, particularly with respect to pumped district irrigators and private diverters supplied or controlled by Lower Murray Water.

The branch has a history of advocacy with respect to taxation and water issues and made submissions on the MDBP and to the Windsor enquiry. The branch has appeared before the Standing Committee on Regional Australia (Bill Heffernan) with respect to MIS, another taxation related issue of long standing concern to members along with (the related issue of) water.

Branch policy independent where necessary

The branch reserves policy independence from the Victorian Farmer's Federation where this is necessary in the interests of members. Circumstances with respect to the taxation debate in recent years have made it necessary for the branch to formulate its own policies relating to aspects of taxation policy and to advocate independently with respect to those policies.

Taxation Policy -Sunraysia Branch vis a vis the VFF – The branch has been alarmed at ongoing calls by politicians, government, and commentators over the last few years for taxation reform based on abolishing or lowering direct taxes, company and income taxes in particular, and instead creating a bigger revenue pie by increasing, and/or extending the GST, notably to food. There is strong support within the VFF organisation for both GST measures and the lack of push back by rep groups has been notable.

VFF support for move to indirect taxes

There is a belief within the VFF (and other rep groups) that giving ground on its current nominal opposition to GST increases and extensions (including to food) would somehow give the VFF and its political allies a strong bargaining position with respect to how a supposedly larger tax take, initiated by the White paper process, could be divvied up. The belief is that a share of the (supposed) extra money raised from a shift to indirect taxes could be available to be used to give local government a fixed share of GST, leading to lower rates and better road funding etc. Other benefits of a bigger tax pie are perceived to be reduction in, or abolition of stamp duty and payroll tax.

Politically, the National Party is under pressure within the Coalition to come on board with a tax agenda which includes a GST on food and other exemptions, plus an increase in the rate. If the National can point to rep group support, including from the VFF, it would give the party a means to back flip from its present nominal opposition to the GST on food and increases in the rate.

Existing tax regime perceived unfair to rural producers, impacts vary, reform may be valid

The VFF points out the unfair burden that the existing taxation regime may place on particular producers, and is campaigning against unfair rural rates and payroll tax in particular. All taxes, including local government rates, impact to varying degrees on different types of producers in different industries and regions. For example, in the Sunraysia irrigated area, municipal rates are not a big issue, but they are in nearby dry land areas. Likewise, horticulture would be particularly affected by extension of the GST to food and increases in the GST rate, but dry land farmers generally see these possibilities as non issues.

In general terms, the branch has no particular issue with the VFF's argument that perceived inequities exist within the existing taxation regime, and that taxation reform could potentially yield benefits for producers and should be advocated for by rep groups.

GST path has too many downsides; reform premised on GST changes is unacceptable

However the branch is at odds with the belief within the VFF that significant benefit is to be had by countenancing increases and/ or extensions to the GST. Clearly, GST extensions and increases will have downsides. In the present economic and budgetary climate, these downsides would make any net benefit to rural producers from a GST oriented tax reform package unlikely or impossible.

Tax discussion paper falls short, doesn't acknowledge negatives

The focus of this submission is to emphasize the negative impact that GST increases, and GST extensions, particularly to food, will have on rural producers and communities if implemented as a result of the White Paper on Taxation process. It is also necessary to point out that the Tax Discussion Paper (along with the VFF's Taxation Discussion Paper), has failed to acknowledge or explain the downsides and shortcomings of GST based changes, or the likely impact on producers of proposed changes.

2. THE TAX DISCUSSION PAPER-THE WHITE PAPER PROCESS-CREDIBLE REFORM PROCESS OR DESPERATE MONEY GRABBING, BURDEN SHIFTING SCHEME?

How credible is the whole tax reform agenda as outlined in the Tax Discussion Paper? It is concerning that the White Paper process is being conducted in the distortionary context of increasingly difficult economic times for Australia. Increased government spending, notably on health, education and welfare, is occurring simultaneously with declining taxation revenues due to the collapse of the mining boom. Government debt is sky rocketing as a result.

Australia is now borrowing something like $100Million per day to fund its revenue shortfall, but the latest federal budget was populist, steering clear of righting the budgetary ship, and failing to put forward pragmatic proposals to balance the books. The presented "path back to surplus" is unconvincing, being premised on a return of the mining boom and no more budget blowouts. The 2015 federal budget was populist, notably failing to introduce any revenue or spending initiatives to tackle our national indebtedness, now approaching $1trillion.

In this context, which is getting more desperate by the day as manufacturing declines and confidence evaporates, it is hard to see that the White Paper Process as being about anything other than increasing revenue and shifting the tax burden. . It is telling that Mr. Hockey has said the white paper process puts "everything on the table", but has subsequently ruled out consideration of credible possibilities like tightening up superannuation rules etc. There is plenty of commentary to support reservations as to the credibility of the White Paper process

Peter Hendy, Liberal MHR, qualified consulting economist

- "Considering changes to the GST is playing with fire without significant economic benefits"
- supporters of changes are not advocating real reform "but are seeking to raise more revenue to they can spend more money on their pet projects"

-changes to the GST would have to be accompanied by tax cuts and welfare increases "that would soak up most of the revenues thus defeating much of the stated purpose for a change."

-"let me be very clear, most of these advocates are arguing for bigger government, not a fairer tax system."

Peter Costello- Treasurer in the Howard government

-The current debate about tax is "debased". "Lower, simpler, fairer taxes has given way to demands for "higher, more complicated, and less economic taxes."

-lower, simpler, fairer, is looking like some kind of morbid joke"

Terry McCrann-News Ltd commentator

-Hockey's "conversation on tax has defaulted not to the reform part of the exercise, but to the tax side. None of the changes being tossed around (super taxes, negative gearing, franking credits and capital gains) constitute tax reform, and even if done together would not raise the sort of money that would enable major cuts elsewhere."

Tax Discussion Paper ultimately unconvincing

In summary, the Taxation Discussion Paper is unconvincing with respect to possible changes. Notably, the paper makes no mention of the compensation that would have to be paid to low income earners and which would erode net revenue. The paper spruiks possible tax cuts, but all things considered it is difficult to see any chance of these eventuating. Likewise no mention is made of the economic costs of the wages blow out that would inevitably follow any increase in the rate of the GST and the removal of exemptions.

3. GST DOWNSIDES-WHAT INCREASES AND EXTENSIONS WILL COST PRODUCERS

Given that the tax debate over the last decade has focused on shifting the taxation mix away from direct to indirect taxes, and that the White Paper process continues with that focus, it is appropriate to examine specific aspects of GST changes given that they are at the heart of the government's intentions.

Increase in the rate of the GST- Increasing the rate of the GST to 15% has strong support within the VFF and from GST advocates more broadly. Going to 15% from the present 10% is not a 5% increase; it is a huge 50% increase in the rate and would constitute a massive revenue grab by government and a big shift in the tax burden to producers and the disadvantaged.

The VFF claims an increase in the rate would be neutral to farming as input cost can be recovered, and the Taxation Discussion Paper implies this also. In fact there will be an impact on costs, because consumers will demand wages increases. These wage increases will flow through into higher prices for all inputs, thus increasing the costs of production and reducing returns. Also, farmers on lower incomes will effectively be having a steep rise in effective income tax imposed on them. Unlike wage earners or pensioners they will be unable to get compensation. Middle class Australians generally favour an increase in the rate of the GST because they think they can get higher wages and also get tax cuts, but rural producers will be unprotected.

Additionally, the compensation that will have to be paid to people on welfare will drastically reduce any projected revenue gains from GST rate increases.

-Increase in GST rate = increased wages and production costs but no compo for producers
-Increase from 10% to 15% is a massive 50% increase
-Huge compo bill to disadvantaged will erode revenue from GST changes

Extension of the GST to food- Removing the GST extension for food remains a key element in the agenda to bring in GST changes. Giving ground on food has been seen by the VFF etc. as an important trade off in the campaign to get rate relief etc. The VFF and Ausveg have told their members that a GST on food would bring new cash flow benefits to presently exempt producers because they can charge GST to processors and retailers. In fact, processor and retailers will not give producers a cash flow free kick, discounts and trade offs will be exacted and a net benefit to producers will not occur. Additionally, previously exempt producers would wear burdensome new compliance costs.

Extension to food will increase compliance costs, reduce returns, cause shift to imports
Extensions to financial services, health, education etc. will lead to wage increases which will Cascade through the production chain

-the Tax Discussion Paper fails to mention the major downsides of extending the GST to food. The big down side is that buyers, including the big supermarkets, will not wear a cut to profits by absorbing the 10% or 15% cut to revenue a new GST on food will entail. To maintain revenue per metre of shelf space they will demand discounts and other concessions from producers, who will be forced to comply given market realities. An additional down side will be a shift to imports by retailers as these have a higher capacity to absorb demands for discounts than high cost Australian grown food. A GST on food will send many producers broke and food imports will increase.

Other extensions- food is the major currently exempted item of concern to the branch, but removal of the other existing GST exemptions has the potential to negatively impact on rural producers, with respect both to their costs of production and to their effective level of income. Extensions to financial services will directly increase producer costs. Extensions to food, health, education etc. will again lower real incomes of wage earners and cause wage increases which will cascade through the production chain, increasing the cost structures and decreasing the competitiveness of producers,

Advocating GST increases but maintaining some exemptions is a TROJAN HORSE for the GST RIPOFF

Increase the GST rate but exempt food? No. There is a push underway, including by MHR for Mallee Andrew Broad, for rural groups and farmers to back an increase in the rate of the GST as long as food, education, and health are exempted. The push for GST changes is premised on removal of the major exemptions, otherwise the changes cannot be expected to yield significant net revenue. Therefore, even if increases in the rate of the GST are backed by producers on the basis of political undertakings to maintain the major exemptions, those exemptions will inevitably be removed as demands for revenue increase.

4. **CONCLUSION-SHIFTING THE BURDEN**

The Tax Discussion Paper is premised on shifting the taxation burden. **It pre-empts** any discussion of income tax increases but the reality is that big government should be paid for by those who can afford it, and no mention is made of ongoing tax cuts by the Howard- Costello government and by the Rudd government. If those cuts had not been made, the deficit would not exist or would be lower. Shifting the burden to indirect taxation is effectively cutting the income of the less well off, which includes most farming families.

Going along with the government with respect to its taxation agenda would effectively be absolving government of any responsibility for its ongoing fiscal irresponsibility. If producers agree to GST changes, then down the track things can only get worse. As overseas experience shows, once GST changes are implemented, governments will continue to routinely overspend and to compensate with ongoing GST rate increases and extensions, without making serious attempts to reform their overspending.

Once Australia starts down this road, these ongoing increases and extensions will keep disadvantaging rural producers in particular. Rural producers are vulnerable price takers in corrupt domestic and international trading environments with no recourse to the income protection available to other sectors.

SHIFT TO INDIRECT TAXES NOT ACCEPTABLE, WHAT TO DO?

Government should instead be **spending responsibly** and looking at ways to –

1-**increase the tax take** within the existing parameters by tightening compliance and eliminating the blatant private and corporate tax rorting now occurring.
2-**make government leaner** by cutting government waste, and **reducing spending** by cutting overgenerous and unrealistic welfare spending, especially with respect to **middle class welfare.**
2- **Creating a bigger tax take** by growing the economy through solid **economic initiatives** focused on increasing competitiveness, especially of manufacturing and service industries.

5- OTHER TAXATION NO NOs –VOLUMETRIC TAX- MIS

The focus of this submission has been the intent of government to institute GST premised taxation changes focused on increasing revenue. This shift will devastate rural producers and their communities, in particular horticultural producers which have relatively high labour costs. But the government has been lukewarm regarding existing taxation black holes whilst at the same time flagging that other taxation changes are back on the table. The Sunraysia Branch is concerned by two areas in particular.

1. The Volumetric Tax on Wine- for some reason the government is still entertaining this measure which would devastate already struggling inland wine growing regions in particular. The branch absolutely rejects a volumetric tax on wine. The government is referred in this respect to other submissions including those by Accolade Wines and The MVWGGA.

2. Managed Investment Schemes- Horticultural MIS have caused massive ongoing economic dislocation in rural Australia, in horticultural regions especially. MIS has created ongoing overproduction and resultant surpluses of commodities, notably of wine grapes. They have created ongoing issues with respect to water, creating transmission and scarcity issues, and failures have devastated investors and institutions.

Despite the distortions caused by MIS they still enjoy bi-partisan political support. How MIS are treated through the White Paper process will be an indication of the bona-fides of government with respect to taxation reform. The branch advocates removal of the taxation advantages making MIS possible and the elimination of horticultural MIS. This would be a genuine multi-billion dollar revenue saver for the government in addition to demonstrating a commitment to genuine reform.

W. McClumpha VFF Sunraysia Branch