Victorian Farmers Federation

Submission to

Re:think Tax Discussion Paper

1 June 2015

The Victorian Farmers Federation

The Victorian Farmers Federation (VFF), Australia's largest state farmer organisation and only recognised consistent voice on issues affecting rural Victoria, welcomes the opportunity to comment on small business in Victoria.

Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three per cent of Australia's available agricultural land, Victorians produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our State's dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

The VFF consists of a nine person Board of Directors, with seven elected members and two appointed directors, a member representative General Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.

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1 Introduction

The Victorian Farmers Federation (VFF) welcomes the opportunity to provide feedback into the Federal Governments Re:think Tax Discussion Paper.

Members of the VFF are incredibly mindful of the importance of having an efficient and equitable taxation system across all levels of government. Some of the most significant taxes paid by farmers are paid at the local government and state government level. This is explored in more detail in the body of this submission.

The VFF is taking taxation reform seriously.

In preparation for the Federal Government taxation reform process, the VFF developed a Taxation Discussion Paper for consideration of our members. This paper has been circulated widely amongst membership to promote understanding of the areas of taxation important to agriculture, and to gain feedback from members to allow us to develop a comprehensive policy on taxation.

The VFF is holding its annual conference on 26 June 2015. At this conference there are a number of resolutions relating to taxation policy and practice which will be considered and debated by membership. The outcomes from this debate will form the basis of the VFFs views of taxation moving forward. Unfortunately, due to this timing dilemma the VFF has restricted its comments to the areas of taxation which have a clear policy position on, at the date of the submission deadline. We will follow up with additional advice to government on our position when we have the direction to.

Farm businesses can tend towards high turnover, with low net profit by comparison. As such, the application of some State and Federal Government taxes can be highly burdensome and not accurately reflect the capacity of the business to pay. Within this submission, the VFF has highlighted areas of taxation which need to be retained for the benefits which they provide to the operation of agricultural businesses and the areas where further reform will be of benefit to agriculture.

2 Taxation issues for agriculture

Key taxation issues for agriculture are local government rates, the definition of small business by the Australian Taxation Office, management investment schemes, land tax and stamp duty.

The VFF believes that taxation reform needs to be approached across the three tiers of government – local, State and Federal. There are taxes which need to be paid by farmers across all these levels of government, but in particular it is local government charges and state level taxes which have the greatest burden of the day to day operation of farm businesses. A comprehensive view of taxation needs to consider the interrelation between different levels of government and possible taxation balances which could be further investigated.

Local government rates

VFF Recommendation: Increase Commonwealth government grants to local councils

In Victoria, farmers are shouldering an unfair proportion of local government rating income in rural and regional Victoria. Farmers are shouldering over 44% of the business rates burden in regional Victoria. This is a disproportionate burden for this sector of the community to be shouldering when it is considered that around 5% of the regional economic output is from farm gate production.

Rating pressure has increased further still with the Federal Government freeze on the indexation of Local Government Assistance Grants remains in place. Freezing the indexation of these rates has resulted in a funding gap of $134 million to Victorian councils.

The VFF have also assessed the variation in the percentage of GST which is provided through these assistance grants and the forgone benefit to local governments. Back in 1996, Local Government Assistance Grants represented 1.3% of Commonwealth Government taxation. Now, this proportion has dropped to 0.6% of Commonwealth taxation. Should the proportion of the Commonwealth taxation contribution towards these rates be brought back up to 1996 levels an additional allocation of approximately $400 million would be available to rural and regional councils.

Definition of Small business

VFF Recommendation: Revise the definition of small business for primary production from $2 million to $5 million.

The Australian Tax Office provides concessions to small businesses with an annual turnover less than $2 million. The concessions include simplified depreciation rules, capital gains tax concessions, and pay as you go instalment concessions. The current turnover threshold excludes a large number of agricultural businesses from these concessions. For example, there are a number of horticultural businesses who have high turnover, but low profit margins on their products. Due to this nature of their business, they are excluded from the small business benefits even if they are small family businesses.

Managed Investment Schemes

The expansion of tax driven Managed Investment Schemes across rural and regional Victoria saw increasing rural land prices, irrigation water prices, and impacts on the commercial sustainability of commodity prices.

Many Managed Investment Schemes based around plantation forestry in Victoria have collapsed. This has seen farmers left with plantations on their land that they do not legally own, but cannot get payment for. The mechanisms allowing the Australian Taxation Office to approve Managed Investment Schemes still exist.

Payroll Tax

VFF Recommendation: Increase the payroll tax threshold to at least $1.1million The payroll tax creates 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. Victoria has a much lower payroll tax threshold in comparison to other states. The annual threshold is currently sitting at $550,000. Increasing this threshold to $1.1 million (as is available in Queensland) would provide substantial benefits to agricultural small businesses who have large numbers of employees involved in the operation of the enterprise – such as is the case with horticulture where high numbers of employees are engaged in seasonal work.

Stamp Duty

Stamp duty is both 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.

3 Taxation to protect and improve

There are a number of areas of taxation policy which are essential to be protected and continually supported by government.

Farm Management Deposits

Agricultural industries are subject to major fluctuations in seasonal conditions, commodity prices, and input costs. As a result the income generated by agricultural businesses can vary greatly.

Farm Management Deposits allow farmers to average their income for tax purposes; however the restrictions currently in place limit the usefulness of the scheme. The VFF provided feedback on the operation of FMD through the Agricultural Competitiveness Paper consultation process. The VFF is supportive of the following measures regarding FMD's:

- *Increasing the $400,000 deposit limit*
  With farm sizes increasing, and increasing numbers of farmers moving into continuous cropping, the potential for income fluctuation has increased. Raising the deposit limit will enable better management of these fluctuations.

- *Increasing the off-farm income cap*
  Farming families should not be penalised for having off-farm income. For some farmers off-farm income is a mechanism to help manage through the often low-margins involved in agriculture.

- *Extending the eligibility of the FMD Scheme to companies and trusts*
  Different ownership structures should not preclude farm businesses from accessing the FMD scheme.

- *Re-establishing early access provisions for times of drought.*

Depreciating farm plant and equipment

The VFF acknowledge and welcome the recent announcements from the Commonwealth Government, leading from the release of the 2015-2016 Australian Budget. The VFF support allowing for the accelerated depreciation of infrastructure where risk management is the primary purpose of the infrastructure. The ability to use accelerated depreciation should not be limited only to drought preparedness. Where risk mitigation is not the purpose of the infrastructure or asset the VFF supports the adoption of depreciation schedules that match the period of usage.

The VFF supports accelerated depreciation for risk mitigating infrastructure, including new water and fodder infrastructure. However, accelerated depreciation should be used to encourage farmers to increase business resilience through a variety of risk mitigating investments. This will ultimately reduce the longer-term need for farmers to seek drought support or the farm household allowance.

In addition to new water and fodder infrastructure, an approved depreciation schedule over three years for on-farm weather and protected species mitigation investments would encourage risk mitigation to protect horticultural crops from extreme weather such as (but not limited to) drought, hail, sunburn and wind and species such as Grey Headed Flying Foxes, cockatoos, parrots and lorikeets.

The capacity to depreciate investment over three years will encourage farm businesses not only to reinvest in weather mitigation options but will encourage take-up of new technologies developed through research and development that produce greater productivity and returns.

Currently small business (as defined by the ATO which is an individual, partnership, trust or company with aggregated turnover less than $2 million) has access to depreciation provisions.

- Before the mining tax reforms, the small business instant asset write-off threshold had been increased from $1,000 to $6,500
- Since July 2012 small business can depreciate assets costing $6,500 or more in a single pool (15 per cent in the year they are purchased, 30 per cent in each subsequent year).

An accelerated depreciation option would offer 30% depreciation in the first and subsequent years for all risk mitigation assets and reinstate the existing instant write-off of $6500 which would improve the competitiveness of many Australian farms. Accelerated depreciation should be available to all small and medium farms (as defined by ATO – annual turnover of less than $10m).

Items could include:

- Netting and igloos (permanent and temporary)
- Netting Applicators
- Protective structures (glass houses, etc.)
- Tree trellis structures
- Weed-matting
- Fertigation tanks
- Water efficiency infrastructure, such as Water meters
- Fencing materials
- Other R&D adaption options

Permanent investment allowance for risk mitigating infrastructure and water infrastructure

The VFF supports the permanent introduction of a 25% investment allowance to stimulate investment in risk mitigating infrastructure and more efficient water infrastructure. Such an investment allowance would further increase the incentive for farmers to improve their drought preparedness and risk management.

In the case of water infrastructure, a 25% investment allowance coupled with the existing accelerated depreciation over three years would be a strong incentive for primary producers to invest in more water efficient technology.

The VFF notes that investment allowances have previously been introduced for short periods of time, often with the objective of stimulating the economy. Providing a permanent investment allowance for water infrastructure has the advantage of achieving water use efficiency, enabling farmers to be better prepared for the next drought.

The combination of the investment allowance and the accelerated depreciation would support farmers who may have lumpy cash-flows or high existing levels of debt.

Land Tax exemptions

It is vital that the land tax exemptions provided within Victoria are retained.

In Victoria, land used as a principal place of residence or for primary production is exempt from the payment of land tax. The VFF strongly support the retention of the current land tax exemptions for agricultural land. If these exemptions were not in place, farmers would be liable for significant land tax bills annually, which will not necessarily reflect the productive capacity of the land nor the value derived from farm production.

Primary producer registration exemptions

The Victorian Government provides a discounted registration for primary producer vehicles, the Primary Producer Registration. It is extremely important to the farming community that the primary producer vehicle registration continues. Farm-based heavy vehicles are generally used much less than commercial vehicles and are seasonal therefore creating little road damage.

Primary Producer Registrations enhance local productivity by allowing farmers to license the optimal number of vehicles for their peak freight times. Agricultural production is time sensitive and efficient transport at peak times is crucial.

We are very concerned that a push towards national harmonisation of vehicle registrations will put the long standing Victorian primary producer registration under threat. 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.

A survey recently undertaken by the VFF showed 79% of farm based heavy vehicles travel less than 10,000 km per annum. Furthermore, 57% of farm based heavy vehicles travel less than 5,000 km per year. Despite the low annual mileage these vehicles provide a very valuable service for agricultural businesses. Removal of the PPR will lead to reduced freight capacity, sacrificing quality and/or production levels.

4 Comments relevant to discussion paper chapters

Chapter 3: Individuals

Improvements to income tax averaging

As with Farm Management Deposits outlined earlier in this submission, income tax averaging allows farmers to manage the variability of farm income and smooth out their taxable income. The VFF supports the proposal to allow farmers to opt back into income tax averaging when they have previously opted out of income averaging. Farm circumstances can change over time, and farmers should have the opportunity to respond to these changing circumstances.

Chapter 4: Savings

Superannuation Guarantee threshold

The VFF believes that the Superannuation Guarantee threshold of $450 per month needs to be increased to reflect increases in wage rates since the 1992 introduction, and change the threshold to an hourly basis not a dollar figure.

The Superannuation Guarantee threshold of $450 per month has been in place since the inception of the Superannuation Guarantee in 1992. This requires employers to pay superannuation to all eligible employees who are paid $450 (before tax) per month.
This threshold has remained the same even though wages and the rate of contribution have increased significantly over these years.

The horticulture industry is very labour intensive and wages and on-costs account for a significant amount of input costs. The industry also has a large proportion of itinerant labour which stays on one property for a short period of time.

Under the current minimum wage within the Horticulture Award 2010 for a casual ($21.09) it would mean that an employee that works more than 21 hours per month within one business would require the payment of superannuation.

In 1992 the weekly minimum wage was approximately $315 for a 38 hour week, requiring an employee to work approximately 54 hours in the month before superannuation was payable.

The low threshold for superannuation places a costly and time consuming burden on growers to pay superannuation for employees that remain on the farm for a short period of time.

The VFF believes the rate should reflect a minimum number of hours worked in a calendar month, rather than a dollar value. This approach would mean the threshold is not steadily reduced in real terms as wage rates increase over time. The VFF also believes the same rules should apply for overseas residents – superannuation should only be accessed under the same age/illness policies as apply to Australian residents.

Chapter 5: General business tax issues

Foreign investment

The VFF supports foreign investment in Australian agriculture and agribusiness, subject to some provisions. The VFF's support is contingent on the assurance that foreign investors will be adhering to Australian laws, competition is not restricted by their entrance into the marketplace and that the negative distortions are not created. The VFF support and strongly welcomed the recent announcement from the Federal Government on the actions to strengthen the scrutiny around foreign investment in agriculture.

The VFF supports foreign investment into Australian agriculture provided that it:

- Adheres to all Australian laws, especially tax and competition laws.
- Does not create negative distortions in resource allocation or output returns.
- Does not undermine the existing marketing mechanism, storage or handling facilities, critical infrastructure and logistics or pricing transparency where these underpin farm gate price determination.
- Is not undertaken with the intent or outcome of reducing competition within the marketplace to the detriment of Australian agriculture sector.
- Allows for legislated time frames for assessing foreign investment to be equitable with the regulatory times frames for consideration of domestic investors.
- Ensures compliance with existing and new industry production and/or transaction levies.
- Does not compromise existing trade agreements and is flexible enough to acknowledge the importance of future comprehensive trade agreements to the Australian farm sector.

Chapter 8: The Goods and Services Tax and state taxes

The Victorian Farmers Federation will be canvassing the views of our membership at the upcoming VFF conference on the 26 June. At this time, there are a number of specific resolutions on the Goods and Services Tax, which will be debated.

The debate entered into by members will be with the overarching consideration of the role of the GST within the entire taxation system; and the interaction of the GST with other Commonwealth and State Government tax revenue.

Broadening the GST to fresh food, by the removal of the current exemption could have a direct impact on farmers who are growing fresh product for the Australian market. Some of these impacts include:

- Higher costs to the consumer -The addition of GST to the cost of fresh food may make purchase of fresh food prohibitive to consumers.

- Supermarket squeeze on producers - This flows through to a very real concern about the subsequent actions likely to be taken by supermarkets. In a limit to reduce the impact of the shelf prices of their product, farmers are concerned that retailers will reduce their prices to the grower to subsidise the GST increase.

- Ability to balance GST - The application of the GST to fresh food may improve the cash flow of farm enterprises. Currently, fresh food producers pay GST on their production inputs, but cannot charge GST on the sale of their product. The application of the GST to fresh food would enable farmers to charge GST and there-by balance the costs of GST on their production inputs.

- Wages- Members have expressed some concern about the inflationary impacts of broad scale application of GST to food. For the consumer, the broadening of the GST to food and other currently exempt services is likely to increase the cost of living. VFF members are concerned that this may translate into employee demands for wage increases. Farm enterprises with low margins have little capacity to facilitate such demands while remaining viable.

Chapter 9: Indirect Taxes

Chapter nine discusses the operation of indirect taxes which are levied on specific goods and services within the Australian marketplace. Fuel taxes and agricultural levies, which are noted within the chapter are of direct relevance to the operation of agricultural enterprises.

Fuel tax rebates available to farmers in the form of fuel tax credits for use off road and partially on road for vehicles above 4.5 tonnes should be retained.

Chapter 10: Complexity and administration

Question 56- What parts of Australia's tax system, and which groups of taxpayers, are most affected by complexity? What are the main causes of complexity?

The majority of farmers operate small businesses, with limited office support staff. In many cases, office support and preparation of Business Activity Statements (BAS) is undertaken by the farm family unit. It is important that in the review of the current taxation system, taxation submission arrangements are kept as simple and as streamlined as possible to not place an unnecessary burden on small business operation.