



## **SUBMISSION**

**To**

**Tax Discussion Paper**

**Prepared by:-**

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## Background

The Western Australian Farmers Federation (Inc) (WAFarmers) is WA's largest and most influential rural lobby and service organisation.

WAFarmers represents approximately 3,500 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, horticulturalists, dairy farmers, commercial egg producers and beekeepers.

It is estimated that collectively our members are major contributors to the \$7.2 billion gross value of production (2012/13 – ABS, December 2009) that agriculture in its various forms contributes to Western Australia's economy.

Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

## Introduction

WAFarmers welcomes the opportunity to provide comment to the Tax Discussion paper, as part of the Tax White Paper process.

WAFarmers acknowledges that special provision for taxation measures for agriculture have been generally favourable in previous decades to somewhat assist in balancing against the idiosyncrasies of Australian agriculture, however changing economic circumstances and other dynamics pose a significant risk to the ability for bona fide farm businesses to withstand the increasing volatility and complexity within the industry.

*WAFarmers believes in the following statements, also encapsulated in the submission from the National Farmers Federation:*

- *Agriculture as a substantial income generating sector has an overall responsibility 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, the tax system should offer opportunity to incentivise primary producer activity that result in broader public good and environmental outcomes*



### **Non-Commercial loss rules**

WAFarmers acknowledge the exemption for bona fide farm operators of having to achieve at least one of the business rules to allow an offset of non-farm profit against a loss-making farm business, however changing circumstances require further consideration of amendment.

Many farm businesses in times of need require off-farm work to help off-set the loss of a suffering farm business due to a natural disaster or a trade embargo.

At present, exceeding the off-farm income by a farm partner, of \$40,000 p.a removes the exemption of not having to at least maintaining one business rule target. This then in certain circumstances prevents the farm partner from claiming a taxable loss against their portion of their farm business.

In complex family farming situations, it is highly possible that a young share farmer, who has minimal land assets (or does not 'own' any land); does not turn over \$20,000 (such as a drought) and has no recent demonstration of profits (multiple years of drought or limited trading history), that they will not satisfy the business rules around carrying losses over.

*Suggestion: Raise the \$40,000 limit to \$100,000 for off-farm income but with added level of supportive evidence of a bona fide farm business. E.g demonstration of a plan for the agricultural enterprise to be profitable.*

WAFarmers supports taxation policies that encourage young farmers from working their way into a farming business whilst working off-farm. At present the current business rules around carrying forward losses from primary production to offset off-farm income preclude that altogether.

*Suggestion: For a bona fide primary producer with \$20,000 of gross farm income or more, all business rules in terms of carrying forward losses from primary production against off-farm income, are exempt (up to a limit of \$100,000 off-farm) for a period of five continuous years to allow a demonstration of profit.*



### **Farm Management Deposits**

WAFarmers values highly the Farm Management Deposit (FMD) scheme in creating a self-sufficiency mechanism that increases resilience in a farm business suffering a business downturn.

WAFarmers is aware that in real terms, the use of FMD's in Australia as a percentage of gross agricultural turnover is relatively low, and thus, good policy will not only increase the use, but the effectiveness. Furthermore, good policy design around FMD's will incentivise agricultural businesses to be more efficient; more resilient and more competitive nationally and internationally.

This will be created by:

- a. increasing thresholds and extending eligibility for the Farm Management Deposits Scheme (FMDs) by increasing the deposit limit for FMDs from \$400,000 to \$1 million to reflect that with climate change, it is now common in each five year period, one very large surplus, two large losses, and two near to break-even years. With the increasing limit on seasonal finance by mainstream lenders, these increased FMD funds would cater for up to two years of input costs needed to sustain the operation.
- b. Treatment of trusts. Farm trust structures dominate the agricultural ownership landscape in Australia. The ATO rule that a trust structure is not able to directly deposit profits from a good season into an FMD. It must be distributed first to a beneficiary then deposited into an FMD, which poses all kinds of issues when trying to return the monies into an enterprise in need. The profitability; the risks and the abilities of trust structures to manage income volatility do not differ materially in a loss-making environment to any other farm business structure. WAFarmers questions the motive of the Federal Government to disallow trust structures from using FMD's, against the benefits of those farm businesses to become more resilient during poor economic downturns.



### **Income averaging**

Income averaging mechanisms have been a vital part of recognising that the income volatility attributable to Australian agriculture can have potentially damaging consequences to tax inflows and outflows.

Mechanisms such as income splitting in times of double harvests (for example two wool harvests in one year due to drought) and a rolling average income for farm enterprises to even out tax payable are an essential component to a fair tax system.

WAFarmers supports the continuation of such schemes.

*Suggestion for improvement: allowing farmers to opt back in to the income tax averaging provisions after a period of time to recognise changing circumstances. WAFarmers believe that tax averaging must be expanded from five (5) to seven (7) years to match the current volatility in income*

### **Forced Disposal Rules**

WAFarmers acknowledges the tax rule associated with forced disposals, to cater for livestock enterprises suffering drought, fire or flood, given the rare phenomenon where a forced sale of a core asset cannot be treated differently in terms of tax accountability, than a produce sale, and when replacing that asset cannot be treated as an input cost to offset the 'sale'.

The current rule allows for either a spreading off a forced livestock sale over a five year period of tax-assessable income, or alternatively an allowable offset of that sale when replacing that livestock asset within five years.

*Suggestion:*  
*WAFarmers wishes for that rule to continue in its present form.*



### **Hardship**

As witnessed in recent years, droughts; property foreclosures; trade embargoes and poor commodity seasons have collided to cause great distress in agriculture.

Whilst banks have been increasingly reluctant to liquidate farm businesses, there are increased incidences of farm businesses placed into asset management within their chosen bank.

This has created a phenomenon where farms have been making reasonable surpluses upon the drought breaking and with subsequent assessable taxable incomes but all funds are channelled into the bank for debt reduction. Hence, in a year of paying hundreds of thousands of dollars in tax, these farmers are destitute and cannot access Centrelink payments due to high farm incomes.

*Suggestion: Where farm businesses make a taxable profit but under circumstances of asset management by financial institutions, those profits are quarantined for debt reduction purposes, that (a) a formal recognition is created to allow concession when applying for assistance schemes and/or (b) an interest-only scheme on tax payable is installed, where tax payable is accrued until able to.*

### **Other measures**

Reducing the complexity of depreciation for farm plant and equipment by changing the effective life schedules for farm plant and equipment, which would result in a positive effect on productivity.

#### **Zone Tax Offset scheme**

Realigning the Zone Tax Offset scheme to be representative of the true cost of isolation from publicly funded amenities such as health and education services and public transport. WAFarmers highlights that 'rural isolation' is no longer restricted the 26<sup>th</sup> parallel.

#### **Trading farm taxable losses in times of exit**

When farms enter into receivership, often substantial tax credits are wiped out. The result often is that in the years leading up to the farm exit, the taxpayer is paying drought assistance schemes and exit grants.



Allowing farmers to trade tax losses to non-farm businesses, such as banks, will assist farm cash-flow in low-income years, however WAFarmers believes that to avoid market distortion, this option would be most useful for farm operations with little or no remaining equity to exit and/or adjust outside of the industry with some dignity, by trading accrued tax losses sufficient to re-establish (e.g house; small business; retirement).

#### Farm size and scale

The ATO recognise a small business with a turnover up to \$2M. WAFarmers contends with present low margins, and increasing volatility, an economically-viable, sustainable family farm can often surpass that income limit. With some intensive livestock operations, where gross margins are as little as 10-15% before fixed costs, finance costs and tax, operations attempting to grow economies of scale risk moving out of that small business classification.

#### Diesel Fuel tax rebate

Diesel fuel is an important agricultural business input and has been recognised by Government that it is fundamentally unfair for those businesses to pay towards road infrastructure that they do not use.

Similarly, registration charges of farm vehicles, via the Western Australian Government, on a cost per kilometre basis (on sealed roads) are a big cost burden to agriculture. With the effects of grain deregulation, many farms now possess a large truck to get their product to market (often the nearest grain bin) in a responsive and efficient manner – a cost of upwards of \$2/km for licencing alone, far exceeding the average of the transport industry.

*Suggestion: (a) retain the diesel fuel tax rebate and (b) offer a 80% low-mileage deral licencing concession to large farm trucks, which often only travel 4-5,000 km during harvest*

#### Drought incentive

Due to climate variability, Australia finds itself increasingly impacted by natural disasters that have stripped billions of export earnings from the national economy. Whilst current drought policy has 'stopped the bleeding', fundamental incentives need to be installed to create drought resilience to ensure Australia can indeed situate itself to be the 'Asian food bowl'.





WAFarmers welcomed the Federal Government announcement that there would be accelerated depreciation for fencing and water supply infrastructure.

*Suggestion - WAFarmers suggests that these tax incentives expand to fencing and water infrastructure on a permanent basis, along with research, development and other on-farm measures than better prepare farm businesses against the ravages of climate variability.*

#### General Tax discussion

WAFarmers feels that many state taxes, such as Payroll Tax and Stamp Duty, add complexity, and administrative burden to farmers, and as 'price-takers' have virtually no avenue to pass on those costs.

In WA, the State Liberal Government have commissioned a 'Red Tape Reduction Group' to help alleviate the administrative 'over-burden' placed on small business.

WAFarmers suggests that the Federal Government install a similar agency to minimise complexity and administrative cost to industry that is created through the Tax system.

In closing, WAFarmers endorses all of the viewpoints of the National Farmers Federation, and thanks the Federal Government for the opportunity to contribute.