



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Jock Laurie – President

Charles McElhone – General Manager, Policy

ORGANISATION

National Farmers' Federation

The National Farmers' Federation (NFF) was established in 1979 and is the peak national body representing farmers, and more broadly agriculture across Australia.

The NFF's membership comprises all of Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF. Each of these state farm organisations and commodity councils deal with state-based 'grass roots' issues or commodity specific issues respectively, while the NFF represents the agreed imperatives of all at the national level.

As of 1 July 2009, the NFF has also instituted an Associate Member category to enable agricultural entities, including agribusiness, to be more involved with the NFF.

STATEMENT OF PRIORITIES

Around two or three pages, please. Please address both of these issues:

1. What are your priority reform directions for the tax and transfer system?

The NFF recognises that all wealth creating sectors of the community have a responsibility to contribute to public services and infrastructure, humanitarian good and human endeavour. However, governments also have a responsibility to spend this money wisely and establish taxation mechanisms that are appropriate in delivering equitable public good across the community while minimising the potential for perverse outcomes. In addition, the NFF recognises that taxation can be an extremely powerful mechanism to influence human behaviour and, if used effectively, induce positive outcomes for the economy, the environment and society.

Australia's agriculture sector and regional communities in general are facing an increasing range of new pressures and policy challenges that must be managed carefully. Rarely before have so many of the nation's major policy challenges been as intertwined with agriculture. Issues such as climate change, water scarcity, the state of the nation's environmental assets and food prices, while of major concern to the community at large, are intrinsically linked to agriculture. The agriculture sector can play a significant role in finding solutions to each of these potential problems. Therefore,



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it is vital that policy decisions, facilitated through mechanisms such as taxation, are developed with the agriculture sector at the forefront of government thinking.

Below are outlined a number of the major policy areas where taxation can play an important role in achieving the desired outcome.

1.1. Regional development – the role of taxation

Over recent years there has been considerable debate about problems facing regional Australia. Widespread concern has been expressed that the pace, and even the direction, of reform have damaged country interests. A drain in the country population, and a loss of critical mass or essential services, have been visible manifestations of this concern.

Governments, both Commonwealth and State, have responded with a range of measures designed to alleviate the most acute difficulties. Unfortunately, this piecemeal approach runs the risk of missing important underlying causes of problems, raising expectations unduly, and ultimately proving ineffective.

The NFF believes that there are significant and long-standing biases against country living. To correct these biases, the NFF believes that the existing tax zone rebate scheme for individuals should be revamped, and the scheme be extended to businesses.

Such a reform would inject a major new incentive for people to live and work outside the capital cities.

1.2. Drought policy – the role of taxation

The provision of drought assistance aims to maintain and protect Australia's agricultural and environmental resource base during periods of climate stress and to facilitate the early recovery of agricultural industries consistent with long-term sustainable levels. The NFF considers that given there remains a clear absence of commercial opportunities for farmers to mitigate against the risks of drought and in the interests of future farm productivity, regional, state and national economies, there remains a compelling argument for governments to assist primary producers to manage drought and to deliver against these agreed objectives.

Although clear justification for future intervention remains, it is necessary to ensure that drought assistance measures are capable of achieving the objectives of the National Drought Policy in an efficient, equitable and non-distorting manner.

The NFF has consistently stated that we must deal with the 'here-and-now' as the first priority. However, equally, the NFF has been at the forefront in acknowledging that relief, although important, is a stop-gap measure. Much hinges on our farmers' ability to prepare for and meet the challenges of any longer-term shift in climate. As a nation, we are at a point where we must think strategically about how we plan for, and deal with drought – especially in the context of climate change.

The NFF believes that effective taxation measures can deliver positive market signals to farmers to



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induce them to better prepare for drought events in the future. If designed effectively, agriculture and the Australian economy can benefit from a taxation system that focuses on fostering a partnership between government and agricultural producers, where co-investment in preparedness measures is the key feature and farmers are encouraged to save against future risks, including climate variation.

Taxation reform in this area of may encourage investment in capital items that can assist in drought preparedness. Incentives may include elements such as accelerated depreciation and tax deductibility on capital items that stimulate investment in drought preparedness measures. These may include investments in better pasture and soil management, upgrading irrigation systems for increased water use efficiency (that can also contribute to energy efficiency, energy savings, and labour savings), or building storage facilities, silos, haysheds and fencing, which are all proven mitigation tools in drought management.

Such measures would work effectively in conjunction with the successful Farm Management Deposits (FMDs) in meeting the drought preparedness principles and helping Australian farmers to manage their risk. In time, the NFF believes that this will ease the fiscal need that currently emerges in the event of drought.

This issue is particularly relevant in light of the current drought review process and review of the WA drought trial. Taxation measures must be viewed as an additional, complementary tool to achieving desired outcomes in this area.

1.3. Environmental stewardship – the role of taxation

Sustainability is one of the NFF's key strategic priorities. With approximately 150,000 commercial farms in Australia utilising approximately 60% of Australia's landmass, 80% of the productive land base and approximately 70% of our water resources, we believe that it is vital that the agriculture sector is recognised for its ability to have a genuine, positive involvement in the management of our natural resources including dealing with climate change.

The NFF has continued to emphasise that an effective stewardship programme is fundamental to changing the current regulation based natural resource management approach to a market-driven approach based on incentives.

Farmers currently provide, either voluntarily or by legislation, a range of environmental outcomes on behalf of the entire community yet they bear up to 100% of the cost with little public recognition. Many governments, environmental groups and community groups now acknowledge that this can no longer be the case if we are to optimise outcomes for our scarce natural resources. Farmers rightly view themselves as environmental managers and have huge potential in delivering environmental outcomes demanded by society. The NFF recognises the opportunity to re-build the trust and understanding between farmers and the Australian community to harness this potential.

It is imperative that we move away from a system of ad hoc environmental actions and regulations to one that is supported by clearly defined outcomes that are fully integrated in delivery. Through articulating these principles, benefits can be attained through streamlining all levels of government, providing stakeholders with a better understanding of the importance of their contributions,



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increasing resource certainty, and being better able to measure performance.

Good environmental outcomes cannot be achieved where support is provided in certain areas without acknowledgement of the broader environmental interrelationships. Only by doing this will we achieve exponentially better environmental outcomes. Stewardship is therefore a vital mechanism to moving away from such shortfalls of a regulation-based framework and pushing towards a market based structure that enhances accountability for stakeholder actions.

The NFF believes that taxation measures have a role to play in complementing the environmental stewardship program, the Caring for our Country program, the Carbon Farming Initiative, and the proposed Wildlife Corridors and Biodiversity Funds. In doing so they can provide further incentives to farmers in undertaking environmental works above and beyond their duty of care.

This may take the form of tax concessions for conservation work undertaken by farmers that will improve soil and vegetative carbon sequestration capabilities, improve biodiversity outcomes and improve the health of natural water resources.

Conclusion

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.

Governments must put immediate thought towards the development of taxation based mechanisms that complement and deliver equitable outcomes in areas such as 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.

2. How are your proposals financed over the short and longer term?

As mentioned earlier, the NFF recognises that all wealth creating sectors of the community have a responsibility to contribute to public services and infrastructure, humanitarian good and human endeavour. While we have not identified any specific, new taxation measures to generate the finances for the above proposals, the NFF has outlined a number of broad principles that we believe should be upheld in the consideration of any taxation measure.

Taxation principles for the NFF

The NFF encourages Government to adhere to the following principles when developing taxation policy.

- Taxation on business adjustment payments should be avoided
- Taxation mechanisms should be fair and equitable
- Taxation mechanisms should not lead to negative distortions or be inflationary
- Where thresholds are used within the taxation system (e.g. the \$250,000 threshold under



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the non-commercial loss provisions), indexation of the thresholds should be utilised.

LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.

- 1. NFF response to the Henry Review Recommendations**