Submission by The

SOUTH AUSTRALIAN
FARMERS
FEDERATION

In response to

Australian Government's

Review into Australia's future tax system

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Summary

Taxation influences all decisions

SAFF recommends that whenever a new government measure is introduced there needs to be an assessment of the taxation implications.

Red tape

The taxation system needs to be as simple as possible, and easy to conform to without being complex and costly.

Support for the future of agriculture

If the importance of agriculture to the Australian economy is to be maintained, it is necessary to ensure that younger people become involved in farming either as owner-farmers or working in agricultural-related industries. The taxation system should be used to encourage this, or at least not to create a barrier.

Managing climate change

As a large part of any proposals aimed at managing climate change, the use of and the effect of the taxation system needs to be included. For agriculture, this needs to cover a range of aspects from assisting farmers to better to run their businesses to exiting out of the industry.

Assisting the environment

To encourage farmers to become involved in the environmental stewardship programs, the taxation implications need to be clearly clarified. This applies particularly to GST, capital gains tax, and taxable income. There would actually be merit in quarantining environmental stewardship payments from taxation if the Federal Government is really sincere in promoting environmental stewardship.

Specific issues

This submission also provides some specific comments on aged pensions, fuel excise, Managed Investment Schemes, renewable fuels, stamp duties and taxes on motorists.

Introduction

The South Australian Farmers Federation (SAFF) is very pleased that there is a broad, comprehensive Review on Australia's Future Taxation System. This creates an opportunity to examine the current taxation arrangements and to assess what aspects are working and what areas need to be improved or expanded.

It is also pleasing that this Review is not only examining the Federal taxation system, but also State and Local Government taxes. Though when a representative from SAFF attended the public consultation meeting (organised by the Australia's Future Tax System Review Panel and held in Adelaide on 26 March 2009), and asked about how the findings from the Review will be passed onto State and Local Governments for implementation, the member of the Review Panel was not able to give a clear answer.

This submission outlines some general issues before dealing with a number of specific aspects.

Taxation influences all decisions

Australia's taxation system is not only about raising revenue from taxes, but also the fact the way that this is done influences almost all decisions, both for businesses and personal.

As an example, when primary producers as small businesses assess which business structure to operate under, there are a wide range of taxation implications and impediments to consider. It is not just the immediate taxation implications of administration and compliance for each possible business structure, but a wide range of other aspects such as the future transfer of farm assets between generations with associated capital gains tax and stamp duties.

The chosen business structure can also create difficulties when government later introduce measures under the taxation system. An example was the introduction of Farm Management Deposits Scheme. The Scheme is restricted to individuals. Companies or other entities are not eligible. Deposits cannot be made by two or more people jointly, or made on behalf of two or more people. Trustees can only make deposits on behalf of a beneficiary who is entitled to a share of the income of the trust estate and is under a legal disability.

However it is not only those framing the taxation system that need to recognise the wide-ranging effect that any changes in the taxation system may have.

The taxation implications of **all** government decisions need to be assessed whenever a new proposal is being developed. It is usual for most government decisions (at all levels) to be made in isolation from the taxation implications of these decisions.

As an example, various Environmental Departments are starting to introduce environmental stewardship payments and yet there is surprise from environmentalists and government officials that there is not a reasonable uptake from the farming community. Farmers however are hesitant to become involved as the taxation implications are not clear in relation to GST, capital gains tax and even taxable income.

SAFF recommends that whenever a new government measure is introduced there needs to be an assessment of the taxation implications.

Government Departments (both Federal and State) as well as Local Government will argue that they are not in a position to give an assessment of the taxation implications. However, the Australian Taxation Office is able to provide class rulings and this service needs to be widened and used by all Government Departments and Local Government as part of their normal procedures.

A good example is the current development of the Carbon Pollution Reduction Scheme. If participation is to be encouraged, the taxation implications need be known up front and well publicised.

Red tape

Taxation compliance requirements can be an administrative nightmare for most farmers, and specifically for GST, BAS, Capital Gains Tax, and Fuel Tax Credits.

SAFF is very pleased that both the South Australian and Australian Governments are attempting to reduce red tape through the Competitive Council Industry Review at the State level and the Productivity Commission's annual reviews of the burdens on business from Commonwealth regulations. These processes need to continue and the recommendations speedily implemented, particularly in relation to the complexities in Australia's taxation system.

The taxation system needs to be as simple as possible, and easy to conform to without being complex and costly.

Support for the future of agriculture

If the importance of agriculture to the Australian economy is to be maintained, it is necessary to ensure that younger people become involved in farming either as owner-farmers or working in agricultural-related industries. The taxation system should be used to encourage this, or at least not to create a barrier.

Current farmers need to be able to easily pass their business onto younger generations, without any hindrance from the taxation system so as to ensure these farms remain viable without the threat of the imposition of such taxes as capital gains taxes and stamp duties.

As there are difficulties in attracting people to work in agriculture industries, there needs to be tax incentives for employing labour and to encourage people to consider agricultural-related careers. Agriculture can not compete with mining industries. Straight out taxation incentives could be considered or even allowances to encourage selected employment, such as to encourage young people into shearing and other farm work.

Managing climate change

As a large part of any proposals aimed at managing climate change, the use of and the effect of the taxation system needs to be included. For agriculture, this needs to cover a range of aspects from assisting farmers to better to run their businesses to exiting out of the industry.

- investment allowances and accelerated depreciation measures

Much of the current drought-proofing infrastructure that farmers now have in place was encouraged by the investment allowances and accelerated depreciation measures that were previously available. There is now the need for water and fodder infrastructure to be written off over one year to encourage farmers to further invest in infrastructure so as to be able to cope with the consequences of climate change.

SAFF has already made a submission in relation to the Small Business and General Business Tax Break announced as part of the Government's Nation Building and Jobs Plan. While welcoming this Tax Break as it is in effect an investment allowance, SAFF believes that it will only be of limited benefit to primary producers. Given the seasonal nature of farming, and although an investment allowance will be welcomed, farmers will have difficulty making out-of-season purchase decisions before the cut-off date of 30 June 2009. This relates particularly to the grain industry where purchases of for example headers can be significant and need to made closer to harvest after due consideration of crop size, grain prices and input costs. SAFF **recommended** that the 30% deduction continue to apply for at least 12 months from the date the legislation receives Royal Assent. And the proposed bonus deduction of 10% should apply for the following 12 months.

Ideally the Tax Break should also apply to second hand machinery. Some farmers will be enticed to buy new machinery when this would not be a wise decision as with the current drought conditions they can ill-afford to do this and it will lead to further financial difficulties.

- Farm Management Deposits

Farm Management Deposits (FMDs) are seen to be successful as a risk management tool for farmers facing climate change. However if these are going to be both encouraged and more widely used for those that can afford to make deposits, the rules relating to FMDs need to be more relaxed and flexible. Issues still to be worked on include:

- widening who can use FMDs such as whether corporations, trusts and partnerships can have access to FMDs;
- rather than a cap on deposits (currently $400,000) there needs to be a tiered arrangement related to input costs so that farmers, particularly grain growers, can build up reserves. If the cap had previously been higher, this would have encouraged a better build up of reserves before the current drought; and
- redemption rules for FMDs need to be more relaxed and flexible.

- exit grants

While it is realised that Exceptional Circumstances (EC) arrangements may not be in existence much longer (depending on the Productivity Commission's final findings and then the Government's response), exit grants are now available as part of the Climate Change Adjustment Program for farmers.

To make exit grants more effective there is a need to consider quarantining these from both creditors (if possible) and the Australian taxation system. Currently if a farmer declares bankruptcy, any exit grant is considered part of that farmer's total assets available to be paid out to the creditors, and the benefit of the exit grant to assist re-establishment is lost.

Similarly, there may be capital gains tax implications when a farmer sells their farming assets and moves out of farming. It is very likely that many considering selling up will be under severe financial stress, and even facing the threat of foreclosure from their financial institution. They are going to need the full price paid to them and will not be able to cope with having to pay capital gains tax at a later date.

- **zone allowances**

Also as part of climate change, it is necessary to consider whether zone allowances have merit, or if there is some other way that the taxation system can be used to not only encourage people to remain in rural areas but to encourage others to consider moving to these areas including teachers, doctors, mechanics and other professional and skilled people. In SAFF's initial submission to the Productivity Commission's Drought Review, it was suggested that:

> "As part of tax reform, consideration should be given to the introduction of zone allowances in those rural areas that are EC-declared. These would be similar to defence forces allowances. While zone allowances would not directly assist drought-affected farmers who with little income would not be facing tax bills, it would assist rural communities including small businesses and others working in these drought areas. It could well encourage people to remain in the district and not to move elsewhere for employment, hence assisting in maintaining the local rural communities."

<u>Assisting the environment</u>

- **stewardship payments**

Regardless of the income they receive and the conditions they have to operate in, farmers are spending money on maintaining the land not only for themselves and the future generations in their family but for Australia as a whole. The Natural Resource Management regime imposed by government and by farmers themselves to keep the land in the best conditions possible costs time and money to implement. For a farmer both are valuable and take them away from directing these resources into income-earning activities. Farmers do not question the need for these practices to take place, nor do they deny the benefits these programs provide to our future generations. They do however feel that the cost to provide the future viability of Australian land, both productive and unproductive, rests with a small group of Australians, the farmers. It would seem that the stewardship of the land is seen as important and necessary by government and Australians alike but the costs are being borne by farmers.

SAFF believes that a system of stewardship payments should be paid to farmers to reimburse them for the costs they bear on behalf of all Australians. These payments should be based on the effort and costs involved in a farmer meeting this stewardship role.

SAFF suggests that governments in consultation with the farming representative bodies develop a system for identifying, quantifying and paying stewardship payments to farmers and non-farming landholders demonstrating a stewardship role.

As part of this process, and to encourage farmers to become involved in the environmental stewardship programs, the taxation implications need to be clearly clarified. This applies particularly to GST, capital gains tax, and taxable income. There would actually be merit in quarantining environmental stewardship payments from taxation if the Federal Government is really sincere in promoting environmental stewardship.

- **buy-back of water licences**

SAFF is also concerned that with the buy-back of water licenses, capital gains tax may be payable by primary producers selling these licenses. While SAFF supports the Government's purchase of water entitlements, we are concerned that any taxation implications could discourage producers from selling their water licenses and not lead to any significant benefits, particularly for the Murray-Darling Basin.

Many considering selling their water entitlements will be under severe financial stress, and even facing the threat of foreclosure from their financial institution. They are going to need the full price paid to them and will not be able to cope with having to pay capital gains tax on this amount.

Specific issues

- **Aged pensions**

While retiring farmers should be assessed the same as all other members in the community of pension age when applying for the aged pension, there is an added difficulty when the farm is needed to support the next generations, who may have also worked on the farm for many years. To assist with succession, the current five-year time limit for farmers to gift the farm to their descendents upon retirement and to then access the age pension needs to be removed. Retiring farmers should be able to gift their farm to younger generations of their family without being disadvantaged by the disposal of assets, and without any taxation impediments.

- **Fuel excise**

When the GST was first introduced, the Government reduced the excise by 6.7 cents a litre to offset the GST, setting the excise rate at 37.5 cents per litre. Although the excise is fixed for a period of six months any increase will result in an increase in the GST. This is effectively a tax on a tax and is an unfair tax burden. The GST component on petrol changes with the prices. The higher the price of petrol the greater the amount of tax collected. This situation is clearly iniquitous and needs to be changed

- **Managed Investment Schemes**

SAFF is opposed to Managed Investment Schemes (MIS). One of the main reasons for this decision is the current up-front tax deductibility available through MIS. This deductibility is not available to others involved in agriculture, and this distorts investment opportunities, land values and commodity prices, impacts on water security and increases bushfire risk. As an alternative, the tax deductibility could be provided for operating costs which may encourage investment in to agriculture and help young farmers gain employment.

- **Renewable fuels**

SAFF Grains Industry Committee is pushing for renewable fuels, not only to keep costs down, but to assist towards fuel security, to encourage regional development and for environmental reasons. The New South Wales and Queensland Governments are mandating and supporting an ethanol industry, so why not in South Australia?

SAFF has also made a submission to the Select Committee of the Legislative Council on the Impact of Peak Oil in South Australia, making a number of recommendations including reviewing the fuel excise system with a view to reducing the excise levied on fuel, investing in research into viable alternative fuels, and creating a system that ensures the supply of fuel to the State particularly during seeding and harvest.

- **Stamp duty**

SAFF's main concern with taxation at the State level is stamp duty. When the GST was introduced, there was an expectation that all stamp duty would be abolished. While this process has started it needs to be completed.

The South Australian Government is providing mortgage stamp duty relief for farmers needing to extend finance as a result of the drought. But this only applies to borrowings of additional working capital to fund normal operating costs of the farm enterprise as a consequence of drought, and does not include additional borrowings for capital items such as land, property improvements, vehicles, plant and equipment, investments and FMDs.

The South Australian Government is slowly phasing out stamp duty - the remaining mortgage and rental duty will be phased out by 1 July 2009, and stamp duty on transfers of non-quoted marketable securities and business related conveyances (other than land and buildings) will be phased out by 1 July 2010. It is now time to complete this process, particularly as the remaining stamp duty impacts on farmers and other small businesses.

- **Taxes on motorists**

In relation to taxes on motorists, for primary producers there are licensing and registration difficulties for the seasonal use of farm machinery and vehicles. While at a State level the process of licensing and registration on vehicles used in the farm sector need to be investigated, there also needs to be uniform regulations across Australia. More than most other industries agriculture is reliant on efficient transport systems that are not bogged down by exorbitant taxation and other government charges.