



National Farmers'
FEDERATION

**REVIEW OF AUSTRALIA'S FUTURE
TAX SYSTEM**

NFF SUBMISSION

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The 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 of all 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 council's deal with state-based 'grass roots' issues or commodity specific issues, respectively, while the NFF represents the agreed imperatives of all at the national and international level.

Introduction

The NFF welcomes the opportunity to provide input into the review of Australia's Future Tax System, to examine the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

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

This submission outlines just a few of the major policy areas where taxation can play an important role in achieving the desired outcome. The NFF looks forward to further engagement with the review of Australia's Future Tax System to help in the examination of workable tax based mechanisms to address these issues.

Pricing carbon emissions - the role of taxation

The NFF understands the Australian Government's intention to limit man-made greenhouse gas emissions and the political inevitability of an Emissions Trading Scheme (ETS). While the NFF believes that market-based mechanisms, such as an ETS, are appropriate for driving least-cost greenhouse emissions abatement across the entire economy, Government must ensure that the ETS design does not disproportionately affect sectors such as agriculture, or indeed, regional communities in general. This principle applies to sectors being either covered or uncovered by the ETS.

The NFF has used *Department of Environment, Water, Heritage and the Arts* analysis on the carbon emissions from fuel combustion to derive potential flow-through impacts of higher fuel prices arising from a domestic ETS. This analysis notes that combustion of a litre of petrol produces 2.4 kilograms of CO₂, and a litre of diesel produces 2.7 kilograms of CO₂.¹ This equates to a potential emission cost of between 2.4c and 2.7c per litre per \$10 of greenhouse emission cost and demonstrates the direct impact that an ETS can have on this resource utilisation.

Therefore, in light of the enormous escalation in the price of oil in recent times and the significant shock that this is having on all sectors of the Australian economy, including agriculture, the NFF is supportive of the Carbon Pollution Reduction Scheme (CPRS) Green Paper's recommendation that fuel price impacts from an ETS be offset for at least the first three years of the scheme. The offset recommendation is particularly welcomed by the NFF considering that the majority of our members are located in regional areas, which have less access to public transport, and are therefore more exposed to the cost of fuel.

During the period that fuel price increases from an ETS are offset, the NFF encourages Government to examine alternative complementary policies in areas such as taxation to ensure that equity for regional communities, who are more exposed to the cost of fuel, is maintained once the rebate is removed. In this regard, systems such as Tax Zone Rebates (discussed further below) may need to be considered to deliver this equity outcome.

The NFF agrees with the view taken by Professor Ross Garnaut in the Final Report of his Climate Change Review where he states:

*"Additional assistance measures that target particular sectors, industries or regions therefore are only likely to be appropriate where there are wider income distribution considerations, notably regional income effects."*²

¹ Department of Environment, Water, Heritage and the Arts, <http://www.environment.gov.au>, sourced on 26 August 2008

² Garnaut, R. September 2008 *Garnaut Climate Change Review Final Report*

While agriculture represents approximately 3% of Australia's Gross Domestic Product (GDP), it is estimated that the sector represents more than 40% of the GDP of regional economies. Once multiplier effects are taken into account, this is as high as 70-80% in most small towns. While not all small towns are 'farming towns', a majority of them still are and the fortunes of these towns are aligned with the productivity and sustainability of the farms surrounding them. This dependence on one industry makes the economic risks of an ETS higher for regional Australia than for urban Australia.

This link between regional communities and agriculture has been reinforced by Professor Ross Garnaut in the Final Report of his Climate Change Review in which he states:

*"A significant proportion of the income distribution effects of climate change and climate change policy will come from changes in the industrial make-up of the economy over the longer term. Regional communities and industries are likely to be more vulnerable to these impacts than urban centres, due to their reliance on agriculture and other natural resource-based industries, and low levels of infrastructure stock. Regional communities, in particular farming regions, have already been subject to structural change to a much greater extent than metropolitan centres in recent history."*³

The NFF notes that the Government *"is to consider the interrelationship between the tax and transfer payment systems and the Carbon Pollution Reduction Scheme."*⁴ For the reasons outlined above, the NFF would like to examine further opportunities through the taxation system that an ETS can deliver equitable impacts across the entire community while taking into account the linkages between regional communities and agriculture.

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

³ Garnaut, R. September 2008 *Garnaut Climate Change Review Final Report*

⁴ CPRS Green Paper, July 2008

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.

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 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.

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, 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.

In late August 2008, the NFF welcomed the Australian Government's launch of a \$42.5 million pilot environmental stewardship program to target endangered Box Gum Grassy Woodlands in the Lachlan and Murrumbidgee Valleys of NSW. This announcement was closely followed by a tender to widen the stewardship program

to Box Gum Grassy Woodlands in the Northern Basin. This is the first stage in a process of rewarding farmers for undertaking environmental works on behalf of the broader community that are above and beyond their duty of care.

The NFF believes that taxation measures also have a role to play in complementing the environmental stewardship program and providing 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.

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

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.

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