Henry Taxation Review
NFF analysis and key issues

Government Budget Announcements

The Government has used the release of the Henry Taxation Review to announce some significant tax based budgetary recommendations. Below is an outline of the National Farmers' Federation's (NFF) views on the recommendations

Announcements include the following:

Resource Super Profits Tax
A Resource Super Profits Tax (RSPT) will be introduced on 1 July 2012 at a rate of 40 per cent on profits made from the exploitation of Australia's non renewable resources. The RSPT will replace the crude oil excise, and operate in parallel with State and Territory royalty regimes. Projects within the scope of the Petroleum Resource Rent Tax (PRRT) will have the option of opting into the RSPT or staying in the PRRT. The election into the RSPT will be irrevocable. • Under the RSPT a refundable credit for royalties paid to State and Territory Governments will be available. • The refundable credit will eliminate investment distortions associated with the state royalty systems and ensure there is no 'double taxation' of resource profits. A refundable tax offset for exploration incurred on or after 1 July 2011 is also incorporated as a sweetener (worth $600 million per annum)

NFF Comments:

- The NFF has not adopted a position on the Resource Super Profits Tax (since evolved into the Minerals Resource Rent Tax)

Infrastructure funding
This measure will provide the States and Territories (the States) with a new infrastructure fund. This will make infrastructure funding a permanent structural feature of State and Commonwealth budgets. • The infrastructure fund will be paid to the States each year, with an initial total amount of $700 million in 2012 13. • Funding will be distributed in a manner which recognises that resource rich States face large associated infrastructure demands.

NFF Comments:

- The commitment to an additional $700 million towards infrastructure is welcomed by the NFF.
- The NFF notes that the fund will be focused towards resource sector needs however this will still be beneficial for farmers who in many instances are competing with the mining sector for infrastructure use.
- The NFF would like to engage with Government on the details on how this funding will be allocated across the various elements of the infrastructure task (e.g.: transport, telecommunications, energy etc).

Cutting the Company Tax rate (accelerated time frames for small business)
The company income tax rate will be reduced to 29 per cent for the 2013 14 income year and to 28 per cent from the 2014 15 income year, in conjunction with the introduction of the Resource Super Profits Tax (RSPT). A drop to 29 per cent for 2013 14 and then to 28 per cent from 2014 15, in conjunction with the introduction of the RSPT, will move Australia towards achieving an internationally competitive tax rate. Australia will become an even more attractive place to invest. This measure reduces the company tax rate to 28 per cent for eligible small business companies from the 2012 13 income year. Small business companies will have a lower tax rate than other companies until the reduction of the general company tax rate to 28 per cent in 2014-15.

NFF Comments:

- This announcement was seen as a positive announcement for those farm businesses that are incorporated, particularly those that meet small business thresholds.
- It should be noted that a relatively small percentage (less than 10%) of farm businesses are incorporated. Only those businesses will benefit from this announcement.
- However, this 10% of incorporated farmers contributes considerably more than 10% of the Gross Value of Agricultural Production (GVAP) meaning the benefits to the agriculture sector as a whole are greater than they might otherwise seem.
- Even with the reduction, Australian company tax rates will still be the 17th highest in the OECD.

Small business instant asset write-off
This measure enhances and expands the existing capital allowance concessions available for small businesses. It will do this by: • allowing small businesses to immediately write off assets valued at under $5,000 (this is up from $1,000 under the present law); and • allowing small businesses to write off all other assets (except buildings) in a single depreciation pool at a rate of 30 per cent. Currently, small businesses allocate assets to two different depreciation pools. This measure will commence from 1 July 2012.

NFF Comments:

- Greeted by the NFF as a positive announcement that will allow farmers to access improved depreciation write-downs of assets such as fencing, sheds and other capital works worth less than $5,000.
- The 30% single depreciation pool is a significant improvement for most (if not all) farm capital items that have statutory effective life caps.

Increase Superannuation Guarantee
The Government will increase the existing 9 per cent Superannuation Guarantee (SG) rate to 12 per cent over six years to 2019-20. The SG rate will be increased gradually with initial increments of 0.25 percentage points on 1 July 2013 and on 1 July 2014. Further increments of 0.5 percentage points will apply annually up to 2019-20, when the SG rate will be reach 12 per cent.

NFF Comments:

- This announcement is expected to be a significant hit for farm business, the majority of which will be force to incur the additional 3% superannuation contribution.
- As a gauge on the cost impact for farm businesses:- Australian agriculture currently employs 317,000 people. An indicative average farm wage is $50,000p.a. Assuming that as a result of this change, the farm employer incurs 75% of the additional SG contribution (i.e.: 2.25%) with the final 0.25% being incurred by the employee, then this would equate to an additional cost for the Australian farm sector of approximately $350 million p.a.
- Australian farmers have a notorious incapacity to pass on additional costs meaning the vast majority of this cost will come of the farmer's bottom line.
- Positively, there will be long lead in times that will help farm businesses to adjust.

Additional Superannuation Changes
A range of changes including: • raising the superannuation guarantee age limit from 70 to 75 • low income earners Government contribution • concessional contribution caps

NFF Comments:

- NFF is neutral on these proposed changes.
- The physical nature of farm work means that few employees are able to continue to work on farm beyond the age of 70 under the Federal Pastoral Award.

Key Henry Review recommendations relating to agriculture

The Henry Taxation Review made a total of 138 recommendations relating to the Australian tax transfer system.

Specifically, the Henry Review made comments on the following tax based measures that are relevant to Australian farmers:

Primary Producer Income Tax Averaging
Recommendation 6: (e) Averaging tax offsets for primary producers, the offset for 'special professionals' and the lump sum payment in arrears tax offset should be retained to minimise the extent to which the timing of such income influences tax liability

NFF Comments:

- Positive support for the use of primary production income averaging.

Tax Zone Rebates
Recommendation 6: (b) The zone tax offset should be reviewed. If it is to be retained, it should be based on contemporary measures of remoteness.

NFF Comments:

- The NFF welcomes this announcement while noting that the review does not suggest that Zone taxes are either good or bad, but rather that the system is outdated and in need of an upgrade.

Agricultural Investment Concessions
Recommendation 28: The capital allowance arrangements should be enhanced and streamlined to ensure effective rates more closely match rates of economic depreciation, and to reduce administration and compliance costs overall. This should include: (b) reviewing the impact of special provisions applying to different investments in agriculture and statutory effective life caps and other concessional write-off provisions.

Associated Quotes:

***MIS and Carbon Sink Forests**- For example, there are a number of special provisions that apply to different uses of agricultural land. These include special tax arrangements for investors in forestry managed investment schemes and agricultural managed investment schemes and accelerated write-off for establishment costs of carbon sink forests. In these cases the inconsistent treatment adds to the complexity of the tax system and is also likely to distort land use allocation.*

NFF Comments:

- The NFF welcomes the acknowledgement of the distortions in land use being experienced due to MIS and Carbon sink forests.

Land Tax
Recommendation 51: Ideally, there would be no role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system. Recognising the revenue needs of the States, the removal of stamp duty should be achieved through a switch to more efficient taxes, such as those levied on broad consumption or land bases. Increasing land tax at the same time as reducing stamp duty has the additional benefit of some offsetting impacts on asset prices. *Recommendation 52:* Given the efficiency benefits of a broad land tax, it should be levied on as broad a base as possible. In order to tax more valuable land at higher rates, consideration should be given to levying land tax using an increasing marginal rate schedule, with the lowest rate being zero, with thresholds determined by the per-square-metre value. *Recommendation 53:* In the long run, the land tax base should be broadened to eventually include all land. If this occurs, low-value land, such as most agricultural land, would not face a land tax liability where its value per square metre is below the lowest rate threshold.

NFF Comments:

- The NFF would not support this recommendation that has the risk of loading up the annually charged land tax in place of the stamp duty charged only on sale of the property.
- While the Report notes that a threshold would need to be imposed to ensure that “most agricultural land would not face a land tax liability” this is not likely to be relevant for all Australian farms. Farmers on land closer to metropolitan areas or coastal areas (with high land values per square metre) would be most exposed.

Road User Charges - Mass-distance-location pricing for heavy vehicles
Recommendation 62: The Council of Australian Governments (COAG) should accelerate the development of mass-distance-location pricing for heavy vehicles, to ensure that heavy vehicles pay for their specific marginal road-wear costs. Revenue from road-wear charges should be allocated to the owner of the affected road, which should be maintained in accordance with an asset management plan. Differentiated compliance regimes to enforce this pricing policy may need to be considered to balance efficiency benefits from pricing against the costs of administration and compliance for some road users.

NFF Comments:

- NFF does not challenge the principle of mass-distance-location pricing for heavy vehicles. Indeed this has the potential to remove much of the cross subsidization by farmers' heavy vehicle registration fees of other heavy vehicles (e.g.: It would effectively factor in a lower fee for farm vehicles that use the road network infrequently).
- However the NFF is concerned that the paper does not acknowledge the need for a community service obligation to ensure that regional users are not penalized.
- Concerns also remain about the technology to allow this pricing to occur. It must be remembered that over half the heavy vehicle fleet is farm vehicles and technologies to enforce this pricing mechanism could be excessive for most of these vehicles.

Road User Charges – making rail freight more competitive
Recommendation 64: On routes where road freight is in direct competition with rail that is required to recover its capital costs, heavy vehicles should face an additional charge on a comparable basis, where this improves the efficient allocation of freight between transport modes.

NFF Comments:

- The NFF disagrees with placing additional costs on road transport (tax on business) so as to make rail transport more price competitive.

Road User Charges – replacing fuel tax and improving transparency of the road spend
Recommendation 65: Revenue from fuel tax imposed for general government purposes should be replaced over time with revenue from more efficient broad-based taxes. If a decision were made to recover costs of roads from road users through fuel tax, it should be linked to the cost of efficiently financing the road network, less costs that can be charged directly to road users or collected through a network access charge. Fuel tax should apply to all fuels used in road transport on the basis of energy content, and be indexed to the CPI. Heavy vehicles should be exempt from fuel tax and the network access component of registration fees if full replacement charges are introduced.

NFF Comments:

- The NFF is positive about the recommendation that fuel taxes should be linked to the cost of efficiently financing the road network. Current concerns are that much of this revenue goes into consolidated revenue.
- The NFF does not support the recommendation that fuel tax be indexed to CPI.
- The NFF is positive about the recommendation that heavy vehicles should be exempt from fuel tax.

Road User Charges – State Coordination
Recommendation 68:

COAG should develop a National Road Transport Agreement to establish objectives, outcomes, outputs and incentives to guide governments in the use and supply of road infrastructure. COAG should nominate a single institution to lead road tax reform, and ensure implementation of this agreement.

NFF Comments:

- The NFF supports the coordination of road infrastructure by states and territories.
- The NFF notes that uniformity in regulation and supply should not be the sole goal if that means alignment with the lowest common denominator (e.g.: farmers would not support state alignment with NSW livestock loading laws).

Other recommendations

The above summary is just a starting point to facilitate discussion and analysis from members. Significantly more analysis is needed.

Note that a range of additional areas have also been covered that we seek your feedback on including:

- *Removing payroll tax (recommendation 57)* – NFF supports
- *Expanding the small business threshold definitions (recommendation 30)* – NFF supports
- *Simplifying the trust rules (recommendation 36)* – Positive but need to look at the detail
- *Further analysis of a tax on bequests (death taxes) (recommendation 25)* – NFF is opposed.
- *Rationalizing small business concessions for Capital Gains Tax (recommendation 17)* - NFF is opposed.