

Attn: Mr Matthew Flavell

Dear Matthew,

I am a Chartered Accountant based in regional New South Wales, and we work with many rural clients within our business. Many of these farming clients are subject to the small business concession "SBE rules", and write off depreciating assets under the pooling provisions available to them, effectively both simplifying and accelerating deductions for depreciation using the "general pool" for assets with useful lives of less than 25 years. Having small business taxpayers utilize the SBE and previous STS provisions has been a long standing objective of the Government and Australian Taxation Office. Much of the upcoming capital expenditure of these clients will be subject to the Investment Allowance, and will benefit from either the 30% or subsequent 10% additional deduction proposed in the draft legislation, as well as accelerated write-offs for the assets. The proposed investment allowance on much of the plant and equipment used in their business' will I believe benefit many of our clients.

I am concerned however that many of these clients will be adversely impacted if the investment allowance provisions do not include depreciating plant and equipment used for water conveyance and irrigation. The current draft legislation excludes from the investment allowance assets which are deductible under Division 40F. It is my view that the assets acquired for use in water conveyance or conservation which meet the definition of a depreciating asset in Section 40.30 should be subject to the investment allowance provisions.

The Explanatory Memorandum (point 1.26), indicated that expenditure on Water Conservation and Conveyance is not included as it is already subject to special deductions i.e. a write off over 3 years. Whilst it is true that a larger tax deduction arises over 3 years without the benefit of an investment allowance of 30%; If the taxpayer were not forced to utilise the special write-offs, but instead pooled the assets in the general pool and was entitled to the investment allowance, they would over the first 5 years be \$960 or 9.6% worse off (based on \$10,000 of capital expenditure), under the special deduction rules than for the same expenditure under the "normal" provisions for pooled assets.

To disadvantage a primary producer choosing to spend money to improve their drought preparedness and ability to contribute to economic activity seems very inappropriate. This is of particular concern when so many of our client are still working with the impact of ongoing drought or contemplating expenditure to better prepare the farm business for the effect of future dry conditions arising from drought or climate change. With innovation in irrigation being very much at the forefront of water policy nationally, to deny access to the investment allowance on the very equipment needed to achieve this outcome seems inconsistent at best at outrageous at worst. It seems inappropriate to favour by way of a tax incentive, the purchase of a large tractor used in traditional farming activities over innovation at an enterprise level on irrigation to reduce water usage by for example delivering water by pressurised drip irrigation to replace open channel systems currently in use that are little changes from ancient times.

Other tax concessions available to primary producers highlighted to me by Treasury in response to an email enquiry, whilst correct have no place in the argument as far as the particular objectives of providing an investment allowance to stimulate the economy and bring forward expenditure are concerned.

If the investment allowance were available to assets which diminish in value and meet the definition in Sec 40.30 then access to the Investment Allowance incentive, with a solid basis of consistent law would be achieved. By constructing the allowance eligibility criteria in this way, expenditure on structures which become part of the land eg dams, channels, contour banks etc would not be eligible as land is specifically excluded. If constructed in this way, the legislation would limit the type and value of assets to which the incentive applies. This would place expenditure on a assets such as a pump or an irrigator, on an equal footing with the purchase of other agricultural equipment used in our clients farm businesses. At it simplest, assets which diminish in value are subject to the investment allowance.

I hope this submission contributes to changes in the draft legislation for the benefit of farm business', as well as the economy and environment which also have the opportunity to benefit from such expenditure by the farm sector.

I would welcome contact to discuss this submission.

Geoffrey Cheetham
Partner
NORTONS BUSINESS ADVISORS

PO Box 1032, 98 Market Street, MUDGEES, NSW, 2850.

Ph: 02-6372-6444 Fx: 02-6372-3709

Email: geoffrey.cheetham@nortonsba.com.au

Web: <http://www.nortonsba.com.au/>

This email and any attachments are confidential and are intended solely for the recipient. If you are not the intended recipient, you must not disclose or use the information contained in it. If you have received this email in error, please tell us immediately by return email and delete the original transmission and its contents from your computer. Internet emails are not necessarily secure. Nortons Business Advisors does not accept responsibility for changes made to this message after it was sent. It is the addressee/recipient duty to virus scan and otherwise test the information provided before loading onto any computer system. Nortons Business Advisors does not warrant that the information is free of a virus or any other defect or error.