

10 March 2009

Small Business and General Business Tax Break – Consultation
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: investmentallowance@treasury.gov.au

Re: Draft Legislation for the Small Business and General Business Tax Break

The National Farmers' Federation (NFF) would like to express concern that those plant and equipment water facilities currently subject to an accelerated depreciation rate, as defined under Subdivision 40F of the *Income Tax Assessment Act 1997* ('the water infrastructure assets'), are not subject to the 30% Small Business and General Business Tax Break ('the 30% investment tax break') as drafted in the *Tax Laws Amendment (Small Business and General Business Tax Break) Bill 2009* ('the draft Bill'). By excluding the water infrastructure assets, the draft Bill ignores these vitally important assets at a time when water infrastructure investment has never been more important and places these assets on less commercially attractive terms than those assets captured by the 30% investment tax break.

The unpredictability of Australian environmental conditions creates the requirement for greater focus and investment in those assets that will enable the agricultural sector to more sustainably and efficiently manage their business operations. Indeed, by defining the water infrastructure assets under Subdivision-F and allowing for an accelerated depreciation rate, the Government has explicitly recognised the importance of these assets. If the water infrastructure assets are excluded in the draft Bill however, these assets become relatively less commercially attractive because the vast majority of Subdivision-B depreciating assets will, for the first taxable year, allow for greater tax deductibility.

To highlight this point, water infrastructure assets are currently given an accelerated depreciation rate of 33.33% for 3 years. Reasonably, those assets would otherwise be defined as depreciating assets under section 40-30 that qualify for capital allowance under Subdivision 40-B. These assets are defined as:

"..an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used."

If, for arguments sake, 40-F assets were redefined as core depreciating assets under 40-B and then made subject to the additional 30% investment tax break, they would have a depreciation rate higher than what they are currently subject to as Subdivision 40-F assets. In effect, the draft Bill puts water infrastructure assets in a commercially

less attractive position than they otherwise would be if they were not subject to the accelerated depreciation rate.

Water is the most limiting resource in Australian agriculture. The Government through its National Water initiative and the *Water Act 2007*, that efficient utilisation of Australia's water resource is fundamental to the future of agriculture industry and environmental ecosystems nationwide. Increasing the incentive for farmers to invest in plant and equipment for efficient irrigation would compliment Government policy and work to increase the sustainability of water use in Australia.

While the Federation appreciates and supports the intentions of the Bill to entice business investment in capital and plant machinery and in turn stimulate economic growth and employment, the draft Bill fails to embrace past Government initiatives to ensure Australian primary producers invest in assets focused at more sustainable and efficient water use. By including water infrastructure assets in the 30% investment tax break, the Australian Government will demonstrate its commitment to the sector's future viability.

I would welcome the opportunity to discuss the matter further.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Charles Burke".

Charles Burke
NFF Vice President