12 June 2015

Australian Dairy Farmers

Australian Dairy Farmers Limited
Level 2, Swann House
22 William Street
Melbourne Victoria 3000

Phone +61 3 8621 4200
Fax +61 3 8621 4280

www.australiandairyfarmers.com.au

ABN 76 060 549 653

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

Email: bettertax@treasury.gov.au

To Whom It May Concern,

Australian Dairy Farmers (ADF) appreciates the opportunity to provide a submission in response to the tax discussion paper.

The discussion paper is an important first step in the tax review process and ADF welcomes the Government undertaking this review along with other initiatives such as the Review of Competition Policy and Law and the Agricultural Competitiveness White Paper process.

Taken together these processes should lead to reform that will enhance the Australian dairy industry's competitiveness in the global marketplace.

The dairy industry welcomes improvements to tax system efficiency and equity, particularly where this would increase incentives for investment in agriculture, and/or add to the long term profitability and sustainability of dairy farms.

Approximately 98% of Australia's dairy farms are family-owned farms that are generally high turnover, low profit small businesses and ADF would also like to acknowledge the recent budget measures that delivered on some key priorities for the dairy industry.

In particular, in the context of the tax review, it is important to mention the small business tax discount and accelerated depreciation measures for small businesses and primary producers.

The measure to accelerate depreciation for spending on water, fodder storage and fencing will encourage investment and improve cash flow on farm. A related proposal included in this submission is for a further expansion of this measure to include accelerated depreciation for energy saving asset purchases – for example, solar energy systems, variable speed dryers on electric motors, refrigerated heat reclamation systems to assist the sustainability of the dairy industry (and other primary producer) and environmental improvements.

This first submission from ADF to the tax review process will act very much as a discussion starter with further detail supplied in subsequent submissions as the process proceeds.

If you wish to discuss this submission, or require further information on any matters raised herein, please do not hesitate to contact David Losberg, ADF Senior Policy Manager on (03) 8621 4200.

Yours sincerely,

Noel Campbell
President

Contents

Australian Dairy Farmers

Introduction

Australian Dairy Farmers (ADF) is a not-for-profit organisation that represents the interests of dairy farmers nationally. We are the collective voice to Government and the community on national issues affecting dairy farmers. ADF has a long history of successfully lobbying for the rights of dairy farmers on many fronts.

Australian dairy is a $13 billion farm, manufacturing, and export industry, with an extremely positive future. Dairy's value to the Australian economy, jobs on farms, in manufacturing and service sectors, the rural and regional towns and communities it supports, as well as the ongoing health and wellbeing of Australian families, are a compelling basis for Government attention and policy support.

Australia's 6,300 dairy farmers will produce an estimated 9.5 billion litres of milk in the 2014-15 season, with the potential to grow substantially over the next decade to meet growing international demand, particularly in South East Asia, China and the Middle East.

Our dairy quality and safety processes are among the most advanced in the world and Australia is the fourth largest dairy exporter in the world, accounting for seven per cent of global trade.

The industry directly employs 43,000 Australians on farms and in dairy processing, while more than 100,000 are employed across dairy service sectors.

Approximately 98% of Australia's dairy farms are family-owned farms that are generally high turnover, low profit small businesses and the average Australian dairy farm cash income is highly variable.

In 2012–13 farm cash incomes declined for dairy farms in all states as a result of lower milk receipts and increased cash costs, driven mainly by increased expenditure on fodder.

At the national level, average farm cash income declined from $143 360 in 2011–12 to $44 200 in 2012–13.[1]

In 2013–14 average farm cash incomes are estimated to have rebounded strongly. As a consequence, average farm cash income of Australian dairy farms is estimated to have increased to $129 000 in 2013–14, around 29 per cent above the 10-year average to 2012–13.[2]

Attachment 1 contains a breakdown of ABARES data by dairy region for 2012-13 and 2013-14.

High-level Principles

The dairy industry appreciates the difficulty in reforming Australia's taxation system but it is a necessary task that must be undertaken to ensure that productivity gains made in the dairy industry can be facilitated and continue and also enhance our industry's global competitiveness.

The high-level principles below are by no means exhaustive but provide a template for reform and high level priorities.

- Removal of complexity and lessen administrative compliance burden;
- Consistency across jurisdictions of taxation and taxation principles;
- Removal of inequitable taxes and duties;
- Measures to encourage investment in agriculture and agricultural research and development;
- Measures that maintain and enhance Australia's international competitiveness.

[1] Ashton, Dale. *Australian Dairy: Financial Performance of Dairy Producing Farms 2011-12 to 2013-14*, Australian Bureau of Agricultural and Resource Economics and Sciences Research Report, 2014 page vi.
[2] Ibid., page vi.

Australian Dairy Farmers

International Competitiveness

The importance of measures that assist in maintaining and enhancing Australia's international competitiveness or removing impediments cannot be over-stated.

The dairy industry is one of Australia's leading agrifood industries in terms of adding value to Australia's primary produce. Much of this processing occurs in rural areas, thus generating significant employment and economic activity in country Australia.

The dairy industry exports approximately 40% of manufactured or further processed product, to over 100 countries.

Our export markets are concentrated in the Asia/East Asia regions, with China being our largest customer, followed by Japan, Singapore, Indonesia and Malaysia. In terms of our major export products, they are cheese, milk powders (including infant formula), butter, milk, and other dairy ingredients such as casein and whey products.

Australian dairy farmers operate in a deregulated and open market and have done so for well over a decade. Given the large percentage of Australia's milk production which is exported (approximately 40%) and the limited returns and opportunities available on the domestic market for some products, such as drinking milk due to the market power of the major retailers, the export market is of particular importance to the Australian dairy industry.

Consequently, international markets and prices are the major factors in determining the price received by most Australian dairy farmers for their milk.

There is a general mistaken belief that primary producers, including dairy farmers, receive substantial government assistance either in the form of tariff measures, tax concessions or direct budgetary assistance when compared to the countries we compete with.

This is simply not true and is particularly not the case for the dairy industry.

The dairy industry receives zero assistance from Government in terms of tariff assistance and in 2012-13 received $49.9 million in total budgetary assistance.[3] This is one of the lowest levels of assistance for any industry and the majority of this assistance is in the form of matching research and development funds, which are essential in ensuring ongoing productivity gains.

Our international competitors, in many cases, receive substantial Government assistance in several different forms.

Support for Australian agriculture from public funds totalled only 1.9% of gross farm gate receipts in 2013, down from 10% in the early 1990s.[4] The OECD average in 2013 was 18.2% and 7.4% in the United States. Countries like Norway, Japan, Switzerland and Korea retain policies that provide over half of their farmer's gross receipts.

ADF has noted this to explain the reality of assistance to the dairy industry and put in perspective the assistance industry receives. The industry is not seeking tariff assistance merely noting the often unlevel competitive playing field the dairy industry often operates in. It should be noted that recent Government efforts in the trade arena have been very helpful in assisting to level this playing field.

It is also worth noting that the dairy industry maintains a strong level of support for the range of existing agriculture-sector-specific concessions and mechanisms that are currently in place a range of which will be discussed further in this submission.

[3] Productivity Commission 2014, *Trade & Assistance Review 2012-13*, Annual Report Series, Productivity Commission, Canberra, June page 69

[4] Producer and Consumer Support Estimates database. September 2014. Retrieved from: http://www.oecd.org/tad/agricultural-policies/producerandconsumersupportestimatesdatabase.htm#tables

Agricultural Competitiveness White Paper

In a submission to the Agricultural Competitiveness White Paper process the dairy industry made the following points:

- The dairy industry welcomes improvements to tax system efficiency and equity, particularly where this would increase incentives for investment in agriculture, and/or add to the long term profitability and sustainability of dairy farms;
- We particularly support further work on policy changes to non-commercial loss rules;
- Industry supports increasing thresholds for the Farm Management Deposits (FMD) scheme; and
- Accelerated depreciation on assets/ shorter effective life schedules for depreciating farm plant and equipment is important.

It was also suggested that the tax system also needs to better differentiate between technological redundancy and financial/material redundancy. A key example for the dairy industry being capital investment in stainless steel.

While the stainless steel itself does not become materially redundant, the technology it supports does. This should be factored into the 'life' of the assets for the purposes of depreciation.

The Agricultural Competitiveness Green Paper included commentary and policy ideas around finance, business structures and taxation. Policy idea 11 included:

a) *Non-commercial loss rules*
    i. *Remove the $250,000 maximum income threshold or raise it to $1 million*
    ii. *Raise the exemption threshold*
b) *Increasing thresholds for the Farm Management Deposits (FMDs) Scheme*
    i. *Increasing the $400,000 deposit limit*
    ii. *Increasing the $100,000 off-farm income cap*
    iii. *Extending eligibility of the FMD scheme to companies and trusts*
    iv. *Re-establishing early access provisions for times of drought*
c) *Depreciating farm plant and equipment*
d) *Zone Tax Offset*
e) *Tax loss trading*
f) *Income tax averaging*

The dairy industry supports all of the above policy ideas mentioned in the Agricultural Competitiveness Green paper and will expand on some of those mentioned in this submission.

The recent Federal Budget has included several measures relevant to agricultural and as indicated above the dairy industry welcomes these initiatives.

Recommendations

The recommendations supplied in this first submission from ADF to the tax review process are at a high level and are designed to act as a discussion starter with further detail supplied in subsequent submissions as the process proceeds.

Accelerated depreciation - recommend an expansion of this measure

- The recent budget measure to accelerate depreciation for spending on water, fodder storage and fencing will encourage investment and improve cash flow on farm. A related proposal is outlined below.
- Accelerated depreciation for energy saving asset purchases – for example, solar energy systems, variable speed dryers on electric motors, refrigerated heat reclamation systems to assist the sustainability of the dairy industry and environmental improvements.

GST on Fresh Food and/or Increase in the GST

- Recently there has been heightened discussion and debate regarding increasing the rate of GST or broadening the base of the GST (including an expansion to fresh food).
- Any discussion on the above must recognise the importance of fresh food such as dairy to a healthy diet and ensure cost barriers to healthier diets are minimised.
- Having basic healthy food affordable and accessible to all help reduce the high burden of chronic disease, and subsequently the healthcare cost burden to Australia.[5]
- When considering the contribution to reducing the health care cost burden, it is critical that the cost barrier to consuming core dairy foods (all milks, cheeses, yoghurts and custards) is minimised.
- Alarmingly, Australians are failing to meet their minimum recommendations for the dairy "core" food group. Studies have found that 80% of adults fail to achieve the recommended daily serves of dairy.[6]
- If Australians increased their intake of dairy foods to the recommended levels, research has shown at least $2 billion could be saved from the annual healthcare budget.[7]
- It should also be recognised that there are many examples of double taxation involving the GST, for example stamp duty is charged after the GST is added to the price of goods or services – creating a tax on a tax. These inequities must be removed to not only provide a fairer tax system but also one that is less complex.
- It is also worthwhile noting that it was initially promised that the GST would remove a range of inefficient state taxes. During negotiations in the Senate the number of taxes to be removed was reduced meaning that substantial complexity still remains.
- Whilst there are pressures on the Government tax revenue base any consideration of increasing the GST rate or broadening the GST base must be undertaken after a detailed analysis and review of the costs and benefits of such a course of action, the potential to reduce complexity and inequity through the removal of inefficient State and Federal taxes and consideration of allocating a specific proportion of any additional income stream towards supporting public good outcomes in rural and regional areas.

---

5 Harrison MS et al ((2007) Nutrition and Obesity. The increasing cost of the basic foods required to promote health in Queensland. Med J Aust 186 (1): 9-14.
6 Doidge JC & Segal L (2012) Most Australians do not meet recommendations for dairy consumption: findings from a new technique to analyses nutrition surveys. Australian and New Zealand Journal of Public Health. 36; 236-40
7 Doidge, Segal & Gospodarevskaya (2012) Attributable risk analysis reveals potential healthcare savings from increased consumption of dairy products. Journal of Nutrition 142(9):1772-80

Water In Situ – claim as a tax deduction

- Water in situ on a property at the time of purchase cannot be claimed as a tax deduction either on acquisition or as the water is utilised. Upon a property purchase a taxpayer pays for many items inclusive on that property – from a standing crop to consumables through to water in a dam. Stored water is extremely valuable and can be quantified. Water in storage facilities is not fundamentally different to any other consumable (e.g. chemicals in a drum) but due to it being acquired with a capital asset (the land) it is not tax deductible.
- This stance is inequitable and results in additional technical problems in how to deal with this water subsequently from a tax perspective.
- ADF recommend that this issue be reviewed and water in situ be allowed to be claimed as a tax deduction.

Increase the availability of tax concessions for farm businesses

- The ATO provides concessions to small businesses with an annual turnover less than $2 million. Increasing this threshold to $5 million would enable substantially more farm businesses to access these concessions.
- ADF recommends that the turnover threshold for small business tax concessions be increased from $2 million to $5 million to recognise the fact that farms are generally high turnover, low profit small businesses.

Managed Investment Schemes (MIS)

- Current MIS structures do not promote sound investment decisions in rural and regional areas, and as such have created a distortion of land values and/or commodity markets.
- Growth in investment in MIS has largely been driven by the taxation structure of the schemes. Decisions to invest in MIS are largely based on the tax deductibility of the investment, rather than driven by value creation for investors and taxpayers.
- ADF recommends that MIS tax deductibility be reviewed or removed.

Australian Taxation Office Rural Issues Focus Group

- There is currently often a lack of understanding of the issues that farmers face in the ATO and when rural taxpayers experience difficult taxation issues there is a lack of specialist knowledge at the ATO that can determine the practical implications of a technical matter.
- ADF recommends that Government enhance the understanding of rural/remote and agricultural tax issues through the development of a rural issues focus group at the ATO.

Zone allowances/Tiered Tax System

- ADF recommends that the creation of tax incentives for people to leave the cities and relocate to regional areas through the expansion of allowances and/or a tiered tax system based on location be further investigated.

Land Tax

- Currently the majority of primary production land is exempt from Land Taxes across Australia.
- The Henry Review of Taxation (2008) recommended a broader land tax base which includes all land.
- ADF does not support an increase in the Land Tax as it would act as a further disincentive for people to undertake farming and live in rural and regional areas of Australia. It is also worthwhile noting that farmers generally pay a disproportionate amount of municipal rates in Australia.

Stamp Duty

- Stamp duty is both inefficient and distortionary. Stamp duty is charged on many transactions common to farm businesses such as motor vehicle registration and transfers, farm insurance, and transfer of land. In many instances stamp duty is charged after the goods and services tax (GST) is added to the price of goods or services – thereby creating a tax on a tax.
- Stamp duty increases the cost of transferring assets between businesses, increases the cost of insuring farm businesses, and increases the cost of purchasing land for production.
- ADF recommends that the potential for graduated payment of Stamp Duty over 5 years be investigated to reduce the immediate financial burden on business and spread it over a reasonable timeframe.

State Payroll Taxes

- Differing payroll tax systems for each jurisdiction creates complexity and increases compliance costs for small businesses.
- ADF recommends investigating the potential for simplifying, increasing the tax free threshold for Payroll Taxes or even removing payroll taxes.

Death Duties

- ADF understands that death duties at a State and Commonwealth level were abolished by the early 1980's due to the inequity inherent in these taxes.
- ADF does not support the reintroduction of these taxes, in particular due to the impact they can have on succession planning at a farm level.

Diesel Fuel Tax Rebate (Fuel Tax Credit)

- ADF supports the maintenance of the current Fuel Tax Credit scheme.

Research and Development (R&D) Incentives

- ADF understands the Government intends to review the operation of the R&D tax incentive within the context of reviewing the effectiveness of existing tax incentives for innovation, industry-funded research and collaboration with public research institutions.
- Broadly, the R&D tax incentive currently provides a 45% refundable tax offset for eligible entities with an annual aggregated turnover of less than $20 million.

- ADF supports the current R&D incentives but urges any review to ensure there is a particular focus on making Agricultural R&D more attractive?
- It is important that any consideration of the R&D tax incentive aim to benefit food processing innovation as well as agricultural innovation.
- Much of the value in the food industry is generated post-farm gate; significant innovation occurs at this stage too.
- The dairy industry adds value through processing to produce drinking milk, cheese, butter, milk powders, cream, yoghurts and a range of specialty products.
- Increasing productivity for food therefore relies on research, development and extension/commercialisation all the way along the supply chain.

Capital Gains Tax & Superannuation

- ADF has bundled Capital Gain Tax and Superannuation together as the current system represents major barriers to succession planning on farms.
- For the vast majority of dairy farmers the farm is their major asset with the majority of their wealth tied up in the family farm which may also represent their retirement fund or superannuation.
- While the small business capital gains tax concessions may ultimately reduce or eliminate this tax for some taxpayers there is at least a limit set on it and various limitations to allow the placement of sale funds into super.
- It appears inequitable that the choice of investment type can make such a significant difference to an individual's tax burden.
- ADF recommends investigating the potential for increasing options available for farmers in this area and will supply further information in subsequent submissions.

Administrative Burden

- Approximately 98% of dairy farms in Australia are family-owned business. The administrative burden that the current taxation system, with its complexity and sheer size, places on these family-owned businesses must be acknowledged, investigated and reduced.
- The Australian taxation system must be streamlined and simplified to reduce its complexity, reduce the monetary and time imposts on taxpayers, business and government and reduce the stress involved in trying to understand the current system. The reporting requirements of small business must also be streamlined and simplified to reduce the time currently required to meet reporting obligations.

Conclusion

As mentioned previously the discussion paper is an important first step in the tax review process and ADF welcomes the Government undertaking this review along with other initiatives such as the Review of Competition Policy and Law and the Agricultural Competitiveness White Paper process.

It is important that these processes align and when taken together lead to reform that will enhance the Australian dairy industry's competitiveness in the global marketplace, increase incentives for investment in agriculture, and/or add to the long term profitability and sustainability of dairy farms.

Attachment 1

Australian Dairy: Financial Performance of Dairy Producing Farms 2011-12 to 2013-14,
ABARES Research Report

Selected estimates by region

(Results are average per farm)

Table A1 Selected estimates, dairy farms, Northern NSW and Queensland

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	403 127	(4)	414 400	(4)
Total cash receipts	$	452 024	(4)	466 727	(4)
Farm cash income	$	67 376	(19)	63 409	(30)

Table A2 Selected estimates, dairy farms, Northern Victoria and Riverina

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	500 086	(15)	628 659	(12)
Total cash receipts	$	567 342	(14)	693 678	(11)
Farm cash income	$	79 720	(38)	169 323	(22)

Table A3 Selected estimates, dairy farms, Tasmania

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	670 316	(7)	830 512	(7)
Total cash receipts	$	804 604	(7)	1 023 527	(8)
Farm cash income	$	34 711	(89	210 301	(19)

Table A4 Selected estimates, dairy farms, Western Australia

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	848 100	(8)	853 118	(8)
Total cash receipts	$	1 002 663	(8)	998 562	(8)
Farm cash income	$	133 374	(22	138 206	(25)

Table A5 Selected estimates, dairy farms, South Australia

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	671 551	(5)	802 765	(5)
Total cash receipts	$	804 992	(5)	906 291	(6)
Farm cash income	$	88 680	(31)	189 086	(20)

Table A6 Selected estimates, dairy farms, Gippsland

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	407 411	(40)	463 045	(39)
Total cash receipts	$	451 584	(43)	512 362	(39)
Farm cash income	$	27 269	(82)	97 445	(35)

Table A7 Selected estimates, dairy farms, Western Victoria

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	519 827	(7)	661 837	(9)
Total cash receipts	$	586 320	(8)	717 920	(9)
Farm cash income	$	–15 488	(197)	113 174	(26)

Table A8 Selected estimates, dairy farms, Southern and Central New South Wales

Selected estimates	unit	2012–13p		2013–14y	
Total milk receipts	$	613 568	(3)	691 977	(4)
Total cash receipts	$	691 709	(3)	767 524	(4)
Farm cash income	$	70 271	(30)	134 403	(20)