

Secretary: *Peah*.....

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HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON  
AGRICULTURE, FISHERIES  
AND FORESTRY

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## Supplementary Submission

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**To:** House of Representatives Standing Committee on Agriculture,  
Fisheries and Forestry

*Inquiry Into Future Water Supplies for Australia's Rural Industries and  
Communities*

**Re:** Tax Treatment on Funding of Near-Farm Infrastructure

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During recent Committee hearings<sup>1</sup> comments were made regarding the tax imbalance in the treatment of financing of water-supply infrastructure *on-farm* and *near-farm*. The Committee requested further information on how this issue may affect progress with water efficiency gains in rural areas.

### Summary

1. In the context of this discussion, "near-farm" refers to the pipes, pumps and other water delivery infrastructure owned by the collective irrigation companies ("irrigation entities"). There is usually a direct interface between this near-farm infrastructure and the on-farm infrastructure owned by individual farmers.
2. On-farm water infrastructure investments by farmers are subject to special provisions under the Tax Act, which provide specific deductions via three-year straight-line depreciation of the capital cost of the installations. Other primary producer tax concessions apply. The same provisions are not available to certain irrigation entities which are not classified as "primary producers".
3. The irrigation entities (such as Murrumbidgee Irrigation Limited) have inherited the district's irrigation assets as part of the COAG water reform process. This has generally led to new thinking and an more entrepreneurial approach to water management than occurred in the past. This has greatly benefited the regional economies and the environment through better, more targeted investment and technology applications.
4. Part of that inheritance included a commitment by the relevant state government to continue to fund district and near-farm infrastructure restoration for a period, via grants. In addition to these grants, the irrigation entities raise moneys from their farmer shareholders for such infrastructure works.

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<sup>1</sup> Transcript of evidence – Wednesday 5 November, 2003

5. The Australian Tax Office has determined that the funds raised both from State governments and from farmers for this purpose is assessable for tax in the hands of the company as income.
  6. This poses a dual problem for the irrigation entities:
    - (a) Much of the inherited water infrastructure was/is in need of restoration, and had a low capital value that could be depreciated for tax purposes, over a very long period of time. Hence, little or no annual tax deduction would be available, and
    - (b) The much-needed funds raised by the irrigation entities for specific works designed to enhance water-use efficiency are depleted to the extent of the tax charge on the funds raised.
  7. Pratt Water believes there is a strong case for specific intervention by the Commonwealth Government in this matter to ensure the irrigation entities can accelerate the deployment of water-saving infrastructure without the prospect of the funds being dissipated through tax payments.
  8. Some suggested means of resolving the issue include:
    - (a) Deeming by the Tax Office the collective irrigation entities to be primary producers for the purpose of asset depreciation. This measure could be prescribed further to deal specifically with water supply infrastructure assets, and/or.
    - (b) Establishment of rural water infrastructure investment funds, which would enjoy tax-free status with respect to fund receipts (with appropriate prescriptions).
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