

SUBMISSION TO:

SENATE ECONOMICS REFERENCES COMMITTEE

The Structure and Distributive Effects of the Australian Taxation System

FROM:

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A handwritten signature in black ink that reads "J. J. Phillips".

PROBLEM:

The inadequate and unfair use of public money to prop up inefficient farm businesses

SOLUTION:

Treat farms as a business and not as a “right” that has to be protected. The present drought highlights perfectly how efficient farm managers have coped with the problem and are surviving. The poor managers look for and receive “hand outs” in the form of welfare, interest rate subsidies and rebates. For all but one, the transport rebate on fodder, is means tested.

This greatly disadvantages those who have managed well. For example, the poor manager can go into a drought with certain resources and come out the other end with the same equity and standard of living etc. The efficient manager goes into the same drought with certain resources, but because they cannot access the same “hand outs” they emerge with less equity and definitely less resources. This is happening with the present drought.

Everyone should be on the same level playing field.

The film industry in Australia is thriving due mainly to the system where investments in Australian films were allowed a tax deduction of something like 150% to 200%. The results are obvious.

Droughts, floods, fires and low commodity prices are often bandied around by farmers as excuses for poor performance. The only unpredictable uncertainty in farming is the exceptional climactic conditions. Drought, flood, fire and low commodity prices can be overcome with sound management practices, insurance and futures contracts. The exceptional drought is the only event where there may be a need for additional measures. I am not even sure that the present one in one hundred year drought falls into this category.

The same measures that strengthened the film industry could be applied to the farming sector to help drought proof farms.

Tax deductions of 150% to 200% given for storage facilities for fodder, additional fodder storage and improvements in water storage systems.

This would be fair to **all**, both efficient and inefficient managers. Those unable to make a living would eventually leave allowing the land to become more productive.

The cost of this over time would be minimal as more efficient use of the resources would result in greater productivity.

If the average person goes into a small business and finds that they have made a poor decision they either go out of business or rectify the problem. There is no “hand out” when trouble occurs.

Treat farmers the same.

I put the above proposal to our local MP Mr Gary Nairn and he passed it on to the treasurer. (Enclosed is a copy of his reply).

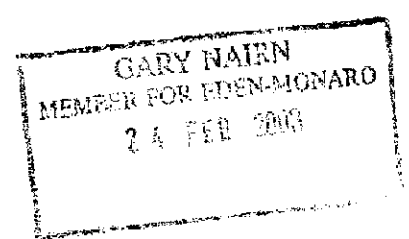
Treasury are living in the past

Income averaging locks away funds that could be used more effectively on the enterprise now to improve productivity. Good farmers will always have tax problems or be able to effectively manage them. Farm Income Deposits could be used now to increase productivity and greatly benefit the country.

Forced disposal of livestock usually does not produce a profit hence there is limited benefit in spreading profits over five years.

The other “generous” benefits have the same effect as throwing a cup of water on a burning building. They are only trying to fix the problem after it has happened.

Wake up – Prevent it from happening and give tax deductions of 150% to 200% on drought proofing farming enterprises.



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Mr Gary Nairn, MP
Member for Eden-Monaro
PO Box 232
QUEANBEYAN NSW 2620

Dear Mr Nairn

Thank you for your personal representations of 24 December 2002 concerning taxation incentives for the drought proofing of farms.

The taxation system already incorporates a number of provisions to assist Australian farmers in drought mitigation activities:

- Income averaging allows farmers to spread their taxable income more evenly between profitable and lean years;
- Tax relief is available where advance shearing is necessitated by drought, fire or flood;
- Profits from the forced disposal of livestock, due to drought, flood or fire, can be spread over five years, or can be used to reduce the cost of replacement livestock;
- An outright deduction is available for capital expenditure incurred on landcare operations; and
- Primary producers can write-off capital expenditure on water facilities over three years.

The Commonwealth's Farm Management Deposits scheme encourages individual producers to set aside pre-tax income in the good years for use in low-income years. A recent amendment to the tax legislation allows farmers in Exceptional Circumstances declared areas access to FMD deposits within 12 months and retain the tax benefits associated with the scheme.

In addition to assistance provided through the tax system, direct assistance to farmers affected by drought is provided through the Exceptional Circumstances (EC) welfare program which is administered by Centrelink. Farmers in an EC declared area can receive up to 24 months of welfare assistance, in the form of the Exceptional Circumstances Relief Payment and Business support, in the form of Interest Rate Subsidies to the value of 50 per cent of the interest rate.

I trust this information will be of assistance.

Yours sincerely



PETER COSTELLO