ATTACHMENT B

Case Studies from NFF members in relation to the impact of the Fuel Tax Credit Reforms

CASE STUDY 1

A very efficient and leading grain producer from Comet in Central Queensland purchases in the order of 30,000L/month, 90% of which is used on farm and claimed at the 38c/L rate. The producer claims a total of $10,800/month, lodging his claim online when he pays his fuel bill, ensuring he obtains his fuel tax credit a matter of days.

With his business lodging quarterly Business Activity Statements, this farmer may be out of pocket between $10,800 and $32,400 between GST installments, requiring him to absorb this cost against the business' overdraft. At a business lending rate of around 8%, this equates to around an extra $1,555 in interest payments per annum.

This additional interest payment, will further compound the impact of the fuel and fertiliser price increases this producer has observed over the past 12 months, which has resulted in a 50% reduction in the gross margins of grain farming enterprises in Queensland.

This also represents an opportunity cost to the producer who could have spent these dollars on investments on his property instead of production costs.

While instances may exist where a farm business can restructure their fuel purchasing strategies to align them with their BAS cycles, due to this farmers on-farm fuel storage arrangements, he has no choice but to purchase fuel on a monthly basis.

Although this producer has the option to move to a monthly BAS cycle, this would involve considerable additional red tape and burden on his business, an outcome that directly conflicts with the objectives of the *Fuel Tax Bill 2006*.

CASE STUDY 2

A sugarcane grower who is also a harvesting contractor purchases between 25,000 litres and 30,000 litres of diesel every two weeks during the harvesting period (about six months of the year). Significant fuel is also purchased during the non-harvesting period (between 15,000 and 20,000 litres). Normally the grower claims the fuel credit when the fuel is delivered and the claim funds are received between one and two weeks after the claim.

A change to a claim system based on this growers' quarterly BAS cycle would have significant cash flow implications. Approximately $11,000 would normally be claimed every two weeks. This would result in approximately $80,000 of delayed cash flow to the grower. This would equate to an additional $785 in interest payments per quarter, or $3140 per annum.

Sugarcane growers' incomes are usually in irregular installments, based on an advance payment schedule set by the sugar marketer. A portion of the final price is received on delivery of cane but this generally only just covers costs. Many farm suppliers (such as fuel companies) are also operating on less than 30-day terms. All this adds up to a significant cash flow stress resulting from the proposed new arrangements.

CASE STUDY 3

A family cattle production enterprise uses around 3,500 litres of off-road diesel per month. Immediately after purchase this business applies electronically for their off-road diesel rebate which equates to around $1335. The introduction of the proposed reforms to the claim process will mean that this business will have around $4000 to be returned after lodgement of their quarterly BAS. With immediate claim back under the existing process this $4000 would be available for use in the business. This may equate to around a month's feed for cattle suffering the effects of drought.