

Agricultural Competitiveness Green Paper Submission

Date submitted

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Name of Organisation/Individual

Gulf Horizons Foundation

What are the top policies from the Green Paper that the Government should focus on in the White Paper and why?

Policy idea 11—Improving tax system efficiency and equity

(e) - Trading of Tax Losses (it is critical to note that this proposal does not advocate trading of tax losses but swapping of accrued tax loss credits (ATLC) for relief of mortgage debt)

This idea has substantial merit as it allows the owner of the tax loss credit flexibility in its use. In today's environment many agribusinesses are facing bankruptcy or forced ownership restructures that would see the loss of their accrued tax loss credit. If the Government sets a high level trigger to allow limited swapping of these credits under specific conditions to alleviate pressing debt repayments then agribusinesses can continue on with less pressing financial pressure.

The agribusiness industry is also overloaded with debt.

As one example of this the QRAA Rural Debt Survey of 2011 determined that the Queensland Cattle Industry had \$9billion of accrued debt. The total gross value of production (GVP) of this sector for 2011 was \$3billion - A GVP to Debt ratio of 300%. GVP can loosely be compared with Gross Domestic Product (GDP) for this example. When the European Union was forced to bail out Greece from defaulting on its sovereign debt repayments it had a GDP/Debt ratio of only 157%.

This is a clear indication that debt is restricting the growth of this sector through an inability to fund innovation and invest in R,D & E developments.

If this conclusion agreed upon then it is extremely important to reduce the level of debt across the sector.

It is highly unlikely that the lenders will forgive debt in order to stimulate the industry, and it is certain the Federal Government will not and cannot buy up the debt; so the swapping of accrued tax loss credits to reduce debt is the only affordable solution to reducing debt in the industry. This system will not cost the Government any additional revenues, as, in today's tax climate if a business is foreclosed upon, a lender is able to claim losses as a tax deduction anyway. So in the example below the lender would be able to claim the entire \$600,000 loss as a tax deduction not just \$300,000 (the value of the ATLC at the corporate tax rate).

It is also critical to note that the summary conclusions discussed in the green paper are incorrect. As the author of the proposal I would like to correct the summary conclusions:

* Accrued tax loss credits (ATLC) should only be swapped with existing lenders against existing debt. We are advising against open trading of ATLCs.

* In my personal discussions with lenders they are willing to contribute more to the value of the ATLC than the actual value in tax savings. The example given is a minimum of 60c in the dollar of the value of the ATLC be applied against the debt. So an ATLC of \$1m would be credited as \$600,000 off an existing mortgage or business loan. This amount would be offset against the existing amount. The true value of this transaction to the bank is only \$300,000 which will be its tax reduction at the standard corporate tax rate.

* There is no additional complexity added to the tax system - it is a simple transfer of ownership of the ATLC.

* There is no encouragement for loss making as only accrued losses can be swapped against existing debt. Future losses cannot be traded. This is further discouraged by setting a high level trigger that is impossible to plan for.

This suggestion will allow agribusiness the cash injection that it requires to be able to meet the Federal Government's own commitment to doubling production in agriculture in the North of Australia. The Queensland Government has also set its own target of doubling production in North Queensland by 2050. With demand for our clean, green naturally grown primary products increasing almost daily from our existing trading partners and the negotiation of free trade agreements further guaranteeing growth in demand into the coming decades it is essential our agribusiness sector is robust and resilient. The swapping of ATLCs will ensure that agribusiness debt is reduced significantly on a revenue neutral basis for the Federal Government and that capital exists for investment in R & D advances.

What policies from the Green Paper don't you support and why?

Policy idea 10 - Improving access to finance

(a) Permanent concessional lending

This was a policy introduced to prepare agribusinesses for drought as part of the Gillard Labour Government's Drought Reform Package. It has been extended by the current Government to the Drought Relief Package. This form of lending is really an interest rate concession in disguise. It serves no purpose other than encouraging the financial sector to move away from lending to agribusiness. In a strong and vibrant industry there is no need for Government sponsored concessional lending.

General Comment

It is essential to build financial literacy in family owned businesses.

Long term plans to achieve this are essential - I have attached a further proposal to achieve good outcomes to this submission. This proposal is low cost but high return on investment.