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CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia
GPO Box 2820
Melbourne VIC 3001
Australia
Phone 1300 737 373
Outside Aust +613 9606 9677
Website cpaaustralia.com.au

Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
PO Box 6500
CANBERRA ACT 2600

By email: www.agriculturalcompetitiveness.dpmc.gov.au

Dear Sir/ Madam

Subject: Agricultural Competitiveness Green Paper

CPA Australia represents the diverse interests of more than 150,000 finance, accounting and business professionals in 121 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders.

Our organisation is committed to the objectives of enhancing Australia's international competitiveness and improving the living standards of those in markets in which we operate.

The health of Australian agriculture is an issue that goes to the core of Australia's competitiveness and future economic prosperity. The Government's implementation of the free trade agreements with China, South Korea and Japan represent significant milestones in helping ensure the agriculture sector continues to grow. However more needs to be done to ensure the policy settings are right to encourage agriculture in Australia, and with the mining boom now over, our economic future hinges more and more on the success of other sectors, including agriculture.

Against this background, we welcome the opportunity to provide comment on the Agricultural Competitiveness Green Paper. In the main, our comments specifically relate to what stakeholders have proposed the Government should consider as outlined in 'Policy idea 11 - Improving tax system efficiency and equity.'

However, we also provide some other some tax policy suggestions for your consideration and a number of recommendations regarding competitiveness of the agricultural sector regarding technology and open data.

Please treat this as a public submission, and if you wish to discuss any of the points raised please do not hesitate to contact me.

Yours faithfully

Paul Drum FCPA
Head of Policy
T: +61 3 9606 9701
E: paul.drum@cpaaustralia.com.au

A. ‘Policy idea 11’- Improving tax system efficiency and equity

Revising the non-commercial loss rules to encourage investment, by
(i) removing the $250,000 maximum income threshold or raising it to $1m, and
(ii) increasing access to the primary producer exception to the non-commercial loss rules by raising the income threshold

Given wages growth since the advent of the non-commercial activity rules, we are supportive of the thresholds being revisited with a view to them being increased to encourage investment in productive primary production activities.

We also note that primary production investment is put at a disadvantage viz a viz other investments including passive non-business investments that do not suffer any such threshold.

Increasing thresholds and extending eligibility for the Farm Management Deposits Scheme e.g. by increasing the deposit limit for FMDs to $1m

CPA Australia is also supportive of increasing the eligibility threshold for FMDs. The current threshold is historical and has not kept pace with Australian income growth.

Further, there’s a business case for examining extending these arrangements to entities commonly used in farming operations, including trusts and companies.

Reducing the complexity of depreciation for farm plant and equipment by changing the effective life schedules for farm plant and equipment

Given flagging investment in the non-mining sectors such as primary production, and given farming is a sector where capital costs are significant, CPA Australia supports revisiting accelerated depreciation arrangements as an alternative to the tax effective life rates for farming plant and equipment.

Realigning the Zone Tax Offset scheme to be representative of the true cost of isolation from publicly funded amenities such as health and education services and public transport

We support a review of the Zone Tax Offset as part of the tax reform White Paper process.

Allowing farmers to trade tax losses to non-farm businesses, such as banks, to assist farm cash-flow in low-income years

On the face of it, CPA Australia does not see this as an appropriate option or a workable proposition. However, we remain open to a persuasive case being made regarding the need, design features and operation of such a measure should it be pursued, and are willing to be involved in the development of this.

Allowing farmers to opt back in to the income tax averaging provisions after a period of time to recognise changing circumstances

CPA Australia has long held the view that the averaging rules have been too inflexible. Accordingly, enabling farmers to opt back into averaging should their circumstances change appears to be both low risk to the revenue and appropriate for farmers, especially given the significant vagaries of the sector.

Increasing drought preparedness, introduce accelerated depreciation e.g. at 100% in the first year, for new water and fodder infrastructure

It is clear that we need policy settings – both tax and otherwise – that encourage appropriate farming practices to hedge the impact of climate change and to assist the long term viability of agriculture.

Providing a 50% per year deduction over 3 years for investment in on-farm water reticulation infrastructure

This proposal is also supported as appropriate and necessary, again, to assist the long term viability of agriculture.

Enhancing access to the R&D Tax Incentive
Innovation is fundamental to improving the future competitiveness and productivity of Australia and Australia's agricultural sector. Without innovation Australia will be competing with developing nations that have significantly lower labour and other business costs. Not only does innovation make Australian businesses more competitive, it creates new business opportunities, supports new growth and creates new jobs.

Australia needs to improve its ability to innovate. It should aim to be one of the top 10 innovative countries globally, seize the potential opportunities available to business in the Asian century, and develop a dynamic and creative problem solving culture in Australian business. Retaining an effective suite of R&D tax incentives targeted at growing small to medium sized enterprises (SMEs), including agricultural firms, is a critical element in fostering a culture of innovation.

We need to acknowledge what the rest of the world is doing and ensure that we are doing all we can to promote innovation in Australia. One current example is the newly introduced Patent Box rules that enable UK companies that have undertaken the development of a patent in the UK to apply a 10% corporate tax rate to the profits earned from any patented inventions. Australia also needs to ensure its policies attract business, talent, innovation and development to Australia.

CPA Australia supports the continuation of the existing R&D tax incentives currently being offered to Australian SMEs and the development of additional innovation-incentivising policy settings.

B. Additional tax options to enhance competitiveness

Investment allowance for farmers
One proposal not canvassed in the Green Paper, but worthy of consideration, is reintroducing a tax investment allowance that would apply to certain capital items of plant and equipment for the agriculture sector. Reintroducing a temporary investment allowance would help stimulate investment in the agricultural sector, increase the capacity and capability of the sector, and have flow-on economic benefits to machinery sales providers and other small businesses in rural and regional communities.

Other potential changes to the farming non-commercial loss provisions

Members have raised a number of specific examples where they believe the Commissioner's special circumstances concession has not been fairly applied. For example:

1. A significant sheep farm in southern NSW which had been ravaged by severe drought over several years. The property is very large and quite clearly not a "hobby farm". Because the taxpayer's taxable income was well in excess of $250,000, he was denied the substantial operating losses generated from the farm, even though most of the other relevant tests were met. Although the taxpayer was able to produce detailed analysis of the effects of drought on the property and sheep production, the Commissioner did not exercise his "special circumstances" discretion in the taxpayer's favour on the basis that "but for" the drought the farm would still have made a loss due to the substantial financing costs which were within the taxpayer's control rather than special circumstances.
2. There have been at least two reported AAT cases examining the special circumstances discretion. The Tribunal members appear to reach differing conclusions on whether the Commissioner can exercise his special circumstances discretion in cases where "but for" the special circumstances the business would still have produced a loss. So, the law is currently uncertain on this point.
3. A professional vigneron sold a vineyard in the 2010 year and realised a substantial capital gain. In normal years he would not have had income anywhere near approaching $250,000. He had an additional vineyard which was badly affected by the Black Saturday bushfires in February 2009, resulting in smoke taint and a loss of crop and a heavy loss for the 2010 year. The Commissioner did not exercise his discretion on the basis the capital gain lifted his taxable income in excess of $250,000. The Commissioner took the view that he was not able to exercise the special circumstances discretion because it did not extend to cases where a

taxpayer breached the $250,000 test; i.e. it was only available in cases where none of the four original tests were met and the $250,000 test was not breached.

Capital gains tax (CGT) concessions for unviable farming activities
There are family farming operations where the families are effectively locked in to pursuing very low return activities because of the size of operations, and because of the tax bills they potentially face on selling the family farm. Many operations may become unviable long term due to many factors, such as increasing frequency and intensity of seasonal fluctuations. CPA Australia proposes the Tax White Paper should consider whether a special CGT concession should be made available to farmers to enable them to transition out of their marginal or non-viable operations, and thereby free up farming land. This would provide opportunities for others to either enter the market or expand their existing farming operations as the case may be.

Stamp duty on real property

Transaction taxes, in particular stamp duty on the transfer of real property, is a disincentive to buying and selling property, which impacts turnover, labour mobility and general economic activity, including best use of scarce resources. The Government's Tax White Paper needs to consider options for how taxes on land conveyances can be reduced, or even abolished in the longer term.

Land taxes
The Government's Tax White Paper process must also consider the role of taxes on immobile capital, such as taxes on land. The absence of land tax on many businesses needs to be considered in the context of both retiring other more inefficient taxes, and encouraging the best use of scarce resources - such as land - by discouraging practices that leave it underutilised.

C. Better and more timely access to technology

Like many industries and sectors, farming has become highly sophisticated in the last few decades. For example, there have been ongoing improvements in the development of disease-resistant and drought tolerant crops, and better cropping and soil moisture retention techniques have been developed.

In the global economy, real-time knowledge at the farm gate of best farming practices, as well as commodity prices, exchange rates, and other market data is essential. Further, the ability to deal directly with markets - both domestically and internationally - rather than solely through an Australian based intermediary, has never been more critical to the success – or failure – of farming operations. In short, better access to digital technology and the removal of mobile black spots opens up significant business opportunities to farmers.

We also note that access to real-time knowledge and information is not an issue that is confined solely to agricultural businesses. It equally applies to all other businesses in rural and regional Australia, and also can deliver significant social, welfare and educational benefits.

To enable farmers and other businesses in rural and regional Australia to thrive and prosper we need to close the gap between city and country regarding accessibility to the digital economy.

D. Greater access to open data

One matter of significant importance to the future competitiveness and success of agriculture in Australia is the issue of 'open data', and how it can potentially improve knowledge at the farm gate and open up new business opportunities, thereby improving competitiveness.

As we mentioned in our recent submission to the Harper Competition Policy Review, there are a number of recent papers that attempt to quantify the benefits of open data for business and government agencies. These include reports by McKinsey, and more recently a Lateral Economics report commissioned by Omidyar Network. While the latter report was directed towards providing input into how the G20 and the Australian economy could achieve their two per cent growth target, it is relevant to the agricultural white paper.

Further, we note that at the G-8 Summit in 2012, G-8 leaders committed to the New Alliance for Food Security and Nutrition, the next phase of a shared commitment to achieving global food security. As part of this commitment, they agreed to “share relevant agricultural data available from G-8 countries with African partners and convene an international conference on Open Data for Agriculture, to develop options for the establishment of a global platform to make reliable agricultural and related information available to African farmers, researchers and policymakers, taking into account existing agricultural data systems.” This conference was held in 2013.

Further, we are seeing open data initiatives emerging around the world, for example, the Global Open Data for Agriculture and Nutrition (GODAN) initiative.

We also note that the Queensland Department of Agriculture, Fisheries and Forestry have an open data strategy and according to its website, have released 95 datasets and nearly 350 resources on data.qld.gov.au since May 2013. Their strategy aims to increase resource availability, improve productivity in the supply chain, improve market access and reduce production costs. It is also likely that there will be researchers and entrepreneurs looking for opportunities to turn this data into commercial products and services that will not only benefit them, but the broader agricultural sector.

We encourage the Taskforce to consider how its review may influence improving the availability of ‘open data’ to both agricultural businesses and government agencies at all levels, to increase the knowledge and competitiveness of Australian agricultural businesses.