

11 Gemmell Road  
Wooragee, VIC, 3747  
30 December 2014

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

Please find attached my submission to the Green Paper on Agricultural Competitiveness. I am aware that the closing date for submissions was 12 December 2014 but a recent communication dated December 17 from my federal member, Ms Cathy McGowan has alerted me to the opportunity to provide a submission on the inequitable municipal rating system for agricultural enterprises.

Earlier this year the prime minister together with a number of senior politicians and business leaders visited Japan and Korea to establish free trade agreements between Australia and those countries, effectively reducing or eliminating obstacles to free trade.

While this ground breaking work has sought to improve our international competitiveness our outdated municipal rating system continues to penalise our farming enterprises resulting in reduced employment opportunities in the industry and a reduction in farm gate profitability. While this is currently regarded as a local government issue the lack of overview at all levels of government results in a reduction in the contribution that farming makes to our GDP.

In an endeavour to provide people with more information on this important issue I have prepared a paper on the subject, which I have enclosed. The paper challenges the principles adopted for rating systems used in Victoria, established as an outcome of a conference held by the Municipal Association of Victoria on 29 April 2008. The document that was issued following the meeting seeks to use the Capital Improved Value of a property as a measure of "capacity to pay", which results in the inequitable treatment of farming enterprises.

I hope that you will have the opportunity to read the paper and to consider the issue raised as an important element of farm competitiveness.

Thank you for the opportunity to bring this matter to your attention.



Robin McLiesh  
Phone: 0357 287236  
Mob: 0409 774 538  
Email: robinmcliesh@activ8.net.au

## **The Equitable Allocation of Rates for Rural Properties.**

### **Introduction:**

This paper seeks to draw attention to the inequitable system currently in force for rural properties in Victoria. The content draws on specific statements made by the Municipal Association of Victoria and utilises rating practices in force in the Indigo Shire. The document should be regarded as representative of rural councils across Victoria. Retention of this practice will continue to diminish the contribution made by Agriculture to the State and National Economies; it is a problem that should be addressed at all levels of government.

The current property tax that is used to establish the rates that must be paid on rural farming properties has been in force in Victoria for many years. Farmers who have complained against the inequity of this system have been largely ignored as they represent a minority of the population in rural centres and therefore struggle to influence rural councils.

The Municipal Association of Victoria which has a membership of 79 councils, including 38 rural councils held a Local Government Finances Workshop on 29 April 2008; much of the workshop content focussed on the efforts of the Association to validate the stance they have adopted for rates imposed on rural properties. Examination of the findings reported in the workshop clearly indicate that the "Capacity to Pay" policy adopted by councils is inequitable and forces farmers to subsidise the rates of urban residents, while at the same time acknowledging the fact that farmers are unable to make effective use of many of the services that councils provide.

### **Municipal Rates:**

- The primary reason for the existence of rates is to raise revenue to fund Local Government services and infrastructure for public benefit <sup>1</sup>

### **Who pays rates:**

- Rates are levied on most property owners. Exemptions apply to crown land, charitable land, land used for religious purposes and land used exclusively for mining or forestry. <sup>1</sup>
- There is no connection between the amount of rates on a property and the services received.<sup>1</sup>
- All property owners should pay a FAIR share of rates regardless of their CHOICE to use or not use council services, programs and infrastructure. <sup>1</sup>

### **How are rates determined:**

- Rating equity is guided by 'Beneficiary Pays' and/or 'Capacity to Pay'.<sup>1</sup>

The Local Government Act enables the use of municipal rates to fund local government on the basis of either site value, net annual value or capital improved value.

Councils have determined that the Capital Improved Value (CIV) of a property should be used to establish Capacity to Pay. However, this measure focuses on only one component of the accumulation of personal wealth. It takes no account of the new entrants to farming that are struggling to meet loan repayments as they seek to acquire a property, or farmers that have

experienced difficult years, or conversely the urban property owners who have large holdings in shares, bonds and bank deposits.

It effectively penalises farmers who derive their income from the land.

The land other than the small section of land surrounding their residence is the asset base from which they derive their income; this income must be reported to the ATO and the relevant tax payments made.

The urban ratepayers who derive income from large investment holdings (assets) are treated in the same manner in that they must also declare the income and make payments to the ATO.

The significant difference between the two ratepayers is that the farmer is then required to pay council rates on the value of his income producing assets while the second ratepayer does not. The MAV rejects any concern expressed as to the fairness of this system on the basis that other tax systems exist to collect anything that is missed.<sup>1</sup>

There is a lack of equity in this system as farmers should only be required to pay rates on the value of their dwelling and the land adjacent to the dwelling, or the curtilage of the property.

### **Rating Equity.**

When assessing rate equity the MAV has decided that they will follow their policy of:

- Beneficiary pays and Capacity to Pay principles.<sup>1</sup>

The MAV has established financial principles to support the policy that they have introduced and the principles provide the basis for their interpretation of equitable treatment.

- There is a distinct relationship between property holdings and disadvantages – less wealthy own lower value housing stock.<sup>1</sup>
- Those with higher asset values have greater capacity to pay.<sup>1</sup>
- Property taxes do not take into account individual debt or income levels of owners - other taxes do this.<sup>1</sup>

The current system does not allow councils to access information on personal income that is held by accredited bodies such as the ATO, putting in question the use of asset values as a measure of capacity to pay. However, the use of the property CIV derived from a consistent base can provide a simple, transparent, in-house process that can be used to establish a sliding scale of rate payments. The system also allows residents who dispute the CIV assigned to their property to utilise the services of the Valuer General to review the determination and the system is also structured to provide rate relief for those people who are suffering financial distress.

But in all cases the determination of CIV<sup>1</sup> must be consistent across properties and should be based on the value of house and garden surrounds.

### **How did the Farm rate system originate.**

In 1696 the English Government seeking funds to pursue wars in Europe imposed rates on people who they considered had capacity to pay. One of the taxes they introduced was a window tax that was a property tax based on the number of windows in a house.

At that time many people in Britain opposed income tax, on principle, because they believed that the disclosure of personal income represented an unacceptable governmental intrusion into private

rates that must be paid. The farmer's income producing assets should be treated in the same manner.

**How can the system be improved:**

The change that should be made to the existing system is the establishment of CIV based on the value of the house and surrounds, which has been defined as the curtilage of the property. The rate differential for rural farming properties would no longer be required as urban and rural properties could be rated as residential

The reallocation of rates will be a challenge as the current rating system has required farmers to subsidise urban ratepayers. Currently urban ratepayers own 63% of the rateable properties but only pay 54% of the rates whereas Rural 1 property ratepayers own 17% of the properties but are required to pay 23% of the rates.<sup>4</sup>

**Does farming make a significant contribution to our economy.**

Victoria's food and agriculture industries are our largest export sector. Together they contribute more than \$9.4 billion to the State's economy and employ more than 145,000 people.<sup>5</sup>

Australia is a major agricultural producer and exporter. Agriculture and its closely related sectors earn \$155 billion-a-year for a 12% share of GDP. There are approximately 134,000 farm businesses in Australia. As of 2010-11 there were 307,000 people employed in Australian agriculture.<sup>6</sup>

We are seeing an increasing level of food imports as supermarkets seek to take advantage of the low wages and poor working conditions endured in many overseas countries.

Recently we have seen the Prime Minister, Senior Government Ministers and leaders of the largest businesses in Australia visiting Japan, China and Korea on a mission to establish Free Trade Agreements with them, to achieve a level playing field for trade between the countries and the elimination or reduction in tariffs and on-costs.

At the same time we have a Local Government association that fails to recognise its responsibility to establish equitable cost allocations within our State. In many overseas countries farmers are still paid substantial subsidies to maintain food production. Our councils have a duty to eliminate penalty costs which are reducing our competitiveness and restricting employment opportunities.

**References:**

- 1 – Municipal Association Victoria - Local Government Finances Workshop 29 April 2008
- 2 - Window tax – Wikipedia
- 3 – Victorian Farmers Federation June 29 2011
- 4 – Indigo Shire 2014-2015 Draft Budget
- 5 – Victorian Farmers Federation April 2014
6. – National Farmers Federation Farm Facts 2012