Agricultural Competitiveness White Paper Submission - IP320
C & W Financial Services
Submitted 16 April 2014

Hon.Mr Kevin Humphries

Member for Barwon

Drought Submission on Drought Policy

We refer to our previous discussions in relation to this matter and the details below are developed from our experience and the feed back that the we receive from our clients.

As you would be aware C & W h a client base spread over southern Queensland to a large portion of North Western NSW and as such we are well placed to provide this information. We are always keen to assist all levels of Government (Federal, State and Local) where required on these matters.

Farm Managed Deposits (FMDs).

- The trigger for early withdrawal (i.e. with in 12 months of deposit) should be as soon as any form of Drought declaration is made in a given district with the result that direct Government (State or Federal) assistance is given to farmers in that area.
- FMDs should be made available for small Private proprietary companies Discretionary and Unit Trusts conducting a primary production business.
- The withdrawal of FMD's should be excluded from the "Adjusted Taxable Income" (ATI) calculation for determination of the Non Commercial Business Activity Loss Rules.

Other Drought Submission Policy Incentives

Accelerated Depreciation on Erection of Silos and Hay Sheds

- The erection of new hay sheds and silos should have the same capital write off concession as that applying to water conveying expenditure, which is written off over three years.
- As an alternative to accelerated write offs for the erection of new hay sheds or silos, this expenditure could attract a 15% refundable tax offset as the recent Zero Till Planter program attracted.

Replacement of 50% on Farm Gross Income Test with an Annual Turnover Test for NSW Rural Assistance Authority Programs

- The current eligibility test of having more than 50% of your gross income coming from primary production is quite simply an outdated test from the "good old days" when someone could purchase a "starter block" and farm machinery quite cheaply and build a farming enterprise with a lot of hard work and a bit of luck.

- The modern reality of a primary production businesses is that it is a highly capital intensive business with relatively low cash returns on assets employed. The start up capital is so high that the only way you can gain access to the industry is to inherit a farm or have another business help pay for it.

- Even if you are lucky enough to inherit a farm it is quite common that you would still do some external contracting to help pay for your farm machinery. To illustrate the point a new header now costs in excess of $500,000, a new broadacre planter can cost a similar amount again where a new cotton picker can cost in excess of $700,000. You simply can't pay for these machines without external contracting and you still haven't paid for any land yet.

- It is a fact that a 50% gross income test does not give any indication as to the standalone financial viability of a business, it especially would not allow someone to determine that a business is a "hobby" or not.

  We know many viable farming business that are deemed to be "hobbies" under the current eligibility rule yet their gross turnover is over $600,000, and on the other hand we know many farming businesses who are eligible for the low interest loans and freight subsidies who have gross annual turnovers under $100,000, the latter are subsistence business at best.

  While this next comment may seem a little unfair we believe that it is more accurate than we care to accept. We believe that a lot of the farmers who are eligible for the Drought assistance today are "farmers by default" they have inherited the farm and run it as s lifestyle and not a business, comparatively, on average they would spend very little on drought proofing their property by erecting new silos and hay sheds, etc. Where as farmers with significant off-farm income run their farms as a business and they would spend to drought proof their properties as they want to farm, they are passionate about it but they struggle to access the capital to finance such work.

  On the whole it is the farmer who also has an external business income source who pays the highest interest rates in the farming sector as generally speaking they have less land to offer as security. As such they find it the most difficult to drought proof their farm because of the lack of available finance to install hay sheds, silos, etc.

  We firmly believe that if the 50% Gross Turnover test were to be replaced with a simple say $75,000 or $100,000 turnover test we would see significant investment in farming infrastructure, which ultimately creates employment else where in the economy, a real "win win" scenario for all.

  I believe that the 50% Gross turnover test creates discrimination against young farmers trying to enter the industry by an creating un-level playing field to access to support and reasonably priced capital when they need it the most.

  If they are a viable business then they should have equal access to support, because at the end of the day the drought affects all farmers whether they have external income or not.

Removal of the $250,000 Adjusted Taxable Income (ATI) test from the Non Commercial Business Activities Loss Rules.

This test is about as bad as a piece of tax legislation can get as it directly attacks businesses, particularly farming business, by depriving them of capital in either a time of growth or hardship, such as drought.

It is worth noting that this legislation does not attack negatively geared passive investments such as rental properties, share portfolios and alike.

A $500,000 a year city banker can have a $10 Mil rental property loan or share portfolio loan and can legally off set his salary by the negatively geared investment. He does not create one job or anything to export, yet if his loan was to buy a farm on which he employed two staff, the farms gross income was $2.5Mil a year, it generated export dollars and supply chain employment and that farm made a loss for 1 year in a drought, he couldn't off set the loss against his salary.

This legislation does not just attack the person with off farm income it also attackes farmers who may own multiple farms that carrying on either different types of farming enterprises or under different business structures.

Farm Managed Deposits can even be caught out in the ATI test. Farmers preparing for drought or disasters can have their losses quarantined from the withdrawal of FMDs and hence the capital used to pay the tax that they have to pay as a result is lost to the Federal Government rather than helping get their business back on track or keeping staff employed.

In conclusion Farmers don't need too much but they do need a level playing field and they need to have this anti-employment, anti-investment and anti-young farmer legislation repealed immediately.

Should you wish to discuss any of the matters raised above please don not hesitate to contact us.

Yours faithfully,

David Maxwell B.F.A, C.A

Partner

C & W Financial Services