

# Submission by The



*In response to*

## **The Australian Government**

### **Federal Budget 2011 - 2012**

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## **Submission for the 2011-12 Federal Budget**

In the submission for the 2010-11 Federal Budget, there were four main items that the South Australian Farmers Federation (SAFF) asked to see included in the next Federal Budget;

- Drought funding
- Funding for agriculture research and development
- Support for the Murray Darling Basin
- Incentives to attract (young) people / retain people in regional areas.

While there was some attention to the first three items listed in the last Federal Budget, there is still further funding and action required on all four items.

In this submission each of these items are discussed.

In addition, in framing the Federal Budget, SAFF asks that in introducing any new government measure, there needs to be an assessment of the taxation implications for each measure.

At this year's Tax Summit, SAFF requests that the points raised in this submission are also considered.

## **Drought funding**

SAFF is very aware that the current Exceptional Circumstance (EC) drought funding arrangements are ending, and indeed SAFF supports this.

Despite the recent floods, Australia has suffered from one of the most severe droughts in its history. It will still take several years for rural communities and farmers and their families to recover. In ending the current EC funding arrangements, consideration needs to be given to providing special funding to assist drought recovery.

The Federal Government is currently developing a new drought policy that will focus more on drought management and preparedness, risk management and environmental sustainability with emphasis on adapting to climate change. As part of this process there has been a pilot in Western Australia which looks very similar to the drought package that was successfully used in South Australia and developed and funded by the South Australian Government. We look forward to finding out the outcome of the pilot, as it is important that the new drought policy is in place well before the next drought.

If the new policy is to be successful, it is essential that it is adequately funded. Any measures developed need to be available for all farmers, and not as in the past just for those in EC-declared areas.

One program that has already been in place is the FarmReady program. The objective of FarmReady is to improving the capacity of producers to increase their self-reliance and preparedness for climate variability. Unfortunately as insufficient funding was provided in the 2010-11 Federal Budget, this program was fully subscribed by mid November and the program was suspended for the rest of the financial year. There is a need for further, increased funding for the FarmReady program.

### **SAFF is seeking sufficient drought funding for:**

- **drought recovery**
- **the new Federal drought policy**
- **Continuation and expansion of the FarmReady program.**

## **Funding for agriculture research and development**

If Australian agriculture is not only to survive, but to be a vital part of Australia's economy, it is essential that more funding is provided for agriculture research and development.

Productivity growth in agriculture is slowing as the amount of funding for research and development and then the extension of this has declined.

There is now the need for greater funding for research and development with a particular focus on farming systems that will be more resilient to climate change. This should take place across all commodity areas so that Australia has sustainable systems that are able to produce more with less water (rain) and higher temperatures. It could also include research into farming systems where farmers may be able to receive credits (such as biodiversity credits, carbon credits etc).

While grower levies are used to support research and development corporations, extra Federal funding is now urgently required. As part of this, research and development throughout Australia needs to be better targeted and integrated. And there needs to be emphasis not only on climate change but also food security.

It is also essential that there is significant funding for extension. With research and development corporations and other research bodies undertaking research, more funding and effort needs to be spent on getting this information out to the farming community. There is a significant amount of research undertaken by universities and other research bodies which sits on shelves gathering dust. In South Australia over the years there has been a significant move away from extension activities. This has also been repeated in other States throughout Australia without any thought to an alternative model of getting information out to farmers.

**SAFF is seeking more funding for agriculture research and development.**

## **Support for the Murray Darling Basin**

Control of the Murray Darling Basin must be managed at a Federal level. This is currently not the case. In general terms, SAFF supports the South Australian Government's approach on this issue.

We are not getting the change that is urgently required. The ongoing development of the Basin Plan needs to continue. There will be a need for significant restructure of industry, business and communities throughout the Murray Darling Basin. There is no support for irrigators who wish to stay in the industry or to assist them to move to more sustainable areas.

Significant funds need to be invested to support industry and communities to undertake the changes required in a planned way with water infrastructure upgrades, diversification, alternative industries, and taking some areas out of irrigation production so that all including the environment survives.

While there is now increased water stored and flowing throughout the Basin, this is not the time to halt the development of an effective plan.

**Control of the Murray Darling Basin must be managed at a Federal level, and with sufficient Federal funding provided.**

## **Incentives to attract and retain people in regional areas**

As there are difficulties in attracting people to work in agriculture industries, there needs to be tax incentives for employing labour and to encourage people to consider agricultural-related careers. Agriculture can not compete with mining industries. Straight out taxation incentives are required to encourage selected employment, such as to encourage young people into shearing and other farm work.

Zone allowances should be introduced to not only encourage people to remain in rural areas but to encourage others to consider moving to these areas including teachers, doctors, mechanics and other professional and skilled people. It would assist rural communities including small businesses by encouraging people to remain in the district and not to move elsewhere for employment, hence assisting in maintaining the local rural communities. There needs to be more programs similar to the General Practice Rural Incentives Program.

If the importance of agriculture to the Australian economy is to be maintained, it is necessary to ensure that younger people become involved in farming either as owner-farmers or working in agricultural-related industries. The taxation system should be used to encourage this, or at least not to create a barrier.

Current farmers need to be able to easily pass their business onto younger generations, without any hindrance from the taxation system so as to ensure these farms remain viable without the threat of the imposition of such taxes as capital gains taxes and stamp duties.

As a first step, and for equity with other young people buying their first home in cities and towns, the first home owners grant needs to be extended to people buying their first farm.

Recently the Federal Government has been examining the best way to fund sustainable regional higher education. More funding in this area is required to provide adequate rural tertiary studies, particularly as part of the process to attract students to not only study in rural areas but ultimately hopefully to live and work in the country. In examining the current funding levels, it is noted that compared to the other States, very little funding goes towards education in rural South Australia. There appears to be a case to increase funding particularly for the expansion of the Roseworthy Campus of the University of Adelaide, instead of just allowing the sale of the University's farming assets.

**To attract and retain people in regional areas, funding is required for:**

- **taxation incentives to encourage selected rural employment**
- **expanding regional zone allowances**
- **extending the first home owners grant to people buying their first farm**
- **expanding the Roseworthy Campus of the University of Adelaide.**

## Taxation influences all decisions

In framing the Federal Budget, it is important to remember that Australia's taxation system is not only about raising revenue from taxes, but also the fact the way that this is done influences almost all decisions, both for businesses and personal.

As an example, when primary producers as small businesses assess which business structure to operate under, there are a wide range of taxation implications and impediments to consider. It is not just the immediate taxation implications of administration and compliance for each possible business structure, but a wide range of other aspects such as the future transfer of farm assets between generations with associated capital gains tax and stamp duties.

The chosen business structure can also create difficulties when government later introduce measures under the taxation system. An example was the introduction of Farm Management Deposits Scheme. The Scheme is restricted to individuals. Companies or other entities are not eligible. Deposits cannot be made by two or more people jointly, or made on behalf of two or more people. Trustees can only make deposits on behalf of a beneficiary who is entitled to a share of the income of the trust estate and is under a legal disability.

Those framing the Federal Budget need to recognise the wide-ranging effect that any changes in the taxation system may have.

The taxation implications of **all** government decisions need to be assessed whenever a new proposal is being developed. It is usual for most government decisions (at all levels) to be made in isolation from the taxation implications of these decisions.

As an example, both the Federal and several State Governments have started introducing environmental stewardship payments and yet there is surprise from environmentalists and government officials when there is not a reasonable uptake from the farming community. Farmers however are hesitant to become involved as the taxation implications are usually not clear in relation to GST, capital gains tax and even taxable income.

When the buy-back of water licenses was first announced, SAFF was concerned that capital gains tax may be payable by primary producers selling these licenses. While SAFF supports the Government's purchase of water entitlements, we were concerned that any taxation implications would discourage producers from selling their water licenses and not lead to any significant benefits, particularly for the Murray-Darling Basin. SAFF was therefore pleased when the Federal Government introduced a capital gains tax roll-over for water entitlements and water allocation.

**SAFF recommends that whenever a new government measure is introduced there needs to be an assessment of the taxation implications.**

A good example is the current development of the Carbon Pollution Reduction Scheme. If participation is to be encouraged, the taxation implications need be known up front and well publicised.