Article Information

Author: Will Fennell
Service: Taxation
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Tax reform on the horizon for Australian primary producers

Last week the Government released its ”Agricultural Competitiveness green paper“, which has been produced following receipt of almost 700 submissions from stakeholders in the agricultural sector.

Non-commercial loss rules – Currently taxpayers can only offset other income (such as wages from employment) against business losses if the ‘other income’ is less than $250,000 and a “business test” can be satisfied in respect of the losses (business produces assessable income of at least $20,000, has made a profit in the past five years, uses real property of at least $500k or other assets of at least $100k).

The ‘other income’ limit of $250,000 was introduced in 2009 to stop the so-called “Pitt St farmers” from setting up hobby farms as a means of reducing their assessable income. The green paper suggests that the $250,000 other income threshold be either removed or increased. It was also suggested that a $40,000 threshold which exempts primary producers with less than $40k income from the business test be raised to increase the attractiveness of rural property to new industry participants.

Farm Management Deposits – Deposits are limited to $400k under the current FMD scheme. A higher deposit amount of $1m is proposed. Other proposals include:

- Increasing the $100k off-farm income cap (no revised amount is specified);
- Extending the FMD scheme to companies and trusts;
- Re-establishing early access provisions for times of drought.

Depreciating farm plant and equipment – The green paper suggests changing the effective life schedules for farm plant and equipment to more accurately reflect the period of use and timing for replacement. It is thought that this measure would encourage farmers to upgrade to newer technologies and therefore increase productivity.

Zone Tax Offset – The Zone Tax Offset was introduced in 1945 and provides a rebate of tax to individuals who are residents of specified remote areas of Australia. The green paper suggests changing the boundaries of the eligible zones for the Zone Tax Offset to include a greater range of farm areas, and also for the offset to increase.

Tax loss trading – Some stakeholders had suggested a regime which allowed trading of tax losses, for example where a bank could buy tax losses in exchange for debt reduction or interest rate relief. However the green paper noted that such a regime would cause complexity in the taxation system and would also encourage loss making.

Income tax averaging – Under the tax law, farmers can elect to even out income over a maximum five year period. Farmers who opt-out of the farm averaging scheme cannot re-enter. The green paper suggests allowing farmers to re-enter the income averaging scheme after a period of time (10 years was given as an example).

WET rebate – Some stakeholders suggested reducing or “better targeting” the WET rebate (the rebate provides each wine producer, or a group of producers, with $500k per year WET tax rebate). The green paper suggested that better targeting the WET rebate could potentially free-up resources.

Responses to the green paper are due by 12 December 2014.