Victorian Farmers Federation

Ms Georgie Purcell MP
Chair
Legislative Council Economy & Infrastructure Committee
Parliament House
Spring Street
EAST MELBOURNE VIC 3002

14 April 2023

Dear Committee Chair,

RE: Submission to the Inquiry into Land Transfer Duty Fees

Thank you for the opportunity to submit to the Legislative Council Economy and Infrastructure Committee's Inquiry into Land Transfer Duty Fees.

The abolition of stamp duty on land transfers is widely acknowledged by economists to produce fairer and more equitable outcomes, particularly in the residential housing market. The abolition of stamp duties on the transfer of agricultural land would also lead to fairer and more equitable outcomes, particularly for young farmers seeking to establish their first farming enterprise.

The VFF opposes stamp duty in all its forms and supports the need to reform Victoria's tax system in order to abolish stamp duty on all land transfers. However, any proposed abolition of stamp duty must not occur in a way that would lead to land taxes being charged over land used for primary production. Farmland is currently exempt from land tax as it has been long acknowledged by government that land taxes have disproportionate impacts on farm businesses. Instead, the VFF believes that stamp duty should be replaced through a broad-based consumption tax, as was the original intent behind the Goods and Services Tax (GST).

As long as land transfer duty remains a feature of Victoria's tax system, the VFF will continue to support existing arrangements for exemptions and concessions for primary production land transfer duties. In order to further assist young farmers to enter the agriculture industry and be able to start their own business, the VFF also seeks further expansion to the young farmer exemption scheme to ensure it remains contemporary and in line with movements in the market for rural land.

This submission seeks to draw the Committee's attention to the concerns outlined above and has been prepared in line with the VFF's Tax Policy Statement which has been attached for the Committee's benefit.

The VFF welcomes the opportunity to discuss the concerns of Victoria's farming community directly with the Committee and we would be happy to make ourselves available for any questions you have. Further enquiries should be addressed to VFF GM Policy and Advocacy Charles Everist by email policyteam@vff.org.au

Yours faithfully,

Emma Germano
President

Moving away from land transfer duty

Recommendation 1: That land transfer duties for non-residential conveyances be abolished.

Recommendation 2: That abolition of land transfer duty on non-residential conveyances be funded through an expanded broad-based consumption tax.

Recommendation 3: That in abolishing land transfer duties, land for primary production remain exempt from any form of land tax.

Stamp duty on land transfers is highly inefficient and inequitable. It discourages the transaction of commercial, residential and primary production land thereby preventing its allocation to its most valuable use. Stamp duty on the transfer of farmland leads to inefficient economic decisions and impacts the agricultural industry's productivity.

Just prior to the implementation of the GST the Commonwealth, states and territories signed the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations in June 1999 which sought to review and eliminate a swathe of taxes that were seen to impede economic activity. Original proposals for the GST would have seen it introduced at a rate higher than 10 per cent to allow for the abolition of payroll tax and further stamp duties, including duties on non-residential property conveyances. However, political responses including the policy to exempt fresh food from the GST have been cited as reasons for the narrowing of the tax and the inability to fully offset all stamp duties. Whilst the states independently abolished a number of taxes listed under the Intergovernmental Agreement, stamp duty on non-residential property conveyances were the final taxes to be reviewed by the year 2005. Disappointingly, no progress on the abolition of stamp duty on land transfers has been made by the Victorian Government ever since.

The need to abolish stamp duty on land transfers was again highlighted by the 2010 Henry Tax Review which found stamp duties as being inconsistent with the needs of a modern tax system. The Henry Review recommended that state and territories replace stamp duties with a broad-based land tax according to an increasing marginal rate schedule.

Whilst the VFF supports the Henry Review's recommendation to abolish stamp duty on land transfers, it has strong reservations towards the imposition of a broad-based land tax. Property owners are potentially subject to three different taxes on land - stamp duty, land tax and local government rates. These taxes make up approximately 9 per cent of taxation in Australia which is almost double the OECD average of 5 per cent. Not only is land a significant asset for farmers, it is also the working capital of a farm enterprise. The comparatively high rate of tax for landowners falls disproportionately on the agricultural industry. This can be seen through the disproportionate impact that local government rates have on farm businesses compared to others which the VFF has demonstrated in numerous government inquiries.

Moreover, it is acknowledged that an extension of land tax to include agricultural land would have a severe impact on farm income which is often volatile. Farmers have little ability to pass fixed costs such as land taxes through the supply chain and to consumers, unlike other businesses. This predicament becomes more acute during times of bad seasonal conditions or natural disasters, creating a particular stress for farm businesses that occurs in few other industries. These are cyclical and intractable issues for the agricultural industry and have been widely acknowledged through making primary production land exempt from land tax in Victoria and in other states.

The introduction of a land tax on primary production land would have a crippling effect on Victoria's agricultural industry and would fundamentally change the economics of farmland values in potentially unpredictable ways. This would severely impact business confidence and certainty and the international competitiveness of the industry.

Whilst the Henry review acknowledged these concerns by proposing that a land tax threshold would need to be imposed to ensure "most agricultural land would not face a land tax liability", such a threshold would not likely be relevant for all farms. Farmland that is adjacent to metropolitan or coastal areas (where land values are higher) would be particularly exposed and there could be no guarantee that all farmland would be treated equally given the vast differences in agricultural land values.

In moving towards abolishing land transfer duties, the NSW Government acknowledged these concerns and others raised by farmers in March 2022. Following independent modelling showing that within the space of 15 years, farmers would be better off paying stamp duty than they would be if they paid a perpetual land tax, the NSW Government announced that farmland would be exempted from the proposed phase out of land transfer stamp duty. The principle that land tax should not be levied on primary production land is a long standing one that governments have consistently observed.

For these reasons, the VFF believes the better view from a public policy position would be to ensure the full intention behind the GST is realised. The Victorian Government should work with the Commonwealth and other states to readdress the question on the level of the GST and commit to national tax reform. Were Victoria to choose to go it alone and seek to fund the abolition of land transfer duty itself and replace it through a land tax (such has been the case in NSW), then it must ensure that primary production land remains exempt.

Family farm and young farmer arrangements

Recommendation 4: That the family farm exemption for land transfer duty be retained.

Recommendation 5: That the thresholds for the Young farmer duty exemption and concession scheme be increased.

Recommendation 6: That young farmers be allowed to receive both the Young farmer duty exemption or concession and the principle place of residence concession.

Exemptions and concessions from land transfer duty are currently in place for farmers in certain circumstances including where farmland is transferred within a family, and for young farmers seeking to purchase their first farm. The VFF is supportive of these exemptions and concessions.

The transfer of all or part of a family farm may be exempt from duty if the transfer meets certain conditions relating to the land, the transferor and the transferee. To receive this exemption, the land must be primary production land and there must be a familial link between the transferor and the transferee. This policy is in line with similar policies in other states. The VFF has not observed much concern towards the operation of this exemption, and we recommend that it be retained.

The importance of young farmers being able to buy and own farmland to operate a farming enterprise is widely acknowledged as being a good thing for the agricultural industry and for rural communities. Over 90 per cent of Australian farms are owned and operated by families, however this level of activity is at risk if future generations are priced out of farm ownership making institutional investors a more dominant force for farmland ownership. This presents are poorer public policy outcome as institutional investors have little to no relationship with the rural and regional communities where their landholdings are situated. Family farms not only invest in their own businesses but are invested strongly in the communities in which they live. This is critical to the economic and social strength of rural and regional communities.

Since 2011 young farmers buying their first farmland property in Victoria have been entitled to a duty exemption or concession if they satisfy eligibility criteria. Young farmers must be under 35 and must carry on or intend to carry on a primary production business. Since 1 July 2018 full exemption from duty has been available for farmland valued at $600,000 or less, with a concession from duty for farmland valued from $600,001 to $750,000. These thresholds were raised from the previous full exemption on land to the value of $300,000, a partial exemption on land up to $600,000 and a concession on land valued from $600,001 to $750,000.

Feedback from farmers suggest that whilst the base threshold was increased in 2018, the duty exemption for young farmers is too small, particularly due to the continued strong growth in farmland values. Whilst the exemption may be suitable for a young farmer who is in a position to buy a block of land adjacent to their family's existing enterprise, the threshold is too low for young farmers seeking to buy a larger, independent block of land of their own.

Victorian farmland values rose for the sixth consecutive year in 2021 with the median price increasing by 30.4 per cent to $10,583/ha. Unlike other types of land such as residential or commercial property, farmland typically holds its value. It is therefore highly unlikely that there will be any downward adjustment to farmland property values even with higher interest rates and the potential for less favourable growing conditions. What's more, farmers have had to, and will likely continue to compete with Melbourne buyers moving into regional areas and purchasing land for either a tree-change or retirement.

The VFF therefore supports a revision of the exemption and concession thresholds to ensure the scheme remains contemporary. The VFF would support the exemption from duty being increased to $1 million with a concession from duty on land valued from $1.000001 million to $1.5 million. This would create a more realistic response to the actual financial barriers that young farmers face in being able to purchase farmland.

In addition to expanding the threshold for the young farmer exemption, consideration should also be given to how the scheme interacts with other policy concerns such as housing. Currently, if a young farmer buys farmland that is also their principal place of residence (PPR), they may be entitled to the PPR concession. However, they are required to choose between receiving the young farmer exemption or the PPR concession as they are not entitled to both.

The relatively low threshold for the Young farmer exemption, combined with the inability to access the PPR concession, gives young farmers a disincentive to buy farmland with a house on it, or to buy farmland and build a house. In this instance, the young farmer may be better off (in terms of their tax liability) by purchasing farmland with no housing, and separately purchasing a house in a residential area. This creates a perverse public policy outcome when it is government's intention to increase the supply of residential housing. The VFF believes that the Young farmer exemption and concession and the PPR concession are separate policy instruments that are designed to alleviate two distinct challenges, that is to assist young entrants into the agricultural industry, and to assist young entrants into the housing market. The inability to claim both concession arrangements effectively disenfranchise young farmers. For these reasons, the VFF supports young farmers being allowed to receive both the Young farmer duty exemption and the PPR concession on the same parcel of land.

Tax

Agreed to by the VFF Policy Council
Meeting 174
17 November 2021

NB: Nothing in this statement should be interpreted in any way as to constitute tax advice. VFF members should seek advice from a qualified accountant or tax practitioner for all tax issues relating to their business.

Policy Statement

General Principles

1. The VFF recognises the agriculture industry's responsibility to contribute to the public good through a fair and efficient tax system. As a generator of wealth, the agriculture industry should make a fair contribution to funding the efficient delivery of public services and infrastructure that underpin a reasonable living standard for all Australians, including those in rural and regional communities.

2. The VFF supports reform of Australia's tax system to promote the principles of efficiency, simplicity, transparency, equity and fairness. Reform should focus on assisting industry and businesses to maintain and enhance competitive advantage and access to markets. Reforms should be funded through efficiency in government spending, reprioritisation of government expenditure and through defining state and federal taxation powers.

3. The VFF opposes any net increase in taxation. The VFF believes any proposal to increase a tax must be matched by an equivalent reduction in a less efficient or less equitable tax.

4. The VFF believes the specific circumstances and characteristics of the agriculture sector and rural communities must be recognised appropriately within the tax system including factors such as the variability of income, and the limited capacity to pass on increased costs.

5. The VFF supports the use of tax concessions and exemptions designed to eliminate the disproportionate impact of certain types of taxes on farm businesses (eg. stamp duties) and to promote investment in the agriculture industry.

6. The VFF believes taxes should be reduced on transactions and investment. More reliance should be placed on taxes that have less impact on economic growth – resulting in fewer, more efficient taxes.

7. The VFF supports tax incentives for primary producer activities that result in broader public good and positive environmental outcomes.

Business Structure

8. The VFF believes all businesses should choose the structure that best suits their business objectives and needs. The VFF seeks similar tax treatment for farm businesses irrespective of their business structure.

9. The VFF supports regular review of the turnover threshold for small business tax concessions. An increased threshold should also be indexed in accordance with CPI.

GST

10. The VFF believes any increase to the rate of the GST should be commensurate with the removal of other inefficient and inequitable taxes such as payroll tax and stamp duties.

11. GST reform should focus on ways to simplify the system and reduce the compliance burden imposed upon businesses.

12. The VFF opposes the broadening of the GST to include fresh food.

Company Tax

13. Recognising the increasing proportion of farm businesses adopting company structures, the VFF supports lowering the company tax rate.

Capital Gains Tax

14. The VFF opposes Capital Gains Tax on the sale or transfer of business assets.

15. The VFF seeks an exemption for farm businesses for capital gains tax liability against intergenerational farm asset transfers, consistent with the stamp duty exemption that exists in Victoria.

Tax Averaging

16. The VFF supports the ability of farmers to average their income tax to minimise the extent that variable timing of income influences tax liabilities over time.

Accelerated Depreciation

17. The VFF supports the choice and ability for farmers to accelerate the depreciation of business assets for tax purposes, recognising accelerated depreciation as a useful tool to offset the high costs of capital improvements as quickly as possible.

Farm Management Deposits

18. The VFF supports the continuation of the Farm Management Deposit scheme.

19. The VFF supports improvements to make the Farm Management Deposit scheme more flexible including linkages to existing or new financial programs, expansion of the scheme to

broader business structures and measures to improve access and withdrawal provisions during drought, which do not disadvantage farmers.

20. The VFF supports the cap on deposits being increased subject to periodic review.

Superannuation

21. The VFF supports consideration and examination of the need to remove tax rules that disproportionately disadvantage farmers from contributing to and accessing their superannuation.

Payroll Tax

22. The VFF opposes the imposition of payroll tax on all businesses.

23. The VFF seeks exemptions and concessions for all farm businesses, and for businesses in rural and regional Victoria.

Land Tax

24. The VFF opposes the imposition of state government land tax on all farmland.

25. The VFF opposes the Victorian Government's Growth Areas Infrastructure Contribution scheme.

26. The VFF opposes land taxes based on government initiated rezoning decisions.

27. The VFF will seek concessions and exemptions for all farmland that may be subject to land taxes.

Stamp Duty: Sale and Transfer of Land

28. The VFF opposes the imposition of stamp duties on all conveyancing transfers.

29. The VFF supports the use of stamp duty exemptions and concessions to assist young farmers entering the market.

Stamp Duty: Insurance

30. The VFF opposes the imposition of stamp duties on all insurance products. The VFF will seek concessions and exemptions from stamp duty for insurance products related to primary production.

Stamp Duty: Motor Vehicles

31. The VFF opposes the imposition of stamp duties on the sale and transfer of all motor vehicles. The VFF will seek concessions and exemptions from stamp duties for the transfer of motor vehicles used solely for primary production purposes.

Luxury Vehicle Tax

32. The VFF opposes all forms of luxury vehicle taxes that affect the affordability of farm vehicles for primary producers. Where luxury vehicle taxes are in place, the VFF will seek an exemption for primary producers.

Fuel Tax Credits Scheme

33. The VFF supports the continuation of the Fuel Tax Credits Scheme which ensures businesses are not disadvantaged by paying excise on the off-road use of diesel in the production of goods and services.

34. The VFF believe the Fuel Tax Credits Scheme should remain as a rebate system to help maintain administrative efficiency.

Agricultural Workers

35. The VFF supports consideration and examination of the appropriateness of tax incentives to entice people to live and work in rural and regional Australia including, exemptions, concessions and zoning taxation whereby people living a certain distance from the metropolitan areas would gain a tax advantage.

Grants and Subsidies

36. The VFF opposes all tax on income that has come in the form of a grant or subsidy from government.

This policy should be read in conjunction with:

VFF Local Government Rates and Funding Policy Statement