NSW Farmers Response to Questions on Notice:

i. ***With regard to the question on differing prices for electricity from Mr Clayton Barr (pg. 46)***

The cost of electricity infrastructure (transmission and distribution networks) is dependent on the climate, geography and customer density of the network. All things being equal, networks with more difficult and variable climate and geographies, and lower customer densities will have much higher costs per customer.

This is why regional NSW (on the Essential Energy network) has higher network costs than someone in an urban area (Ausgrid network). Thus, for a typical commercial or business user (which most farmers are) in regional NSW, network and transmission costs can account for 50-60% of the bill, compared to around 40% in urban areas. This is not our numbers, this is numbers provided by regulators and network businesses.

We are not arguing that network costs should be the same in regional and urban areas. What we are suggesting is that the delivery of network services has been inefficient and needlessly costly, and this has disproportionately affected regional users due to their exposure to network costs. What we are further suggesting is that state and federal governments have exerted very little policy or political effort in addressing ballooning network costs, outside the regulatory process. This policy and political neglect will mean regional electricity user's cost pressures will not be addressed.

ii. ***With regard to the question on stamp duty exemptions for young famers from the Chair (pg. 48)***

Stamp duty is inherently and inefficient tax. It is a tax on market transactions and inputs not productive outputs, and acts to distort the efficient running of the economy. So you get absurd outcomes where people hold on to property that no longer suit their personal or business need, even where there is a willing buyer who can increase the productivity or utility that comes out of the property. The losses created by this inefficient tax scupper the transaction. It is a bad tax.

Stamp duty is a tax on the free movement of capital. It is unclear as to the purpose of its continuing application. Other specific purpose taxes applied to financial transactions, including company share transfers and debit and credit transactions, have been removed. The imposition of stamp duty negatively impacts on the free movement of land transfers and is a hindrance to the economy. A more equitable revenue generating strategy would be the application of a modest tax on all financial transactions.

We note that this is true for all property not just farms, and this is the quirk of our federated system where inefficient taxes are very hard to kill off, given the restricted taxation powers of the states. So the question becomes why we should afford stamp duty exemptions to young farmers.

This is an issue of economic and regional development:

- the agricultural sector was the largest component of Australia's economic growth last year (contributed $60 billion to the GDP);
- it is a top two economic contributor in terms of gross value of product and employment in nearly all regional areas in NSW; and
- governments have flagged that it could and should be a $100 billion industry by 2030

To maintain this momentum, the industry needs hundreds of billions of dollars in investment. However, unlike other industries, institutional investors, private equity or investments banks will make a minimal contribution to this the investments need in the sector. By and large, it will be reliant on individual and family farmers bearing significant risk and getting loans from financial institutions to maintain the agricultural industry.

Institutional investors will never bear the climatic, natural disaster, and market risk inherent in farming. Macquarie Bank's investment in the sector is instructive, they only invest in places with significant water rights and good access to economic and transport infrastructure, or large cattle station where investment risk is mitigated by the availability of fodder and the ability to destock. This is a very narrow and small percentage of the agricultural sector. The rest is personal investment by mum and dad farmers, who bear risks no investment banker would.

The policy problem is that the average age off these farmers is nearing 60, and without incentivising new and younger farmers to enter into and invest in the sector, we are essentially forgoing a $100 billion opportunity. The risks inherent in farming are too high to be able to withstand the impacts of inefficient and distortionary taxes, including stamp duty.

Policymakers perhaps also overestimate the cost of this exemption to young farmers. The value of agricultural land is based on the ability of the output generated by the farmer. The inefficiencies created by this bad tax in dis-incentivising young farmers into the sector, will be reflected in lower land values and lower stamp duty receipts on those lands, also not forgetting the foregone economic benefits in facilitating a growing agricultural sector.

iii. With regard to the question on payroll tax from Mr Aplin (pg. 49)

As NSW Farmers stated at the hearing, the majority of our members would not be liable for payroll tax. As there are multiple factors that contribute to business establishment and planning, it is difficult to specifically determine the factors, and the weighting of these, that underpin a business decision to locate or expand in regions.

There is little doubt that a difference in the payroll threshold of $125,000 for employers in regional Victoria ($625,000) and employers in NSW ($750,000) may be a contributing factor in initial establishment decisions. However the lower payroll tax threshold may encourage those businesses with significant workforce growth projections – such as manufacturing - to establish in NSW, this may be counter-balanced by the lower Victorian payroll tax rate - 3.65 percent in regions.

iv. With regard to the question of zone B for taxation purposes from Mr Harris (pg. 50)

As noted by the Committee, the Commonwealth zones A and B for taxation purposes are beyond the Terms of Reference for this inquiry. That being said, should the Committee seek to engage with the Commonwealth regarding options for inclusion, it may be worth investigating areas in NSW which attract additional state based incentives for relocation.

For example, the Commonwealth Zone B covers the north-western area of the State, while the NSW Department of Education provides incentives to attract teachers to Western NSW, which is determined as Broken Hill, Central Darling area, Cobar area, Tibooburra, and Sunrasia area.

An analysis of attraction incentives may identify strategies in other NSW Government agencies operating in remote areas of the State. Where common locations are identified a strong case for inclusion in the Zone B may be developed.

Further, consideration could be given to NSW seeking a reform of the current but out-dated methodology to incorporate a population based criterion.