National Farmers' Federation

Issues Paper

Population Policy: A Taxing Issue

The case for using tax reform to encourage business and, in turn, people into regional Australia.

Our Members

The National Farmers' Federation (NFF)

Population Policy: A Taxing Issue

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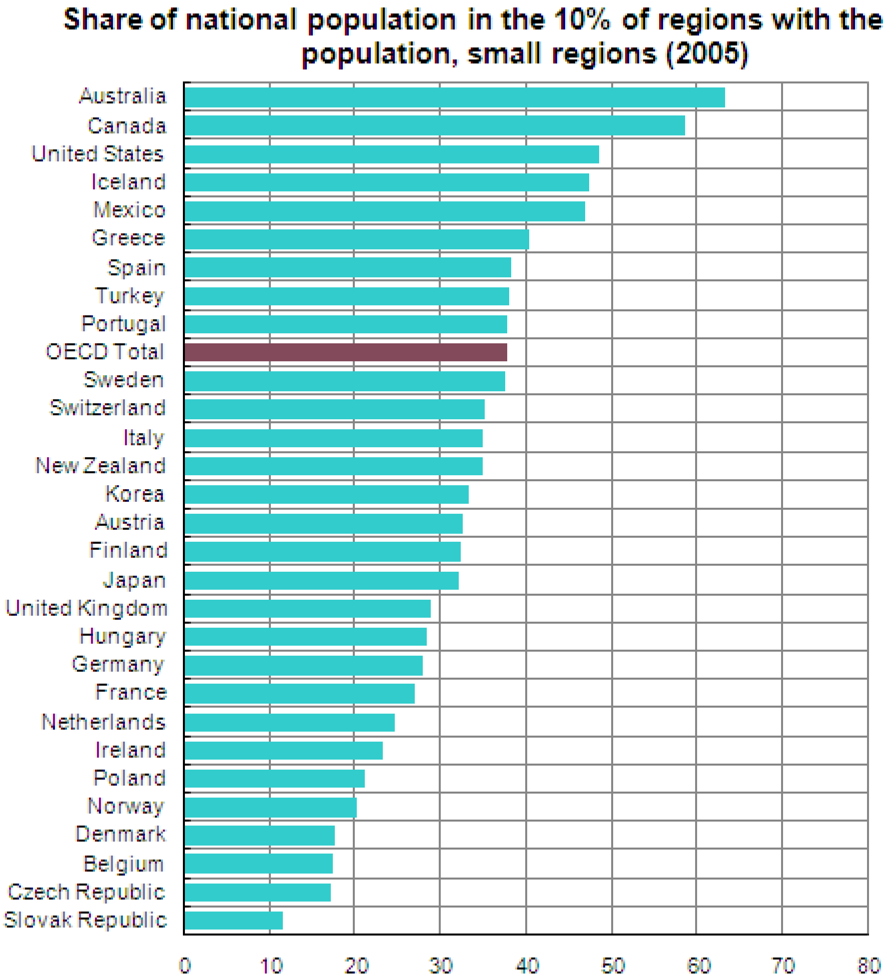
Introduction

It is a fact that Australia is the most urbanised country in the world.

As Chart 1 (below) shows, Australia's concentration of population is not only highest in the Organisation for Economic Co-operation and Development (OECD), it is approaching twice the OECD average.

Chart 1.



Source - OECD Factbook 2009: Economic, Environmental and Social Statistics - ISBN 92-64-05604-1.

Over 88% of Australia's population is located in and around our major cities, an area making up just over 3% of the country's landmass.

This population density has led to ever-increasing pressures on metropolitan communities, including:

- Cities, and their infrastructure networks, are not equipped to deal with massive population growth.
- Urban traffic conditions are increasingly congested, adding significant time delays in commuting. These not only impose economic and heightened environmental costs, but fuel social friction and add a dangerous element via cramped city living.
- Essential services, such as hospitals, are often not reachable within acceptable timeframes, with those services stretched to breaking point due to high demand.

- City administration is problematic at best, often trading off one obstacle for another.

Such pressures are set to intensify.

With the federal government's recently released intergenerational report projecting the Australian population will reach 35.9 million people by 2050, the problems dealing with congestion in Australian cities will compound unless governments recognise the role that regional development can play in relieving the stress.

Costs for business and living in regional Australia are too high

Regional Australia is not attracting Australians – be they businesses or families in terms of lifestyle choices and work opportunities. The majority of this stems from the higher costs of doing business and living in regional areas.

Research released in November 2009 entitled: *Essential Services in Urban and Regional Australia – a Quantitative Comparison* (conducted by the National Institute of Industry and Economic Research and commissioned by the Australian Farm Institute), compares the costs of essential services between metropolitan, urban and rural residents.

The research starkly illustrates the disparity faced by regional communities and the impediments to regional Australia being capable of attracting business and population growth. For example:

- on average, it costs rural residents five-times as much to access essential services as it does metropolitan residents;

- the biggest access cost disadvantages faced by rural residents are for hospitals, residential care services, secondary schools, TAFE colleges and universities;

- over recent decades people living in rural communities have found it increasingly difficult to secure or retain access to essential services, because of Australia's unique high population density; and

- providing equitable access to essential services for regional Australians will become increasingly important in the future as projected population growth will make major cities congested and inefficient, and greater efforts will be required to make living in regional areas a more attractive option.

The possible future introduction of a carbon price on transport fuel will exponentially increase the costs of living for regional businesses and populations who must travel greater distances have less access to alleviating services, such as public transport.

Disparity exacerbated by government policies

Taxation

Existing federal and state government policies exacerbate the cost differential between those living and working in regional Australia compared with those in metropolitan areas.

For example, progressive income taxation penalises volatile incomes, such as those of farmers, more harshly than relatively stable incomes. Tax averaging and Farm Management Deposits are available to, at least to some degree, allow farmers to mitigate this penalty.

However, the same facility has not been extended to commercial input suppliers or suppliers of household goods and services in regions where these volatile agricultural industries are a reality and their economic impacts felt the most.

A flatter (less progressive) tax rate structure can smooth these distortions, which is reflected in the direction of federal policy on income tax in recent years.

Nevertheless, a bias against country living has, albeit apparently inadvertently, become ingrained.

Real Estate

The artificial boost to city real estate values, provided through the exemption of the family home from both capital gains tax and most of the means tests that are applied to social security benefits, is another example of inequity.

There simply are not the opportunities in regional Australia to enable people living in these areas to reap the rewards of investing in their primary residence and captialising on the gains. Exacerbating this is the federal government's First Home Buyer's Scheme, which has been a fillip for property values and has fuelled sales in metropolitan areas.

Australian city dwellers have responded to this distortion through making – by international standards – massive investments in their dwellings and gaining significant tax advantages in doing so. Similar opportunities are extremely limited for regional Australians.

These policies have result in enormous wealth creation by metropolitan-based Australians and, artificially, made city living more financially attractive than country living.

Government attempts to address the problem

Governments, both federal and state, have responded with a range of measures designed to alleviate the most acute difficulties faced by regional Australians, who contribute two-thirds of Australia's export earnings.

Unfortunately, this has largely been through a piecemeal approach, dealing with areas of dilapidated business and social infrastructure rather than dealing with the underlying causes of problem. As such, they have only served to raise expectations unduly and, ultimately, have been ineffective in reversing the trend.

There is little, if any, demonstration of a plan for the future in correcting the current imbalances and the costs they impose.

Our natural wealth in the form of resources and agriculture underpin the Australian economy. It would be extremely short-sighted to ignore them. Moreover, with population pressures mounting in metropolitan centres, there is an opportunity to 'kill two birds with one stone'.

What needs to be done now?

Acknowledge the problem

The federal government must acknowledge that the problem exists. Both the inequities between metropolitan and regional Australia, but also the need to invest in development beyond the existing capital cities.

To date, there has been no such acknowledgment.

Correct the inequities

A clear plan must address and correct the inequities for business and families with a view to actively and tangibly encouraging them into regional Australia.

Specifically, that taxation and other incentives and/or concessions should be paramount in first attracting major business operations to start-up or relocate to regional centres – removing the disincentives – on the back of these substantial incentives. This is the catalyst for individuals and families to migrate from cities to take up genuine opportunities in regional areas.

National Infrastructure Strategy

Australia needs effective and efficient regional infrastructure, where the development plans mesh together – not a set of separate, disparate reports. The requirement of the federal government is more than money, and much more than the typical *ad hoc* spending on an electorate-by-electorate basis.

A National Infrastructure Strategy, with a clearly defined regional component, is essential and demands a commitment to a long-term plan.

Infrastructure Australia was developed to deliver a key part of this integrated approach. However, little has manifested since the organisation's inception in 2008.

Enough time has been invested in the planning stages for the federal government to outline its integrated plan for ensuring that Australia's regions will be a viable option for Australians to live and work into the future.

Indeed, the federal government should be using every tool in its armoury to stimulate and foster regional development as a solution to Australia's over-crowded cities and an investment in our resource and agricultural future.

This must take a multi-tiered approach to dealing with the issue that includes improving:

- access to social infrastructure, such as education and health services;
- business infrastructure in the areas of freight transport, telecommunications, energy and water; and
- efforts by governments to compensate rural residents for their lack of service access.

Provision of reliable social and business infrastructure are community service obligations... the basic essential services that all Australians reasonable expect governments to deliver.

It is vital that the federal government clearly acknowledge this community service obligation in determining its infrastructure agenda and investment.

Use tax to correct the inequity

The taxation system can be an effective tool in addressing these issues, and should be seized upon as a vital part of the federal government's 'nation building' agenda.

Indeed, with the release of the Henry Taxation Review imminent, the government should seek to take a more prominent role in using tax reforms to drive behavioural change, especially relating to regional development and easing metropolitan population pressures.

The Australian Government currently has a regional tax rebate scheme for individuals, which is ineffective in delivering on its desired policy intent. The government must address the future of this scheme – once and for all – and the appropriateness of its scope in delivering regional development goals.

For some time the National Farmers' Federation (NFF) has called for a review of the existing tax zone rebate scheme to ascertain its effectiveness and to make adjustments accordingly.

Successive federal governments have dismissed revisiting tax zones. There has been no explanation from the federal government for its reluctance to even consider a tax zone solution.

Nevertheless, tax-linked drivers of investment as an alternative means of financing farm operations should be developed.

In other words, is there another way of attracting investment into farming through other means. In this regard, much has been made of Managed Investment Schemes (MIS) and the issues that they have created in distorting resource allocation in regional Australia.

It is widely accepted that in most cases, this mechanism will not be appropriate to finance agricultural enterprise. But that is not to say that we should not look at alternative investment mechanisms that draw in investment through the taxation system, or by other means, that retain some link to the output generated by the operation – a factor sorely lacking by MIS.

Therefore, the NFF puts it to government that it must:

1. correct the glaring inequities between metropolitan and regional Australians;

2. invest in and develop regional centres as major population and commercial hubs;

3. not only stem the drainage of people from inland Australia, but actively encourage a net influx of people from Australian cities and via immigration programs; and

4. seek to reinvigorate and actively pursue regional development not only as a much-needed boost to regional communities, but as a release value to the mounting pressure on our over-heating cities.

The Henry Taxation Review may provide some impetus, but addressing these issues requires political will. The time for procrastination is over.

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