



PARLIAMENT OF AUSTRALIA  
HOUSE OF REPRESENTATIVES

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## Media Release

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### **Govt can exempt water compensation payments from tax**

Independent Member for New England, Tony Windsor has had confirmation that the Federal Government has the capacity to make any specific grant or structural adjustment payment tax exempt.

Mr Windsor said the issue had arisen as a result of an admission by the Federal Government that it would be assessing any compensation to water entitlement holders as 'income' and therefore subject to tax.

This would mean that the 3-way split between the NSW Government, Federal Government and Groundwater irrigators of \$50m each, would be subjected to individual income tax assessment and therefore mean that the Federal Government would be able to claw back a significant portion of its contribution.

"It has been verified that the Income Tax Assessment Act 1997 allows the Federal Government to exempt payments from tax under Section 51 (ii) of the Constitution which is the Taxation power acceded to the Commonwealth.

The power to tax also carries with it the power to exempt certain items from taxation," Mr Windsor said.

Mr Windsor points out that there are a number of examples where taxation exemption has been granted but specifically included is part of the Sugar Industry Reform Program..

"Under Section 53-10 of the Income Tax Assessment Act 1997, it has specified a number of exemptions to tax and includes the Sugar Industry Exit Grant which is part of the Sugar Industry Reform Program similar in intent to the proposed groundwater users' adjustment package.

The only restraint on the Commonwealth is that in exercising its power to tax, Section 51 (ii) provides that it must not discriminate between states.

Now that we know that the Commonwealth has the power to exempt groundwater users from losing up to 40% of the adjustment package to tax – the question must be asked, why won't the government use those powers?" Mr Windsor asked.

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