



PARLIAMENT OF AUSTRALIA
HOUSE OF REPRESENTATIVES

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Media Release

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Windsor calls for inquiry into taxing compensation payments

Independent Member for New England, Tony Windsor has called for an inquiry into the Government's practice of taxing compensation or structural adjustment payments made to people impacted on by the implementation of Government policy.

The Inquiry could be undertaken as part of the Parliamentary process, through the Auditor General or the Australian Competition and Consumer Commission (ACCC)

Mr Windsor revealed on Friday that he had information that structural adjustment payments to be made to groundwater users in New South Wales would be subject to tax in the hands of the recipient and on further investigation it appears that this practice has seen a tax windfall to the Federal Government in some cases without the Federal Government having contributed any money directly to the structural adjustment fund with one fund being increased by \$500m to cover the projected tax take.

"It has been confirmed that the structural adjustment package for groundwater users in New South Wales has recently been confirmed that its payments to affected irrigators will be deemed as taxable income despite it being compensation for a loss of capital asset (water entitlement).

On further investigation this is not the first structural adjustment package that has been subject to tax in the hands of the recipient.

In the case of the Dairy Industry Structural Adjustment Program, the payment scheme was increased from \$1.2 Billion to \$1.7 Billion boosting the levy from 7 cents per litre to 11 cents per litre for consumers of milk to pay an extra \$500 Million in taxation receipts.

This is a disgraceful example of the government benefiting financially from poor public policy.

Why should the consumers of milk have been asked to pay \$500 m in tax to the Government when the public face of government was praising itself for helping the down trodden dairy farmers?

In fact the policy allowed the government to milk consumers under the guise of an Australian Tax Office ruling when the government had the power to exempt from tax.

The beneficiary of this form of public policy is the government itself so there is no political impetus for change," Mr Windsor said.

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Mr Anderson in an interview with ABC Radio New England North West earlier this week admitted to the dairy industry tax scam and that the option was open to look at the groundwater adjustment scheme if the taxing of it would impact too adversely on those eligible for assistance.

“The attitude of Mr Anderson and the Government is to claw back of an adjustment package designed to help people adversely impacted on by government policy.

It should not be seen as a government revenue raiser,” Mr Windsor said.

The issue has been brought to a head over the admission that the guarantee supposedly delivered through the National Water Initiative to compensate water entitlement holders for changes in government policy was taxable as income to those who receive assistance.

Mr Windsor says that the 1994 COAG Agreement that put in place the National Competition Payment structure for reform in water policy was signed on the basis that water entitlement holders would have their property rights protected and if removed or reduced that compensation would follow.

“Various Commonwealth Agreements, Inter-governmental agreements and catchment blueprints and most lately the National Water Initiative (NWI) have promised compensation but nothing has materialised.

For 11 years the Federal Government has doled out billions of dollars in National Competition Payments to the States when the fundamental rights of those impacted on by the reform have been essentially ignored.

When it finally comes to the turn of those impacted on by the policy change, the irrigators, the Federal Government decides to tax the recipients,” Mr Windsor said.

The most recent example of this taxing of structural adjustment payments is the \$150 m groundwater adjustment scheme for the 5 valleys in New South Wales impacted on by reductions in water entitlements because of over allocations by previous Governments.

The scheme was a 3 way split of \$50m Federal, \$50m State and \$50m from irrigators to establish a fund to assist those affected make the adjustment to a sustainable future.

“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 and 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.

I now call on the Federal Government to use its powers to exempt the taxing of the structural adjustment payments to groundwater users – not just to boost the amount in the package and claw it back through taxation,” Mr Windsor said.