



PARLIAMENT OF AUSTRALIA
HOUSE OF REPRESENTATIVES

TONY WINDSOR MP
INDEPENDENT
FEDERAL MEMBER FOR NEW ENGLAND

Shop 5
259 Peel Street
TAMWORTH NSW 2340

All Mail: PO Box 963
TAMWORTH NSW 2340

Ph: (02) 6761 3080
Toll Free: 1300 301 839
Fax: (02) 6761 3380
e-mail: Tony.Windsor.MP@aph.gov.au
Web Page: www.tonywindsor.com.au

MEDIA RELEASE

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Paper trail will show why Commonwealth Govt hasn't changed taxing of water compensation payments

Windsor calls for Inter Government documents to be released

Independent Member for New England, Tony Windsor, has become aware of documents from the Commonwealth Government to the NSW Government specifically referring to the compensation package for six groundwater valleys across NSW demanding that the NSW Government treat payments under the 'Achieving Sustainable Groundwater Entitlements' (ASGE) program as structural adjustment payments and not compensation payments for the loss of water entitlements and is calling on both the Commonwealth and NSW Governments to release them.

"I have become aware of Commonwealth-NSW Government documents that preclude the NSW Government from allowing payments from the 'Achieving Sustainable Groundwater Entitlements' (ASGE) program, to groundwater users as compensation for the loss of a capital asset.

The documents state that due to the definition of the payment as structural adjustment, the Australian Taxation Office would have to deal with the payments as income in the year of receipt not as the loss of a capital asset," Mr Windsor said.

Mr Windsor said that back in June 2005, the Prime Minister and then NSW Premier, Bob Carr, announced that they would each be contributing \$55m to an assistance package to help alleviate the impact of the loss of water entitlements to meet environmentally sustainable levels.

"It was months after the announcement by the Prime Minister and then NSW Premier, Bob Carr, that it was revealed that payments received by groundwater users from the ASGE program would be subject to income tax and not treated as compensation for the loss of a capital asset.

There was a lot of to-ing and fro-ing between the Commonwealth and NSW Governments over a number of years before the announcement of ASGE program as they couldn't agree who was responsible to actually deliver some 'compensation' to the groundwater users.

Finally agreement was reached but the Commonwealth put provisos on the NSW Government for their involvement in the deal.

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The major proviso of treatment of the payments as income has had the effect of not allowing the State Government to structure the 'Deed of Offer' in such a way as to allow the loss of water entitlement to be treated as the loss of a capital asset and therefore payments received from the ASGE would be taxed under the capital gains tax regime," Mr Windsor said.

Mr Windsor will be asking the Prime Minister next week to release the documents relating to structural adjustment and compensation matters between the Commonwealth and NSW Government that formed the basis of the ASGE program and to allow the NSW Government to write a 'Deed of Offer' that allows the taxation treatment of ASGE payments as a loss of capital asset.

"I am calling on both Governments to come clean and release the documents and I will be asking the Prime Minister next week, will the Commonwealth agree to the taxation treatment being changed to the loss of a capital asset rather than income if NSW agree to write the 'Deed of Offer' in such a form?"

The end of this financial year is only two weeks away and affected farmers and their accountants are, understandably, wanting this issue finalised so that it doesn't drag on into the new financial year," Mr Windsor said.