# Taxing unrealised gains could force sale of farming assets

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**First it was retired judges, then public servants in defined benefit superannuation schemes and now farmers are arguing to be excluded from the Government's $3 million superannuation tax concession cap and the taxation of capital gains.**

The National Farmers Federation (NFF) has warned that unless farmers are excluded from the proposal some will find themselves forced to sell land to meet their annual tax bills.
In a submission filed with the Senate Economics Legislation Committee review of the Government proposal, the NFF said that while it understood Treasury's desire for a simplified method to calculate total superannuation balances, its proposed method carried significant consequences.

"While a simplified method will reduce compliance costs, it will increase the tax liability on farmers who have witnessed an increase in land values but have not realised that gain through sale of the land," it said.

"To this end, the NFF strongly recommends the exclusion of agricultural land assets from the calculation of total superannuation balance. Exclusion of these assets would allow farmers to continue to use lease payments from agricultural land assets as a clear and consistent form of retirement income without undue tax burden or other market distortions."

The NFF submission pointed out that self-managed superannuation funds (SMSFs) are a common tool in Australian agriculture to manage assets and use agricultural land to provide retirement income and suggested that they could be in use by more than 30% of Australian farm businesses.

"As part of the succession planning process, land assets are commonly transferred into a SMSF. The next generation then takes on the running of the business and makes a lease payment to the retiring farmer. This lease payment becomes their retirement income."

"While this process provides stability in retirement income it creates a situation where many farmers will be materially worse off as a result of the proposed increased taxation. There is a distinction between the value of an

agricultural land asset and its return. On average, the return on agricultural land assets is relatively modest around 2 per cent. Put simply, this makes a typical farmer ‘asset rich’ but ‘cash poor’,” it said.

“This taxation of unrealised gains will mean some farmers will struggle to meet the annual tax bill on their land assets without selling the land itself. Given high land values and modest cash income, this new tax could represent a significant share of a farmers’ annual retirement income, or even exceed it.

“Given the highly cyclical nature of Australian agriculture, the impact of the proposed changes will have an outsized impact on farmers who have agricultural assets within their SMSF. The value of Australian agricultural land can experience rapid increases based on seasonal conditions. For example, in 2021 the median price per hectare of Australian farmland increased by 20 per cent.1 This was most pronounced in Queensland, Victoria and Western Australia where median price per hectare grew at more than 30 per cent.”

“However, the growth in lease value for agricultural assets does not grow at the same rate. This exposes farmers to a significant potential tax liability despite no substantial change in their overall wealth position. Given the proposal to not index the superannuation concessional cap, overtime an increased number of farming assets will be captured by the increased tax rate,” the NFF submission said.

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