

farmingmatters

Winter Edition 2018

THE BUSINESS LIFE CYCLE

STATE & FEDERAL BUDGET

TAX EFFECTIVE FINANCE

LAND VALUES

Welcome to the Winter edition of Farming Matters. Well what a difference a few months makes! The dry start to the year has changed the playing field with the demand for grain and hay reaching a point where it is putting pressure on supply. As winter kicks in this is expected to continue. In this edition we look at the business life cycle and how it relates to farming situations, farm land values and tax effective financing options as we approach the end of financial year. We hope you enjoy the edition of Farming Matters and please do not hesitate to contact the Agri Solutions team for further assistance. Keep up to date at www.mulcahyagri.com.au

THE BUSINESS LIFE CYCLE

The business life cycle is the progression of a business and its phases through time. It is most commonly divided into stages – Launch, Growth, Established, Expansion, Maturity and Decline or Rebirth. Each stage has its own special features and challenges.

This diagram is typically used to describe a non farming business. However I think it is equally relevant to a farm as it is to any other business. A farm business goes through each stage. A major difference with a farm is it may take several generations for the business to reach maturity due to the capital intensive nature of accumulating farm assets.

Look at each stage of the diagram and see how it applies to your business. Every business has a story.

In the early days or startup stage, it was tough going. Long hours, a lot of risks were taken that paid off. Although difficult times, this stage is often looked back at fondly as it is a period of great achievement.

With hard work, momentum, planning and a bit of luck, the business continues to advance. The business is now growing. The growth phase requires significant risk to be taken. Assets have increased but so has debt. Debt to fund land, machinery, stock and working capital. The harder you worked the luckier you seemed to get!

By this stage you will have probably experienced at least one of these if not more - drought, flood, fire, frost, poor prices. The business survives and you and the business are more resilient.

As time goes on the farm business becomes better established and this provides the opportunity for further expansion.

Like any business, your farm business must keep growing otherwise you are potentially falling behind.

Reaching maturity for any business is an

interesting stage. In one sense it is where a business wants to get too. The business has matured. The business owner is comfortable. After all those hard years you can relax! This can be dangerous!

Maturity can sometimes coincide with the age of the business owner(s). If a business owner is getting tired the business might be getting tired as well!

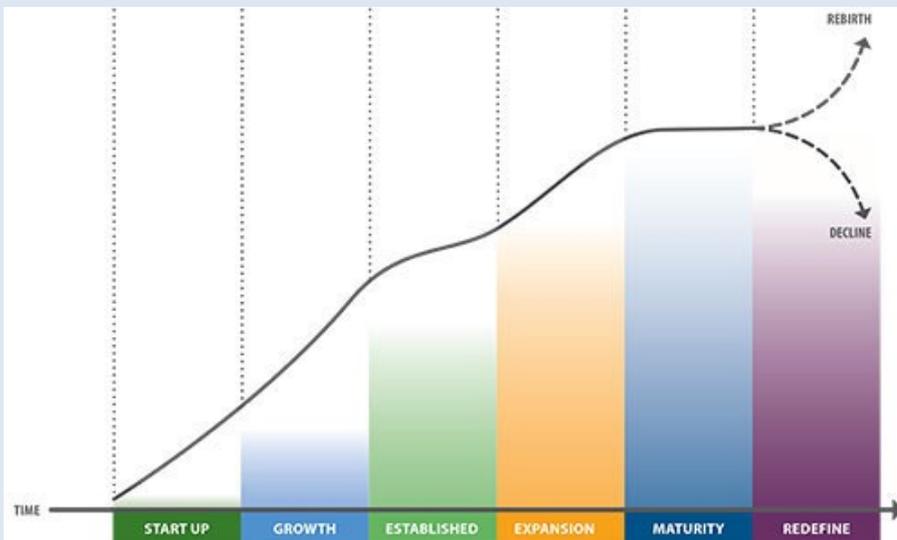
In a farming situation it is important to understand where you are at. In the early days it will be to focus on the long term plan whilst managing risk. In the 'maturity days' it will be to work out what's next based on your particular circumstances.

If there is another generation coming through, getting them involved as early as possible is so important to ensure the farm business enters the 'rebirth' stage rather than a 'decline'. This includes fresh ideas and adapting technology.

As business owners and operators I think the business life cycle is something we can all use to reflect where we are at in our business and in our lives.

It helps provide clarity around your planning and what needs to be done to achieve your business and personal goals rather than just going through the motions. As business owners and operators our businesses are a big part of our lives. Do we control the business or does it control us? Is our business plan adapting to where we are at in the business life cycle?

For further discussion on this very important topic, please do not hesitate to contact Chris Mulcahy.



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THE FEDERAL & VICTORIA STATE BUDGETS

Both levels of government seem to have plenty of cash to splash around. It might have something to do with it being an election year!

Lifting the young farmer stamp duty exemption from \$300,000 to \$600,000 is certainly welcomed. This commences for all settlements from 1 July 2018. The extension of the \$20,000 depreciation write-off limit to 30th June 2019 is a great advantage for all farmers and small businesses with turnover of less than \$10 million.

For items valued above \$20,000 the pooling arrangements still apply with a depreciation rate of 15% year 1 and then 30% thereafter.

Overall there is a sense of optimism and confidence in regional areas and this is being encouraged by government spending.

TAX EFFECTIVE FINANCING OPTIONS

If you are purchasing equipment before 30 June and need to maximise tax deductions it might be worth considering a 1 year lease option. If you are eligible the initial payment can be made and claimed as a tax deduction this financial year.

The amount of this payment is typically calculated somewhere between 35% and 45% of the equipment value. For example a tractor is purchased for \$200,000 plus GST. Under a one year lease option a payment can be made this financial year of around \$80,000 plus GST and claimed as a tax deduction.

This compares to a depreciation claim of \$30,000 being available this year. For additional information on how this might work for you contact Rachael Trickey or Chris Mulcahy.

FARM LAND VALUES HAVE HAD ANOTHER GOOD YEAR!

We recently attended the release of the 2017 Australian Farmland Values update. It was no surprise to see farm land values had another solid year increasing by an average of 7.1% in 2017. Part of the discussion from the experts was on the outlook for the future. Have land prices peaked? Are we in a bubble that might burst?

We all sat waiting to hear what the future held. Is there similarities or evidence from elsewhere that helped predict future land values? The answer was they didn't really know apart from confirming that it was likely that land had peaked and would plateau for a while.

The increase in land values has been driven by family farm expansion in search of scale and corporate demand. Farmers and corporates have confidence due to low interest rates, the demand for food, fibre and consistent returns.

LAND VALUES - WHERE TO FROM HERE?

It all comes back to the simple economic principal of supply and demand. Demand continues to outstrip supply therefore prices will remain buoyant. For supply to outstrip demand it will require forced sales. I have always thought it will take at least three 'events' to occur in quick succession to create this situation. This would include a climate event (drought, frost, flood), an economic event (interest rate rises), industry change event (corporates cashing in, government intervention). All three are possible. Locally a very severe frost occurred last year. Apart from the frost we have had 2 almost perfect seasons so we are due for a dry one. Interest rates will

increase in the next 18 months. On the industry front anything is possible.

Sorry I am sounding very pessimistic! But the reality is if you are sitting on the fence waiting for a bargain it will most likely not happen.

The big 'sleeper' issue is the age of farmers. According to the 2016 census the average age of livestock farmers is 55 and the average age of grain farmers is 51. There are 66,000 farmers above age 50. How many of these farm businesses have the next generation to take over? Over the next 10 – 20 years will the kids be cashing in? Again I don't think this is a reason to sit on the fence and wait but maybe it is an opportunity to offer a solution to an older farmer to help – lease, share farm, contract etc. More on this next time.

Recommended steps:

1. If you are trying to expand but there are seemingly no options, don't panic! The opportunity will come.
2. Be prepared. Are you ready for expansion?
3. Are you maximising returns from existing farm business? Rather than getting bigger can you do things better? How do you compare to the top 20% operators?

For further further information, please do not hesitate to contact Chris Mulcahy.

UPCOMING EVENTS:

We will be attending / hosting the following events:

Sheepvention - 6th & 7th August.

Drop in for a chat.

