Tax Planning Options for Farmers

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TAX MINIMISATION

Tax minimization is an important part of any farm enterprises yearly planning. As the late Kerry Packer said at a government tax inquiry some years ago " If anybody in this country doesn't minimise their tax, they want their heads read because, as a government, I can tell you you're not spending it that well that we should be donating extra". Nothing has changed in recent years to compel us to donate extra tax. However it is important not to spend money for the sake of saving tax. The value of a tax deduction will depend on your average tax rate. For example say your average tax rate is 12%. This means for every $100 of tax deductions you will save $12 in tax and the net cost to cash flow will be $88. Spending money just to save tax doesn't stack up. Sometimes it may be better to pay the $12 tax and keep $88 in cash flow for working capital, reduce debt or invest.

Another consideration or aim is to maintain a low average tax rate. Your average tax rate is calculated by taking the current year plus the last four years taxable income and dividing by 5 to arrive at an average taxable income. The amount of tax is then calculated on this average taxable income to arrive at an average rate. Having consecutive good years can increase the average rate that will have an impact on the amount of tax in future years. Part of your tax planning strategy should include keeping the average rate under control.

SOME OF THE OPTIONS TO REDUCE YOUR TAX BILL ARE:

Defer income or invoicing: Depending if you operate on a cash or accrual basis, income is not taken to account until it is banked or invoiced. There may be an opportunity to defer income to the next financial year by deferring deposits or not raising the invoice until July.

Prepay expenses or incur expenses: The opportunity exists to prepay or incur business expenses prior to 30th June. This will depend if taxable income is calculated on a cash or accrual basis. The result will be bringing forward extra expenses and claims, reducing taxable profit, and tax payable.

Prepay interest expense: There may be an opportunity to prepay interest on a loan before 30th June. This will create an additional tax deduction this year.

Tools & Equipment: Items purchased with a value of less than $20,000 (GST exclusive), can be written off. This has been extended to 30 June 2019. Primary producers may immediately deduct the cost of fencing and water facilities (eg. dams, tanks, bores, irrigation channels, pumps, water towers and windmills) and depreciate over three years the cost of fodder storage assets such as silos and tanks used to store grain and other animal feed.

One-year lease: Another option may be to purchase a work vehicle or equipment under a one-year lease. A lease payment of up to 40% of the items value can be claimed in the current financial year. Note this can also apply for sheds and silos in some circumstances.

Extra depreciation claims: If a one-year lease option is not appropriate, there are extra depreciation claims that can be gained by purchasing plant and equipment (including motor vehicles used for business purposes) before 30th June. If you qualify a depreciation rate of 15% can be applicable in the first year and 30% thereafter. For example, a ute is purchased on 29th June for $50,000. The depreciation claim this financial year would be $7,500.

Pay employee super: Pay outstanding employee super before 30th June. Please note, to claim a tax deduction this year the amount needs to have cleared the bank account, or the cheque needs to be received by the relevant fund on or prior to 30th June. Be careful if paying superannuation by EFT or Bpay. If funds show as being paid from your bank account does not automatically confirm the entitlement to a deduction. Under these electronic payment methods the amount will also need to be received by the superannuation fund bank account. For example, Bpay can take up to 3 or 4 days for the transaction to be completed, so make these payments around the 20th June if possible.

Review depreciation schedule: It is recommended to complete a review of your depreciation schedule to see if any assets that are no longer used and can be written off this financial year.

Bad debts: Any debtors that are not going to pay should be written off before 30th June.

Wage allowances: The ATO generally allows allowances paid up to certain limits to be claimed as a tax deduction. If a wage is paid to family members there may also be the opportunity to pay and claim an allowance, such as a meal allowance. This creates an additional tax deduction.

Distributions to family members: If operating via a family trust you may also be able to distribute to your extended family members in a tax effective manner. For example you can distribute up to $416 to nieces and nephews tax free if they have no other income. There may also be the option to distribute to other lower income family

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members such as parents, brothers and sisters. This distribution will be an accounting record only, and money will not physically be required to change hands.

Farm management deposits: Farm management deposits (FMD's) are a tax deduction when the deposit is made and assessable income when the money is withdrawn. Therefore the use of a FMD is an extremely beneficial planning tool to reduce tax payable. It may be beneficial to make an FMD from borrowed funds if there is insufficient cash flow. The net interest cost of the borrowing should be no more than 3% (interest rate of borrowing less interest income received from FMD deposited).

If the tax saving plus the potential to access other benefits such as Centrelink entitlements is more than the net interest cost it may be worth considering this strategy.

Wages to Children: Children growing up on farms generally help out and therefore can receive a wage for this work completed. This can allow what normally are private expenses such as school fees to be allocated as a wage and be tax deductible. Be mindful of superannuation, work cover requirements and if Centrelink concessions received will be impacted.

Superannuation co contribution: Consider making a personal super contribution of up to $1,000 each before 30th June to access the super co-contribution. If you are eligible, the government will match your super contribution by $0.50 for every $1.00 of contributions you make, up to $1,000. That is, if you are entitled, and can contribute up to $1,000, the government may contribute up to $500 in additional contributions.

Superannuation and borrowing in a superannuation fund: Superannuation can play an important part of your tax planning, succession, retirement, and estate plan. Superannuation is concessionally taxed with a maximum tax rate of 15% and the potential of a 0% tax rate on investment income in 'retirement', or pension phase. A self-managed superannuation fund (SMSF) can also be used to invest in farmland therefore enabling the farm enterprise to expand whilst minimizing tax. Farmland can also be contributed to a SMSF. Borrowing to purchase assets in a SMSF provides a very tax effective way to reduce debt. As can be seen there are a number of opportunities with a SMSF to save tax and grow the farm enterprise.

Corporate beneficiary: Farm businesses that operate via a family trust may have the option to distribute taxable income to a company. A company has a tax rate of 30 per cent, however if you are a small business entity the company tax rate has reduced to 27.5 per cent. Although this is likely to be higher than your personal average tax rate, the benefit is when a company pays tax there is a chance you may be able to claim this tax back via franked dividends in a year when the farm profit is low. This strategy works well in conjunction with other tax planning options such as superannuation and maintaining farm management deposits at reasonable levels.

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(Updated 30 June 2017)

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