

Planning is the key to reducing your tax burden...

By **Brendon Murray, Director, Bentleys**

The key to minimise the income tax you have to pay hinges on planning and forethought before 30 June. It is imperative that all your accounting records are up to date, and that financial statements and income tax returns for the prior year are finalised.

Just as importantly, it pays to have a clear understanding of the systems designed to reduce the tax you have to pay.

The soft commodity boom has definitely delivered some bumper crops in the past season, and although these farming and grazing families will take some time to recover from the devastation of drought, it is extremely important that income tax doesn't harm their recovery.

Using the very complex areas of income tax law, the team at Bentleys systematically composes a personalised review of trading for our rural clients, and help them to come up with an action plan leading into the end of financial year.

We have extensive experience working with farming families, and are well versed with Government developed initiatives that recognise the challenges of seasonal effects on primary producers.

The following may assist in making the most of these government initiatives:

Primary Production Averaging

This initiative ensures that primary producers with fluctuating incomes pay no more tax than those on similar but steady incomes.

In years when your income is higher than average (based on the previous four years), an averaging adjustment reduces your tax through the application of a tax offset .

In a year when your income is lower than average, the averaging adjustment increases the tax payable.

What many farmers don't know is that each person with primary production income to declare in their income tax return is eligible, even if the income is distributed via a partnership or trust. (Certain conditions do apply in this area).

Ensuring that all parties apply the adjustment will deliver the greatest aggregate benefit.

You can elect not to apply the averaging adjustment in your income tax assessment. However this decision requires careful consideration, as you are not permitted to return to the system once you have elected out.

The Simplified Tax System (STS)

STS concessions generally apply to businesses with aggregate turnover of less than \$2 million and include:

- Higher depreciation rates (very beneficial to those enterprises with large items of farm equipment);
- Simplified measures for calculating trading stock, including livestock; and
- Other GST concessions.

Further, under this system you are not assessed on any income outstanding at 30 June 2008. However you are also prevented from claiming a deduction for any outstanding expenses at 30 June.

The ability to claim increased depreciation as a tax deduction without the outlay of cash is one of the key ways in which the STS reduces income tax liabilities for eligible farmers.

Farm Management Deposits

This system allows primary producers to manage their income and reduce the impact of fluctuating seasonal results from year to year. Farmers can claim a deduction for deposits in years when their income is high and they have more cash available, and then withdraw this cash in years when cash flow is low. Withdrawals then constitute taxable income.

Conditions for the scheme include:

1. You must be a primary producer when the deposit is made;
2. The deposit must be in your individual name only (not joint accounts);
3. Trustees may make these deposits on behalf of a beneficiary;
4. Minimum deposit is \$1,000, and the total of all deposits can not be more than \$400,000;
5. All deposits must be with the same bank;
6. No charges or equity can be taken over the deposits;
7. The deposit cannot be withdrawn within 12 months from date of deposit unless you qualify for exceptional circumstances.

With regard to qualifying for a tax deduction in years when deposits are made:

- Deposits should not include more than \$65,000 in non-primary production income (excluding capital gains);
- Deposits will not be eligible if you die or become bankrupt during the year; and
- Deductions will also not apply if you cease to be a primary producer for 120 days or more during the year.

Despite the extensive requirements that need to be satisfied for this system, this is an excellent way of managing your income tax liabilities and cash flow simultaneously.

Superannuation

Superannuation remains one of the most effective ways of minimising tax, and at the same time investing for later in life. There have been dramatic changes to the way in which people can make superannuation contributions in recent years.

The current guidelines are:

- People under 50 years of age at 30 June 2008 may contribute up to \$50,000 per year;
- People over 50 years of age at 30 June 2008 may contribute up to \$100,000 per year (only available as a transitional arrangement until the year ending 30 June 2012).

For these contributions to be tax deductible, your income as an employee must not exceed 10% of your total assessable income and you must be under 75 years of age (contributions must have been made more than 28 days prior to your 75th birthday).



If you do not satisfy the 10% rule, you can elect to salary sacrifice superannuation contributions from your income, thereby reducing your taxable income.

Contributions over the above guidelines can be made, however these additional contributions will not be tax deductible.

Deferral of livestock profits

If you were forced to sell cattle as a result of deterioration of your pastures during drought, you may be eligible to defer taxable profits generated through cattle sales.

You can elect to spread the tax profit over five years. This is done by declaring 20% of the profit in the current year's return, and then splitting the remainder of the profit evenly over the next four tax assessments.

Alternatively, this profit can be offset by using proceeds from the sale to fund the cost of replacement livestock, or fodder to sustain remaining herd.

With such a wide range of initiatives available, it is strongly recommended that you obtain advice tailored to your individual circumstances prior to making any decisions.

The laws surrounding this area of income tax legislation are very complex, so it is definitely best to review your individual circumstances regarding these provisions. Farmers can better protect their hard-earned returns and reduce their tax liability through the understanding of the options available to them.

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