Off Farm Investments & Tax

Presented by Scott Mildren & Paul O'Donnell

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WHY SHOULD YOU CONSIDER OFF FARM INVESTMENTS?

- Wealth Creation - making money
- Diversity – how many of you are one commodity producers?
- Risk Management – assists farm and family in the tougher years.
- Succession – older generation can access income & capital and be less reliant on the farm.
- Can compliment farm investments.

WHAT ARE TYPICAL OFF FARM INVESTMENTS?

- **DEFENSIVE** (low risk, income, no capital growth)
- Cash – bank accounts, online savers
- Fixed Interest – Term Deposits, Bank Bills, Mortgages, Farm Management Deposits

- **GROWTH** (higher risk, income plus potential for capital growth)
- Shares – Australian, International
- Property – Resi, Office, Industrial, CBD or via REIT's.
- Managed Funds – fund manager selects the growth assets.
- Exchange Traded Funds (ETF) – Investing in an index. ASX 200 or NASDAQ.
- Note: super isn't an investment, it's an ownership structure that holds investments.

But first you should have a basic plan

- "Failing to plan is planning to fail"
- Working smarter not harder.

STEP 1 – CONSULT YOUR ACCOUNTANT

- Discuss your cashflow allocation with your accountant.
- Where are you allocating your profit?
  - Farm Development
  - Debt reduction
  - Lifestyle including education
  - Off Farm investments incl. super OR

  - **ALL OF THE ABOVE**

STEP 2 – CONSULT A FINANCIAL ADVISER

- What’s the big picture?
- Prioritising your goals
- Why are you doing this?
- When and how are you going to retire?
- How do you keep and build on your hard earned?
- How do you fund children education?

STEP 3 - STRATEGIES

- When making investment decisions need to ask
- Who should own the asset?

Individual	Joint	Family Trust	Company	Super	Account Based Pension

STRATEGIES

- How much flexibility & liquidity?

Entity	Individual	Joint names	Family Trust	Company	Super	Account Based Pension
Flexibility	Yes	Yes	Yes	Less	Less	Only if retired
Liquidity	Yes	Yes	Yes	Less	No	Only if retired

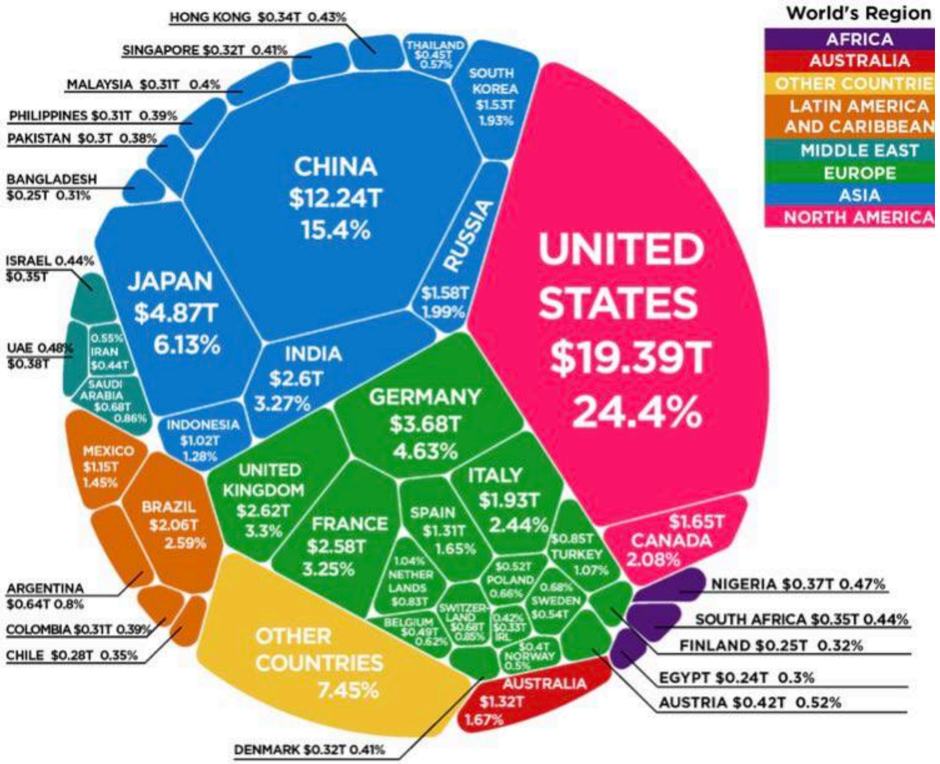
STRATEGIES

Entity	Individual	Joint names	Family Trust	Company	Super	Account Based Pension
Flexibility	Yes	Yes	Yes	Less	Less	Only if retired
Liquidity	Yes	Yes	Yes	Less	No	Only if retired
Tax	MTR	MTR	MTR	27.5%	15% plus deduction	0%
Time	Short- Long	Short - Long	Med - Long	Med- Long	Long	Depends on age

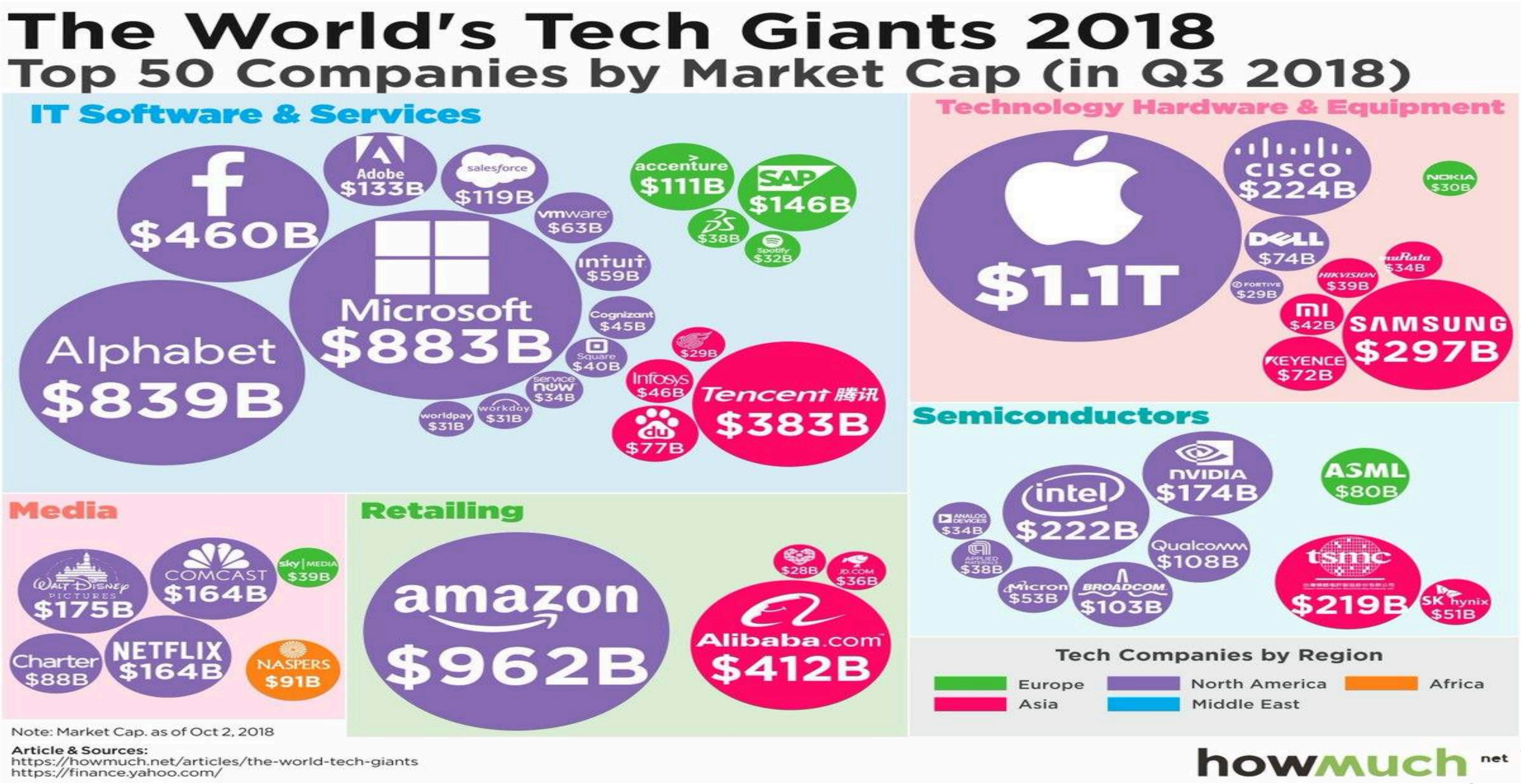
STEP 4 & 5 – IMPLEMENT & REVIEW

- All plans fail if they aren’t implemented or actioned
- Building wealth should be a joint exercise – on & off farm
- Make sure you review your off farm investments and strategies

INVESTMENT OPPORTUNITES OUTSIDE AUSTRALIA

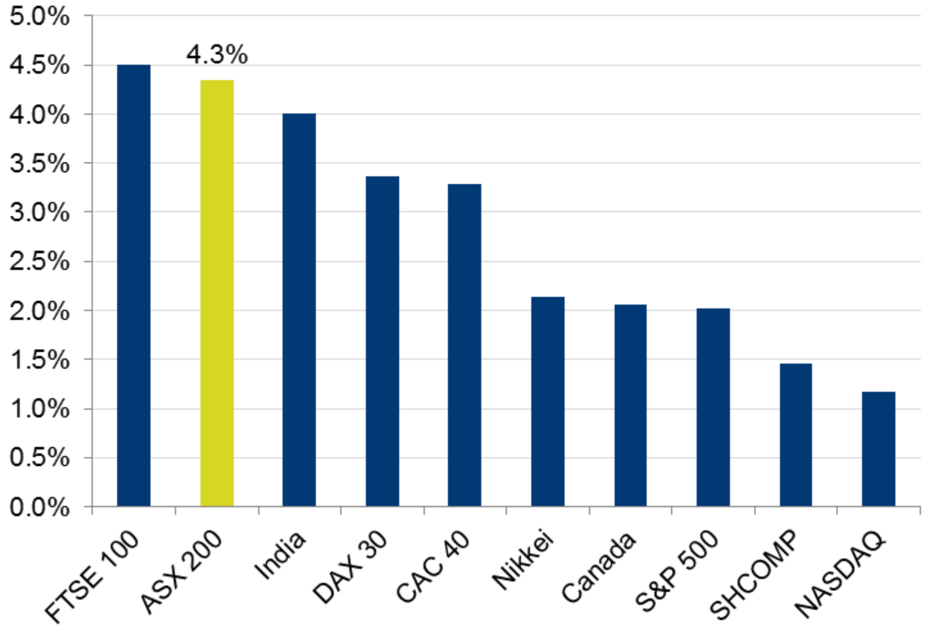


CURRENT MARKETS

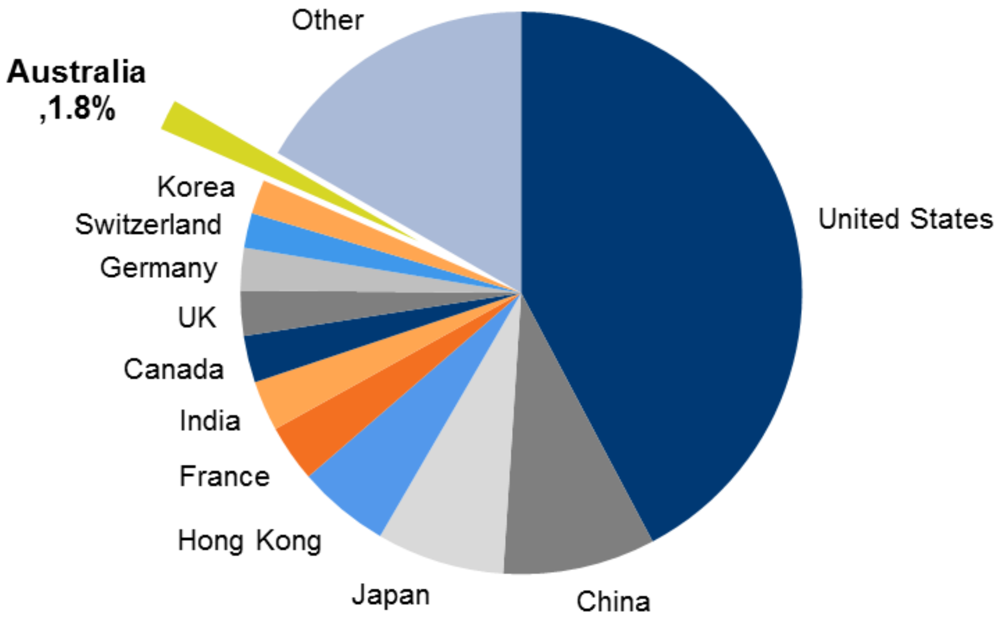


And Aussie yields attractive on a global scale

Forecast Dividend yields of global equities markets (%)



Relative sizes of major global equities markets



The ASX represents only a tiny slice of the global listed equity market pie (1.8%) but the hosts a disproportionately large fraction of global stocks yielding more than 6% (8% of global stocks). The weight of global $ shopping for Australia’s high yielders in such a small market has obvious effects.

The Case for Australian upside

- **Real growth** – Income growth >3% reflects a more robust economy than headline GDP suggests.
- **Jobs market** – Steady unemployment at ~5% despite higher participation rates.
- **Tax boost** – $4b of this year's Income Tax cuts to be delivered in Q3 and another $1.7b in Q4.
- **Fiscal Levers** – E.g. NSW Government Asset Recycling, Infrastructure investment.
- **Lower AUD** – Down 6% in FY19. RBA estimates 1-3 years to have maximum effect on activity.
- **Business confidence** – Bounced sharply off April pre-election lows, helped by rate cuts.
- **Policy certainty** – Provides confidence for businesses to start investing again.
- **Corporate Earnings** – Could easily beat very low FY19 expectations but the FY20 outlook is key.
- **Global** – Easier monetary conditions are driving signs of improvement in the real economy, which supports foreign investment in local subsidiaries.

TAX

1. Tax Changes – What's New or a refresher
2. Capital Gains Tax – Small Business CGT Concessions
3. Case Study

1.Tax Changes - What's New or a refresher

Increase in Tax Thresholds – Passed the Senate 5th July 2019

2018/2019, 2019/2020, 2020/2021 and 2021/2022		2022/2023 and 2023/2024		From 2024/2025	
Taxable income	Tax rate	Taxable income	Tax rate	Taxable income	Tax rate
$0 to $18,200	Nil	$0 to $18,200	Nil	$0 – $18,200	Nil
$18,201 - $37,000	19% for amounts over $18,200	$18,201 – $45,000	19% for amounts over $18,200	$18,201 – $45,000	19% for amounts over $18,200
$37,001 - $90,000	$3,572 + 32.5% for amounts over $37,000	$45,001 – $120,000	$5,092 + 32.5% for amounts over $45,000	$45,001 – $200,000	$5,092 + 30% for amounts over $45,000
$90,001 - $180,000	$20,797 + 37% for amounts over $90,000	$120,001 – $180,000	$29,467 + 37% for amounts over $120,000		
$180,001 and over	$54,097 + 45% for amounts over $180,000	$180,001 and over	$51,666 + 45% for amounts over $180,000	$200,001 and over	$51,592 + 45% for amounts over $200,000

Australian income tax rate changes for 2018/2019 and later years (residents)

1.Tax Changes - What's New or a refresher

Low and Middle Income Tax Offset – Passed the Senate 5th July 2019

LAMITO (current)		LAMITO (proposed)	
$0 – $37,000	Up to $200	$0 – $37,000	Up to **$255**
$37,001 – $48,000	$200 + 3% of excess over $37,000	$37,001 – $48,000	**$255 + 7.5%** of excess over $37,000
$48,001 – $90,000	$530	$48,001 – $90,000	**$1,080**
$90,001 – $125,333	$530 – 1.5% of excess over $90,000	$90,001 – **$126,000**	**$1,080 – 3%** of excess over $90,000
$125,334+	Nil	**$126,001+**	Nil

1.Tax Changes - What's New or a refresher

Instant Asset Write Off - Immediate Tax Deduction

- Prior to 28th January 2019 was assets ***less than $20,000***
- From 29th January 2019 to 2nd April 2019 ***less than $25,000***
- From 3rd April 2019 until 30th June 2020 ***less than $30,000***

NB: GST Exclusive Value, Per individual asset not accumulated, First used or installed or ready for use.

1.Tax Changes - What's New or a refresher

Primary Production Concessions

Immediate Tax Deduction of Capital Expenditure:

- Landcare Operations: i.e. drainage work to prevent salinity, erosion control activities or erecting fences under an approved management plan eradicating animal and plant pests
- Water facilities: such as dams, tanks, bores, irrigation channels, pumps and windmills (after 12th May 2015, previously spread over 3yrs)
- Fencing: (after 12th May 2015)
- Fodder Storage Assets: Hay Sheds, Grain Shed & Silos (after 19th August 2018)

- **Also Small Business Restructure Rollover Concessions (after 1 July 2016) allows small businesses to transfer active assets from one or more entities to another, without incurring an income tax liability - Not just farmers**

1.Tax Changes - What's New or a refresher

Super Contribution Limits

Concessional (Tax Deductible) $25,000 p/a per person

Non Concessional (Non Tax Deductible) $100,000 p/a per person

- Possible to bring forward 3yrs so $300,000, than nothing for next 2 financial years.
- Not available to people aged 65 or older
- Not available to members with a super balance of $1.6m

1.Tax Changes - What's New or a refresher

Single Touch Payroll - (STP)

If you employee people, issue Group Certificates/PAYG Payment Summaries

THINGS HAVE CHANGED………………Talk to your Accountant…….

2. Capital Gains Tax - Small Business CGT Concessions

Who does it effect?

All capital assets you have acquired since the introduction of Capital Gains Tax (on 20 September 1985)

Includes acquired, purchased, gifted or inherited after this date.

2. Capital Gains Tax - Small Business CGT Concessions

What is the effect?

At some point there could possibly be a tax liability, but there are concessions available that could minimise this or even reduce to zero

Recent large increases in the value of primary production assets (Land & Water)

Are there opportunities???

2. Capital Gains Tax - Small Business CGT Concessions

What is a CGT Small Business? Who has access to concessions?

You must first satisfy **one** of the following:

- turnover of less than $2 million
- total net value of assets does not exceed $6 million

With drought, low water allocations and reduced production, a business once over both tests may now meet the turnover test and now be eligible as a Small Business entity… Is this an opportunity?

2. Capital Gains Tax - Small Business CGT Concessions

What are the concessions?

- 15-year exemption – If your business has continuously owned an active asset for 15 years and you're aged 55 or over and are retiring or permanently incapacitated, you won’t have an assessable capital gain when you sell the asset.
- 50% active asset reduction – You can reduce the capital gain on an active asset by 50% (in addition to the 50% CGT discount if you've owned it for 12 months or more).
- Retirement exemption – Capital gains from the sale of active assets are exempt up to a lifetime limit of $500,000. If you're under 55, the exempt amount must be paid into a complying super fund or a retirement savings account.
- Rollover – If you sell an active asset, you can defer all or part of a capital gain for two years, or longer if you acquire a replacement asset or incur expenditure on making capital improvements to an existing asset

3. Case Study

The Facts

- John (60) and Jenny (58) operate a diversified farming partnership across several farms.
- Purchased one farm (land) in 1995 for $250,000 (post CGT)
- Farm land now (2019) market value of $850,000 (Gain of $600k)
- This farm is not secured by bank loan (or bank willing to release security)
- Not looking to retire

3. Case Study

What Can Happen.

- Utilising Small Business (SB) CGT concessions transfer the farm land to a self managed superfund (SMSF) triggering a CGT event
- After SB discounting the taxable gain would be $75k each
- Use retirement exemption, over 55 no need to put money into super and used $75k of $500k lifetime limit, or put into super to get extra cash in there.
- The transfer could possible happen as an in specie contribution – No or Minimal Cash Required
- The Superfund now owns land and is viewed as if it was a 3rd party investor with lease agreement and annual rent paid (say @ 5% p/a = $42,500 (on $850k)
- Generally no Stamp Duty on this transfer (check with your solicitor)
- Only cost is financial advice, tax advice and legal transfer fees

3. Case Study

The Outcome

- Increase CGT cost base from $250k to $850k tax free
- Tax saving annually of $8,287. Based on rent paid to SMSF

(marginal rate incl Medicare levy 34.5% - SMSF rate of 15% = 19.5% x $42,500)

- Once reach pension age and SMSF tax rate is zero, taxed saved = $14,662
- Paying money into super it is still your money
- If SMSF in pension and decide to sell Land, than this gain would also be tax free.
- If retire to town in future, lease to provide income for retirement, taking away burden on siblings now running other farms.
- Could fit with succession planning. Land becomes non farming children once John & Jenny pass.

3. Case Study

Do Nothing approach

- Small Business CGT Concessions may be removed? – Change of Government
- From 65 onwards is hard to get large amounts into Super (tax free environment - pension phase)
- From 75 not possible – Too Late – Can’t Contribute to Super.

- Always seek advice – Never a silly question
- Ask if there has been any changes which could help me?

QUESTIONS