Agribusiness Postcard

Ferrier Hodgson

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WHAT DOES THE BUDGET MEAN FOR RURAL AUSTRALIA?

The 2015-16 Federal Budget, although dubbed as conservative in nature, contains an array of positive changes for small business and the rural and agribusiness sector.

Australia's rural and agribusiness sector stands to benefit from constructive adjustments to laws surrounding taxation write-offs and fringe benefits tax – to the promotion of Northern Infrastructure and the extension of the Drought Concessional Loan Scheme. In addition, the Federal Government is set to implement significant tax cuts that have been on the table since the 2013 election.

THE BUDGET AT A GLANCE

Taxation rate cut

Perhaps the most significant impact in the long-run will be the tax cuts for Australia's 780,000 **small businesses**, with many of these established in the rural sector.

Effective 1 July 2015, companies with a turnover of less than $2 million will be taxed at 28.5 per cent, down from 30 per cent. The government estimates that the tax cut to small business will total $3.3 billion over four years. Assuming that all businesses are identical, this equates to approximately $4,231 over the period or $1,058 p.a. per company.

Determining the exact number of businesses in the rural and agribusiness sector that will benefit from these changes is difficult, as business numbers change constantly and therefore are rarely accurately reported.

Whilst a large number of rural and agribusiness operators will benefit from the company tax cut, there are also many who operate through partnership, sole trader and trusts without corporate structures.

For businesses that transact through these **unincorporated vehicles**, the government has offered a five per cent tax discount. The discount is capped at $1,000 per individual per financial year and will only be delivered as a tax credit in their tax return.

As shown by the example on the right, the unincorporated entity five per cent tax cut may appear significantly more beneficial than it is.

The importance of understanding how each of the proposed budgetary changes affect your business, given its structure and operations, cannot be underestimated.

THE IMPACT OF THE UNINCORPORATED ENTITY TAX CUT

Take a farming enterprise that operates as a two member partnership, making a taxable profit of $100,000. In addition, neither member receives an outside income. With equal distribution, each partner will end up with a tax liability of $7,797 (ignoring any other credits, offsets and rebates).

At 5 per cent, the tax cut would result in a discount of only $390 to their tax liability.

While it is easy to criticise the measures in the budget, however, given the overall fiscal state of the nation, any savings to individuals and corporate entities should be welcomed by the rural and agribusiness sector.

Immediate write-off of assets

The rural and agribusiness sector had two wins on deprecation.

First, the increase of the **threshold amount for immediate deductions of assets** from $1,000 to $20,000 for small businesses. In previous years, the government had legislated in an opposition direction, cutting the threshold from $6,500 back to $1,000 in 2014. This total change in course indicates a commitment to stimulate growth in the small business sector.

The change will apply to any assets acquired and installed ready for use between the time of announcement, 7.30pm (AEST) on 12 May 2015, and 30 June 2017.

We expect the second win to have a significant impact on the short-term investment decisions of farmers. In a double triumph for primary producers, key assets such as **water infrastructure, fencing and storage facilities** for grain and animal feed products can now be immediately written off. Previously, primary producers could only depreciate water assets over three years, fencing over 30 years and silos over 50 years.

Fringe Benefits Tax

In our experience many primary producers often don't fully understand the effect that Fringe Benefits Tax (FBT) plays in the tax position of their businesses.

This year's budget incorporates an expansion of the current FBT **exemption for electronic devices**, an increasingly important area for many farmers and rural industries as the acceptance and usage of electronic devices continues to grow.

From 1 April 2016, a FBT exemption will apply to small businesses that provide employees with more than one qualifying work-related portable electronic device.

Car-related expenses

Work-related car expenses **deductions have been simplified**. The '12 per cent of original value' and 'one-third of actual expense' methods, along with the replacement of the varying rates based on engine size used in the 'cents per kilometre' calculation have all been removed. This leaves only two-options to apply in motor vehicle deductions:

- A blanket 66 cents set rate of per kilometre; or
- The logbook method

The latter remains the most beneficial way for small business owners to report motor vehicle expenses.

Capital Gains Tax

The amendment to the Capital Gains Tax (CGT) **roll-over provisions** is a big winner for many rural businesses, particularly considering the underlying concerns surrounding the costs of succession for many rural families.

From 1 July 2016, small businesses are able to change the legal structure of the business without attracting a CGT liability.

Other measures

Other initiatives impacting the sector include:

- The provision of a $5 billion concessional loan facility, available to private sector participants engaged in major infrastructure in Northern Australia.

Source: onlineathens.com

SMART TECHNOLOGY IS ON THE RISE

Many farms are increasingly employing smart technology applications. An example of their use is on scan plants to obtain toxicity readings.

In particular, companies who offer precision-steering equipment, continue to invest heavily in agricultural technology.

Recent reports estimate that leading brands providing these types of smart technologies are deriving up to 85 per cent of their commerce from the agribusiness sector.

- Commitment to provide an additional $250 million during the 2015-16 financial year to extend the Drought Concessional Loan Scheme and the Drought Recovery Concessional Loan Scheme.
- The change of tax residency status for temporary workers. From 1 July 2016, most temporary workers will no longer be able to access resident tax treatment. Instead, they will be taxed at 32.5 per cent from the first dollar earned.
- The introduction of a new activity test proposed to align the extent of home-based care for children with the amount of subsidy received.

The above budget commitments are in addition to the $100 million Beef Road Fund announced by Prime Minister Tony Abbott during his visit to Beef Week in Rockhampton earlier in the month.

While most of the initiatives are beneficial to many rural families, the tax residency status for temporary workers is likely to adversely impact the number of foreign workers eager to live in rural Australia and consequently agribusiness staffing capabilities. This is concerning given the increasing reliance of rural families on backpackers and nannies to supplement the low availability of experienced operational staff.

Don’t miss out on the benefits available to your business

Treasurer Joe Hockey emphasised on Tuesday that the Federal budget was designed to free up cash flow and reduce administration for small businesses, particularly for those involved in agribusiness, which is a welcome relief.

While the passing of the budget appropriation bills by the Senate brings its own challenges, the importance of understanding how each of the proposed changes affect your business, given its structure and operations, cannot be underestimated.

It should be a priority for all to understand whether your business is operating in the most efficient manner and what you can do to further leverage the positive measures offered in the budget.

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