Bentleys
THINKING AHEAD

Grain Growers Guide

June 2020

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With clients expanding across the Eyre Peninsula, we have recently noticed an opportunity for grain growers to capitalise on a positive change within the industry, specifically regarding investment in on-farm storage opening the door for greater grower returns.

The current market is experiencing additional competition, lower receival charges and more competitive freight rates. With the recent grain market dynamics, post-harvest receival fee discounts and now the Federal and State Government tax incentives schemes, these all provide the opportunity to maximise grower returns.

In particular, T-Ports has introduced a newly completed, part grower-owned grain supply chain, creating an opportunity to invest in On-Farm Storage to ensure Farm Gate returns are maximised, for those farmers yet to have considered this capital investment.

We have prepared this Grain Grower Guide to assist you with the interpretation of the Federal Government's tax measures and provide information on investments and Farm Management Deposit's (FMD's) and their relevance within the current climate for Eyre Peninsula growers.

Concessions for primary production spend

Primary producers installing on-farm grain storage and associated infrastructure may be able to access accelerated tax write-offs which can substantially reduce the cost of the asset.

The types of assets you may install to facilitate the effective collection, storage and delivery of grain may include:

- Storage assets such as mobile bins, grain bags and silos.
- Augers, grain filling and unloading infrastructure.
- Trucks and trailers to transport grain.
- Tractors and associated harvest infrastructure; and
- Sheds to store produce and/or infrastructure assets or processing facilities.

We have set out below the various provisions which allow deductions for these assets.

Fodder Storage

You may obtain an immediate deduction for the cost of an asset used primarily and principally for storing fodder for livestock consumption (either for your livestock or other farmers). This will include grain which is used on your farm and distributed to feedlots through distribution channels.

The deduction is available in the year you first incur expenditure on the asset. Therefore, it is not critical that you have delivery of the asset prior to 30 June 2020 to get this deduction for the 2020 financial year. Where you have paid a non-refundable deposit, this should be sufficient to meet this requirement.

You will need to document a reasonable assessment of the primary use of the product at the time of purchasing the asset. This will have regard to the on-farm use of the grain or produce and expected patterns of distribution through distributors. We understand a reasonable proportion of grain passed through the T-Ports port is used in various domestic feedlots and may assist with this assessment.

The types of assets which may fall within this category include:

- Silos (including site preparation works)
- liquid feed supplement storage tanks
- bins for storing grain (including portable field bins)
- hay sheds
- grain storage sheds
- above-ground bunkers

The cost of grain bags used for storage would generally be deductible when incurred, regardless of their use, given their short effective life.

The cost of associated infrastructure (which is not part of the asset itself) such as portable augers, bag fillers & unloaders relating to the fodder storage asset would generally not meet the definition of 'fodder storage asset'.

Where an immediate deduction is not available under this particular provision other provisions may be available (see below).

Instant asset write-off

Assets and infrastructure of a primary producer, including the assets listed above will generally be eligible for the instant asset 100% write-off where the fodder storage deduction is not available.

To be eligible for the write-off, the asset:

- must cost less than $150,000; and
- must be installed ready for use by **30 June 2020**.

We note the deduction for vehicles which are 'cars[1]' is limited to $57,581. We expect that most farm vehicles would not be 'cars'.

[1] Generally designed to carry a load of less than 1 tonne or less than 9 passengers.

50% cost write-off

Where the asset is a 'new' asset (i.e. not second-hand) you may be able to claim a 50% deduction for the cost where you meet the following requirements:

- Your group business turnover is less than $500m p.a.
- It must be installed ready for use by **30 June 2021**; and
- You must have contracted to acquire the asset after 12 March 2020.

The balance of the asset may be depreciated under normal depreciation rules. Where you are a small business entity this rate is likely to be 15% in the year or acquisition[2] and 30% in each year after. The rate for other entities will depend on the type of assets. We have reproduced the current effective lives for these assets below.

Assets not eligible for concessions above

Where the asset is not eligible for these write-offs, the normal depreciation rules apply. These are:

- Non-fixed assets of a small business[3]: 15% in the first year and 30% thereafter[4]; or
- Non-fixed assets of other businesses at a rate based on their effective lives (below). The first-year deduction is apportioned for the number of days held.

Asset	Effective life (years)	Depreciation rate[5]
Field Bins	20	10%
Chaser bins	15	13.3%
Silos – steel	20	10%
Augers	10	20%
Truck	7 ½	26.7%
Trailer	10	20%
Tractor and harvester	6 2/3	30%
Sheds	40	5%

Example

Bruce is a grain farmer carrying on a small business[6] on the Eyre Peninsula. He maintains a large herd of sheep in a containment lot. He is looking at putting in place increased farm on-site storage by acquiring the following new assets:

5 steel grain silos	$140,000
3 portable silos	$ 75,000
1 Auger	$ 50,000
Silo bag filler	$ 25,000
Silo bag unloader	$ 40,000
Silo bags	$ 5,000
Upgrades to Prime Mover	$100,000
New trailers / upgrades	$100,000
	$535,000

[2] There is a special rule which allows a 57.5% deduction for the cost of the asset which equates to a full deduction for 50% and 15% on the remaining 50%.
[3] Generally, less than $10m turnover
[4] You need to be careful which entity in the group purchases and uses the asset. Where the asset is merely leased to another group entity it may not be eligible for this rate.
[5] Diminishing value method
[6] Less than $10m turnover

If Bruce acquires all these assets before 30 June 2020, the full amount will be tax-deductible for the year ended 30 June 2020. This will give a tax benefit of $147,125 at 27.5%[7] assuming the corporate tax rate. Bruce may choose to fund this purchase by drawing-down on FMDs (see below). This deduction will mean the withdrawal of the FMD is tax neutral.

If Bruce acquires these assets after 30 June 2020 but before 30 June 2021 and can form a position that the grain storage will be primarily for livestock use, the tax treatment should be:

Asset	Deductible amount	Tax benefit at 26%[8]
Steel Silos	$14,000	$36,400
Portable Silos	$75,000	$19,500
Augers	$28,750	$7,475
Silo bag filler	$14,375	$3,738
Silo bag unloader	$23,000	$5,980
Silo bags	$5,000	$1,300
Upgrades to Prime Mover	$15,000[9]	$3,900
New Trailers	$57,500[10]	$14,950
	$358,625	**$93,242**

Funding your investment using FMD's

In the precision farming era, On-Farm Investment has driven 1% gains that have improved farm profitability incrementally in the last decade. This investment has largely been in technology, training and new techniques. But how do you continue to maximise that profitability gain, what are your options?

The question links to the top strategic issues of family farms:

1. Growing farm profitability and performance
2. Farm Succession Planning, and specifically increasing farm size to support a son or daughter returning to the farm and building alternative wealth (such as superannuation, shares, cash and off-farm property) to provide for retirement and as a balancing asset in succession for an off-farm child.

Farm Management Deposits (FMD) have become a major off-farm investment for many farmers. With the fall in interest rates over the past decade, we have been working with clients to review their FMD strategy and deal with the issues of tax and the changes to a business structure that entails.

An FMD is a Tax Deferral Mechanism designed to move income from a high profit "boom" year to a loss-making or "drought" year, so a farmer's tax rate is more representative of their long-term returns. So, an FMD is an investment in a cash deposit with a linked tax deferral mechanism, and as cash rates have fallen, the ability for these assets to generate a useful return has also dramatically deteriorated.

[7] The corporate tax rate for 2020.
[8] The corporate tax rate for 2021 reduces to 26%.
[9] Assumes upgrade to Prime Mover is an improvement and must be depreciated. As it is not a new asset, the 50% write-off is not available. Where the work is a repair, the cost may be deductible
[10] New trailers should be eligible for the 50% write-off. Improvements to existing assets will not be eligible. Repairs to an existing asset may be deductible.

This has affected the ability of many family farms to achieve their strategic alternatives, as principally it's harder to grow the balances with lower interest rates, and for some, the FMD balances are so high it is difficult to invest in a new farm or other assets as the tax hit becomes a costly barrier when withdrawing the funds.

As such we have encouraged farms with consistent profitability to re-think their farm business structure as there is a point where FMD's will begin to hinder their expansion, wealth, or profitability. This is because FMD's saddle family farms with a low yielding asset that is not contributing to their long-term goals, and when trying to restructure they are required to undertake careful tax planning to withdraw the funds and modify the strategy.

So, what can farms do to try and implement this change and improve their outcomes?
It's a 3-step process:

1. Reconsider the family's key goals and objectives over the long term, which includes the farm and succession;
2. Identify the appropriate mix of investments that will achieve those goals; and
3. Re-structure your business, both legally and strategically to fulfil those goals efficiently.

For example, assume the goal is to build wealth to allow for the expansion of the farm and that 'investment' is any capital or other investment aimed at generating a return, in this case, one that generates more than an FMD.

From here, there are several investment decisions one could make, including:

New equipment or improvements

New equipment or capital improvements like larger equipment or cleaning facilities are investments that have a return where that equipment is more efficient or cost-effective and therefore improves profitability.

It also has a return where it may allow a higher sales price of a commodity, i.e. cleaning grain to achieve a higher grade, storing grain to save storage costs or allow faster harvest to avoid bad weather damaging yield.

It is worth noting, where equipment has no financial benefit through cost, efficiency improvements or otherwise, it can reduce farm returns by increasing the per hectare cost of capital with no reduction in the cost of production or any increase in farm output.

Acquiring more farmland

Additions to farm property; farms generally increase in value over time, and for some farmers with adequate capital a large farm can reduce the per hectare capital operating costs also increasing returns.

Off-farm investments

Off-farm investment such as shares, or commercial or residential property should also be considerations. They diversify risk away from the agricultural cycle and can produce returns usually with minimal input.

Such investment is often valuable in succession planning, both for those leaving the farm to retire and off-farm children to be allocated to balance the equation.

Reducing debt

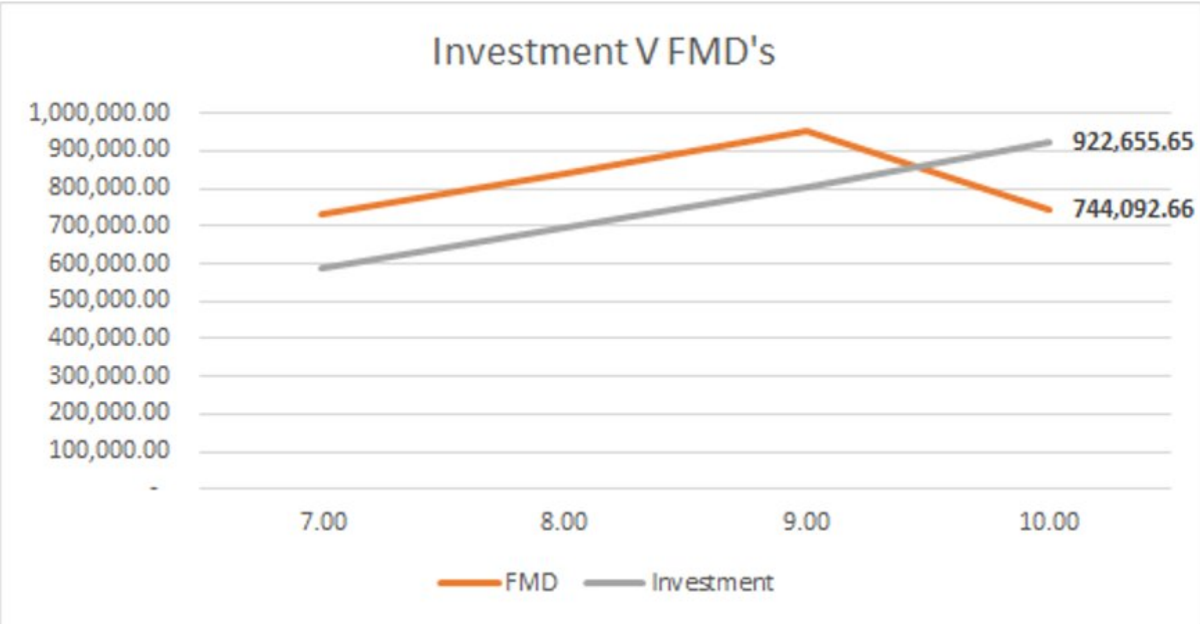
As a low-risk option, reducing debt to save interest costs is as good as earning that same interest rate in a bank account or FMD. (Note, some banks allow the offset of FMD and bank debt, enquire if you are unsure.)

Regardless of how you choose to invest in your farm or in anything else you should always consider the following:

1. What investment generates the best return for my money?
2. How does my investment assist with my strategic goals and objectives?
3. Where your investment is also tax effective your returns can be magnified.

If you want to understand how an investment in your farm, (or in other assets where the return is greater than the current interest rate) can affect your wealth over time, see the following illustration.

This graph maps $100k invested in FMD's over 10 years and withdrawn in the last year, versus $70k investment ($100k less 30% tax paid) in an asset generating 6% over the same period.



The result after withdrawal is that the farmer who relied on FMD's will be $178,000 less wealthy than the farmer who invested in either, capital, shares or expanding the farm where the return was at least 6%.

If that investment was tax-effective (i.e. deductible capital - a piece of equipment, silo, shed etc.) or land subject to capital gains (or which may be concessional taxed such as superannuation), your investment is magnified, either by allowing a higher initial investment such as a new tractor worth $100,000 that can be written-off for tax purpose. This immediately increases your initial investment or reduces your tax payable over time, meaning more money for further investment, therefore, more, and higher returns.

In conclusion

After tax on or off-farm investment that exceeds the return on and FMD should have improved wealth and financial outcomes for a farm long term.

If that investment is capital (heavy equipment, sheds etc) it is also tax effective – meaning tax-deductible and the benefits are magnified.

Using the $150,000 instant asset write off for new or second-hand assets between 12 March and 30 June 2020, or the 50% write-off for new assets purchased before 12 March and 30 June 2021 with assets that improve farm returns will have a significant effect.

For further understanding of how primary producers installing on-farm grain storage and associated infrastructure may be able to access accelerated tax write-offs, please contact your trusted Bentleys advisor on **advice@adel.bentleys.com.au** or 08 8372 7900.

Disclaimer

Where you want to be

Bentleys SA

Your Bentleys SA advisor can partner with you to identify opportunities outlined within the guide, to help your business grow.

Initial consultations are complimentary.

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