

National Australia Bank

700 Bourke St
Docklands VIC 3008



26 April 2021

Farm Management Deposits Scheme Evaluation Team
Department of Agriculture, Water and Environment

Via email: FMDS.Evaluation@agriculture.gov.au

Dear Sir/Madam

National Australia Bank (NAB) welcomes the opportunity to provide input to the Farm Management Deposit Scheme Evaluation by the Department of Agriculture, Water and Environment.

As Australia's largest business bank and largest provider of finance to the agriculture sector, NAB's view is that the Farm Management Deposits Scheme (FMDS) has been an important source of support for customers. The Evaluation is also a timely review given the most recent changes were made to the FMDS in 2016.

Following those changes, NAB was pleased to be the first major bank in July 2018 to offer customers the financial benefit of being able to offset their Farm Management Deposit (FMD) against their agriculture lending in the form of a discount to their lending interest rate.

How FMDs are being used

NAB believes that primary producers are utilising FMDs to manage their cash flow during times of natural disasters or drought. FMDs allow producers to set aside pre-tax income in years of stronger performance that can then be accessed in years of lower production. As a risk management tool, FMDs help primary producers manage uneven income patterns that often exist in the sector.

NAB has also observed differences in behaviour by customers between jurisdictions that would indicate this is the case. In the 12-months to March 2020, around \$40 million was withdrawn by NAB customers in the drought impacted states of Queensland and New South Wales. In comparison, the lesser drought impacted states of Western Australia, Victoria and Tasmania recorded deposits totalling approximately \$60 million. Geographically, NAB has also observed greater drawdowns from NSW customers in calendar year 2020 (likely due to the impact of drought and bushfires) than customers in other states.

There is a clear annual trend in NAB data and data from the Department of Agriculture, Water and Environment that there is an increase in income deposited into FMD accounts in the June quarter, and then withdrawals in the September quarter based on the taxation treatment of FMDs.

Non-primary production income cap

NAB notes that currently a primary producer must earn less than \$100,000 in non-primary production income in the financial year they make a deposit. This threshold was last increased from \$65,000 to \$100,000 in 2014. Given the increased diversification of income that some primary producers are undertaking, and the length of time since the last increase, NAB's view is that consideration should be given to increasing this cap. NAB is seeing primary production customers diversifying their income across sectors and through new offerings such as agritourism or hospitality hosted on agricultural premises, particularly following the impact of COVID-19. This innovation in finding alternative sources of income should be considered in reviewing the cap. NAB believes that a higher cap of between \$150,000 and \$200,000 should be considered along with an annual Consumer Price Index adjustment. A higher limit and the introduction of indexation would allow primary producers more flexibility and certainty in planning through the cycle. Off farm income also helps build resilience for producers against natural disasters and droughts and these diversified income streams should be supported beyond the current limit on non-primary production income.

Tax application

Currently, income deposited into an FMD account is tax deductible in that financial year and becomes taxable income in the year in which it is withdrawn. NAB encourages the Evaluation to consider whether further tax concessions on the withdrawal of money from FMDs are appropriate in order to remove any disincentive to access this money. Anecdotally, NAB knows that some farmers can be reluctant to withdraw funds in a timely manner to reduce financial stress, knowing that once FMDs are withdrawn tax becomes payable. Structures should support the ability for more timely decision-making, rather than decision-making being driven based on the date of draw down and consequential tax impact.

Options could include allowing producers facing financial difficulty to withdraw a certain small percentage of their FMD holding without requiring it to be declared as income. Alternatively, the tax payable on the withdrawal of an FMD could be deferred and paid across that financial year and the following financial year. NAB acknowledges that these changes would need clear eligibility criteria to ensure that primary producers did not seek to make withdrawals simply for concessional tax treatment and were only accessible for producers who qualified as facing some form of financial difficulty.

Security as lending

NAB has previously proposed that FMDs be permitted to be used as security for lending. This could give farmers access to additional security as capital for banks to lend against. Allowing FMDs as security could also be considered in lending pricing considerations.

NAB believes that this change is worth strong consideration but important factors such as the subsequent limited liquidity of funds used as security should be evaluated before any change is made. The impact will also vary depending on individual business circumstances. For example, where lending is secured against property/land, the benefit to the producer may be marginal. Where such security does not exist though then the benefit could be more significant. One option could be allowing only a certain percentage of an individual's FMD to be used as security against lending.

Other matters

NAB notes the Evaluation's terms of reference do not permit consideration of the \$800,000 FMD deposit threshold or whether the FMDS should be extended to other business structures such as companies and trusts. NAB encourages the Government to consider these features to ensure they remain fit-for-purpose either via a further review or direct consultation with the agricultural industry.

Conclusion

NAB is happy to share further data with the Evaluation that may be helpful in relation to the usage of FMDs by customers.

If you have any questions about this submission then please contact Chris Venus, Head of Public Policy on chris.venus@nab.com.au or 0477 306 694.

Yours sincerely



Julie Rynski
Customer Executive – Regional and Agribusiness
National Australia Bank