30th of April 2021

FMDS Evaluation Secretariat
Department of Agriculture, Water and the Environment
Australian Government

Farm Management Deposits Scheme Evaluation 2021

The Pastoralists and Graziers Association of WA (Inc) (PGA) is a non-profit industry organisation established in 1907, which represents primary producers in both the pastoral and agricultural regions of Western Australia.

The PGA is a firm supporter of the Farm Management Deposit (FMD) Scheme (FMDS).

The PGA objects to the suggestion in the Evaluation's Terms of Reference that the FMDS is used as a form of tax planning. As a form of income averaging, the FMDS must perforce have this kind of element embedded within it. It does not mean that it is the primary reason farmers use them.

The PGA was disappointed to read that the Evaluation's Terms of Reference pointed out that the government provided $215 million in tax relief in 2019-20 to primary producers through the FMDS. This is nothing unusual. The Commonwealth Government provides tax relief to other parts of Australian society, such as the Family Tax Benefit, not to mention last year's October media release by the Prime Minister, where he announced his Government's tax relief package, for both individuals and business. Further, the estimated $215 million in tax would be reclaimed when the FMD is withdrawn.

The PGA is also disappointed that the scope of the Evaluation ruled out many other possible changes to the operation of the Scheme. The PGA believes that some changes to the operation of the Scheme would incentivise its use.

The PGA notes that small businesses in rural towns are impacted by drought just as much as drought affected farm businesses when those latter businesses reduce their spending. Yet the expansion of the FMDS to non-primary production businesses was ruled out.

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The PGA also believes that FMDs should have the ability to be converted into superannuation, as part of farm succession planning. Such a conversion would not be a concessional transfer of wealth, if it has robust rules such that a retiring farmer cannot re-enter the workforce, and tax is paid in a similar way to when an individual withdraws their superannuation before its preservation age.

Increases to the $800,000 FMD deposit threshold was also ruled out yet the average balance is only $139,000. In the PGA's view, the cap is not achieved and does not achieve anything, so therefore should be removed.

The PGA also believes that the average balance does not signify anything. As the FMDS is designed to be used by individuals, it cannot therefore be representative of the most common farm business structure, such as trusts and partnerships between related individuals, which then distribute income to those individuals, who may or may not have an FMD.

In discussions with its members whilst preparing for this consultation the PGA became aware that any rent received from leasing out a farm is not considered as primary production income for the reason of income averaging for tax purposes. Consequently, the lessor cannot avail themselves of the FMDS despite that income being subject to all the same economic or climatic influences that their on-farm income may also be subject to.

Yours Faithfully

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President

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