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Evaluation Team
Department of Agriculture, Water and the Environment

By email: FMDSEvaluation@agriculture.gov.au

Dear Sir or Madam

SUBMISSION ON EVALUATION OF FARM MANAGEMENT DEPOSITS SCHEME

About RSM Agribusiness Services

RSM is a leading provider of professional services to the agricultural industry in Australia. We have been helping agricultural businesses in Australia achieve their financial, operational and strategic objectives for over 95 years. Our unparalleled regional presence allows us to work closely with the farming community in combating challenges and realising opportunities.

We are pleased to provide a submission on the evaluation of the farm management deposits (FMDs) scheme.

Overall comments

We believe it is imperative that primary producers have access to regulatory measures which enable the effective management of cash flow and tax liabilities to achieve sustainability of an essential industry that is jointly impacted by the severity of climatic events and the volatility of commodity trading markets.

We support the FMDs scheme as an effective measure with a demonstrated track record of successfully improving cash flow management and increasing self-reliance among primary producers and note:

- the scheme assists primary producers to plan for and manage through climate events by providing a tax incentive to carry over income in years of good cash flow and to draw on that income in years of reduced cash flow for uses such as:
 - fodder supplementation in years of fire, drought and flood
 - uninsurable flood damage repairs
 - business continuity costs during years of no income (including retention of a workforce in remote and regional areas)

as well as funding capital investment on water infrastructure, fodder storage and land care initiatives for longer term risk mitigation.

- the scheme assists primary producers to better manage market fluctuations which is considered essential if Australian primary producers are to remain competitive on an international scale where they have minimal price regulation support and yet significant input cost regulation (e.g. minimum labour cost rates and quality assurance costs).

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- whilst the FMDs scheme can assist with tax management as an income equalisation tool, we view the tax treatment of FMDs as a suitable incentive for primary producers seeking to improve their cash flow management.
- many primary producers are experiencing unprecedented high debt levels due to rising land prices and bearing the costs of successive dry years. This has undoubtedly suppressed the use of FMDs amongst impacted primary producers given they will be forced to direct any cash inflows towards maintaining an acceptable leverage point for lenders. We submit that this should not detract from the effectiveness of the scheme for those primary producers in a position to utilise it.
- the targeted 2016 amendments have increased the effectiveness of the FMDs scheme and remain consistent with the objectives of the scheme. For example, the loan offset arrangements provides a cost saving incentive whilst keeping the funds available for quick access rather than permanent debt reduction.

Areas for improvement

Change of circumstance declaration for early access

We accept that the 12 month rule on accessing FMD's is an appropriate tax integrity measure along with relevant exceptions, such as the rainfall deficiency exception introduced as part of the 2016 amendments.

We suggest that a further exception could be introduced based on a significant 'change of circumstance' declaration by a relevant Department. By way of example, rain events of recent months provided an opportunity for cattle farmers to restock and for cropping farmers to plant late summer crops. This 'change of circumstance' is an example where farmers should be given early access to funds to align with business needs.

Contemporary business structures

Whilst outside the scope of your current evaluation, we wish to note that we strongly support the expansion of the FMDs scheme to cover contemporary business structures adopted by primary producers, including trusts and companies. Notably, it is the business that suffers significant fluctuations in cash flow and this is where the support should be targeted.

Death of FMD holder

Again, whilst outside the scope of the current evaluation, we wanted to raise the timing mismatch and resulting tax impact when a FMD holder passes away and their entire FMD balance becomes assessable resulting in a larger tax liability to the Estate. This is in contrast to the timing of the lodgement of the FMD's which is usually made over a number of years. A suggested solution could be to allow the Executor of the Estate the option to withdraw the deceased's FMD balance over 3 income tax years, including the year of death. We believe that this would be more in line with how the deceased is likely to have withdrawn the FMD's if they were still alive.

We would be pleased to assist your Department by way of direct consultation on other ways to improve the effectiveness of the FMD's scheme.

Should you wish to discuss any details in our submission, please do not hesitate to contact the writer on 08 9432 3100.

Yours sincerely
RSM Australia Pty Ltd

Ross Paterson
National Head of Agribusiness