Merry Christmas from RSM

CLIENT NEWSLETTER Katanning | December 2018

OFFICE NEWS

NEW RECEPTIONIST

Our new receptionist Laura Saunders started with us in August. Laura is originally from Zimbabwe and moved to Australia with her family in 2006. We are pleased to have Laura on the team as she brings more youthful enthusiasm and talent to our office. Next time you call or visit our office, say hello to Laura!

'SPIRIT OF CHRISTMAS' FACEBOOK CAMPAIGN

This year our very own Jimmy Smit dressed up as Santa to participate in RSM's 'Spirit of Christmas' Facebook campaign. 'Santa' dropped in at the local Ambulance Sub Centre and helped out washing the vans while he was in town searching for Rudolph who has gone travelling! Check out our Katanning Facebook page to follow the travels of Rudolph & Santa and see where they will pop up next!

AMANDA IS A CPA!

Congratulations to Amanda Rocco who passed her final exams in November and she is now officially a CPA! This is a professional qualification which requires essential experience and considerable post-graduate study. She achieved excellent results throughout the three years it took to complete. Well done, Amanda!

ARE YOU READY?

SINGLE TOUCH PAYROLL IS COMPULSORY FOR ALL BUSINESSES FROM JULY 1, 2019.

Single Touch Payroll (STP) requires employers to report payments such as wages, pay as you go withholding and super information directly from their payroll software or payroll service provider to the ATO.

All businesses with 20+ employees are already using the system.

If you are a business with 19 or less employees, you are required to get on board by July 1, 2019.

The system aims to eliminate both the need to report employee related PAYG withholding in activity statements throughout the year or provide employee payment summaries at June 30.

Under this process, your electronic accounting software can automatically report payroll information to the ATO at the time employees are paid.

What you need to do...

- Review (or engage new) payroll software – STP will require either an upgrade or change of every payroll system, so the time to review is now. Avoid the last-minute panic!
- Remember that payroll is only one component of your business software – so it is the perfect time to review all processes to ensure your systems meet current requirements.
- *Don't currently use payroll software?* Now is the time to start as it is mandatory under STP.
- Depending on your business needs, there may be benefits changing to a cloud-based accounting program — they are economical, easy to use and provide real time information. We are here to assist you in identifying any limitations with your current software and/or helping implement and train you in a new program.
- The ATO are making substantial changes and we encourage all our business clients to engage with their RSM Accountant and support staff to stay informed and help with any the issues that may arise.
- Please contact your local office to make an appointment to discuss your requirements to comply.

FARM MANAGEMENT DEPOSIT ACCOUNT OFFSET

Many banks are now offering farmers the ability to offset FMD's against farm business loans. The FMD offset account can only be linked to an eligible loan of the FMD owner or their partnership (excludes companies, trusts or a person who is not the FMD owner) where the linked loan is used wholly for the purpose of the primary production business. The FMD offset can only be linked to one loan at any particular time.

So how does it work?

1. **No offset:**
   - Loan = $400K @ 5% = $20K interest payable by partnership/sole trader
   - FMD = $200K @ 2% = $4K interest income to individual FMD holder
   - **Net = $16K interest payable**

There appears to be two ways that different banks are applying the FMD offset accounts:

2. **Straight offset:**
   - $400K– $200K = $200K @ 5% = $10K
   - No FMD interest income in individual return
   - **Net= $10K interest payable**

3. **Differential rate offset:**
   - $200K FMD/$400K loan = 50% x differential (5%–2%) = 3% x 50% = 1.5% discount. This is applied to the loan interest rate. 5% – 1.5% = 3.5%
   - FMD = $200K @ 2% = $4K interest income to individual FMD holder
   - Loan = $400K x 3.5% = $14K interest payable by partnership/sole trader
   - **Net = $14K – $4K = $10K interest payable**
     Regardless of the offset arrangement your bank offers, the benefit is the same.

Don't forget to call your RSM accountant if you are considering this arrangement to discuss the tax implications and eligibility requirements.

IMMEDIATE DEDUCTION FOR FODDER STORAGE ASSETS

The Australian Parliament introduced a bill in September allowing assets used for fodder storage to be immediately deductable for primary producers in the year they are obtained. It applies to assets that are acquired on or after the 19th of August 2019. The Treasury Laws Amendment (Supporting Australian Farmers) Bill 2018 amends the previous law allowing a deduction for such assets to be depreciated over 3 years.

A fodder storage asset is an asset that is primarily and principally for storing fodder for the primary producer's own livestock. Grain storage assets that are used primarily to store grain for sale, cannot take advantage of this new law.

Fodder storage assets includes: silos, liquid feed supplement storage tanks, bins for dried grain, hay sheds, grain storage sheds & above ground bunkers.

DEFERRED DELIVERY OR DEFERRED PAYMENT

Do you understand the tax implications of your grain contracts?
Farmers looking for certainty in the price of grain through guaranteed returns may consider fixed price contracts.

But fixed price contracts can create an immediate tax problem due to extra grain income in the current year that would normally be deferred to the next tax year under a pooling arrangement.

If farmers want a fixed guaranteed price and have the grain income taxed next financial year, a Deferred Delivery Contract may be the answer.

A Deferred Delivery Contract is where a grower agrees to a price at harvest, but the grain is delivered in the future. Title in the grain passes at the time when the grain is nominated to be delivered, usually after the end of the financial year.

Many farmers benefit from deferring taxable income as their tax liability tends to be levelled through good and bad years.

Some farmers may also prefer to average out their gross annual incomes to ensure their turnover is under $10 million so they can continue to qualify for small business entity concessions. (Note please don't be confused with the turnover threshold for small business CGT concessions which remains at $2 million).

Deferred Payment Contracts are not the same as Deferred Delivery Contracts.

Deferred Payment Contracts are an arrangement to buy the grain at harvest with proceeds paid at a later time (usually July). The grower has effectively sold the grain at harvest.

For most farmers, a Deferred Payment Contract does not defer the taxable income as the contract value becomes owing to the grower at the time the contract is entered into and the income may still be assessable in the current financial year.

With Deferred Delivery Contracts the grain is not released or delivered to the buyer until July and therefore is not taxable until then.

Taxation considerations play a big part in marketing grain and farmers should seek advice from their accountants now in formulating their grain marketing plans for the current harvest.

We would like to wish all our clients a very Merry Christmas & Happy New Year!

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