Season's Greetings

from RSM

PORT LINCOLN CLIENT NEWSLETTER

Welcome to the latest edition of the Port Lincoln office newsletter. Today we share some end of year planning strategies on farm management deposits, farm succession planning and the Australian Taxation Office changes coming into effect 1 July 2018.

We would like to thank you for your support throughout the year and wish you and your family a Merry Christmas. We hope that you have an enjoyable and safe New Year and look forward to collaborating with you in 2018.

The Port Lincoln office will close at 3pm Friday 22 December 2017 and reopen on Monday 8 January 2018 at 8:30am.

CLIENT WIN

RSM Australia Port Lincoln clients, Port Lincoln Office Choice were awarded the 2017 SA/WA/NT Dealer of the Year at the recent National Office Choice AGM in October 2017.

Proprietors Natasha and Davin Bryant have been clients of RSM Port Lincoln for over 15 years with Natasha being a former employee of RSM Bird Cameron. Port Lincoln Office Choice was started in 2005 by Natasha's family with Natasha leaving RSM to become the store manager and later the owner with her husband in 2012. Natasha & Davin pride themselves on their customer service and ability to provide low cost and convenient services to their clients.

We congratulate Davin and Natasha on their award and look forward to continuing to support your business in the future.

CLEVE COLOUR RUN

The Port Lincoln office was a major sponsor of the recent CSB Colour Run held in Cleve on Saturday 4th November. Staff travelled to Cleve to attend the 5km event along with over 550 people. It was a great day and we were pleased to be involved in helping to raise over $12,000 to go directly into the rebuilding of the Cleve Community Multi-Function Sports Complex.

CONGRATULATIONS!

Congratulations to Emma Brock – 5 years with RSM!

RSM

UPDATE FROM RSM FINANCIAL SERVICES

As we approach the second half of the financial year, it may be an opportune time to discuss your financial position with one of our Financial Adviser's. Some of the area's which RSM Financial Services specialise in and which may be of benefit before 30 June 2018 include:

Superannuation

- SMSF strategies
- Investment portfolio's
- Income needs for Account Based Pensions
- Contributions (new caps for the 2017/18 financial year)
- Costs savings

Insurances

- Life, TPD, Trauma & Income Protection

Retirement & Pre-retirement planning opportunities

Call the Port Lincoln office on 8682 2077 to arrange an initial appointment with David McArthur or Daniel Cundy. Alternatively, when you next meet with your accountant a suitable time can be arranged.

Daniel Cundy will be available on February 7, March 7, April 11, May 9, June 6, July 11, August 8, September 12, October 10 & November 7 in Port Lincoln

David McArthur will be available on February 28, March 28, April 30, May 31, June 28, July 31, August 30, September 28, October 31, and November 29 in Port Lincoln.

JED CARSON CLEVE & COWELL 2018

Jed Carson will be in Cleve February 2, March 21 & May 2.

Cowell on February 8 & May 3.

Please call our office on 08 8682 2077 to make an appointment.

ARE YOU THINKING OF CHANGING TO A CLOUD BASED ACCOUNTING SYSTEM?

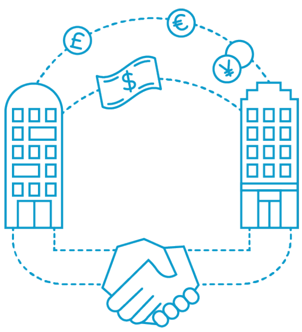
Please be aware not all cloud based accounting systems are the same as the desktop version. For example, QuickBooks Online is completely different to Reckon (formally QuickBooks) desktop.

RSM can access some great deals with certain software companies and offer a setup service which means your data is correct from the get-go. This in turn is more cost effective in the long term then having to spend hours fixing data later.

Don't get caught, please ask us for guidance on the best type of program to best suit your business needs. Contact our resident bookkeeper Kerry Miller or your accountant if you are considering making the move.

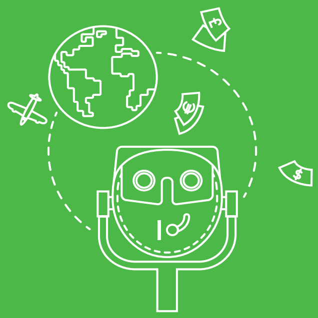
JUST A THOUGHT...

Small opportunities are often the beginning of great enterprises



FEEDBACK

Are there any particular topics you would like us to explore in the next edition? Drop us an email at portlincoln@rsm.com.au and let us know. We would also love to hear any other feedback you may have.



IDEAS AND INSIGHT, COLLABORATION AND UNDERSTANDING.

LOOK OUT CHANGES ARE COMING 1 JULY 2018...

Changes to Self-Managed Super Funds with balances over $1 Million

The ATO have implemented a SMSF event-based reporting from 1/7/18 for any fund where a member is in receipt of an account based pension.

Members who are entirely in accumulation or are in a receipt of a TRIS pension will not be affected by this reporting requirement, until the commencement of an account based pension.

Funds will be required to report on a quarterly basis if their total super account balances (i.e., pension and accumulation) is more than $1 Million, those funds with a total super account balance of less than 1 Million will be required to report annually upon the lodgement of their annual return.

Events that are to be reported to the ATO include, commencing an account based pension, commuting all or part of an existing account based pension, LRBA repayments, if you exceed your $1.6m pension cap and structured settlements (i.e. divorce settlements).

If you are required to report quarterly this will need to be lodged with the ATO within 28 days of the end of the quarter.

We will be contacting those who will be affected by quarterly reporting in the New Year to discuss the reporting requirements and what we will require from you in order to comply with these new reporting measures.

If you are unsure as to what your total super account balance is, you are in discussions with your adviser re commencing an account based pension or are unsure if this will affect you please contact Emma Brock or Cherie Bascomb on 8682 2077 for further clarification.

ARE YOU IN THE BUILDING/ CONSTRUCTION INDUSTRY? DO YOU USE CONTRACTORS?

Have you heard of the Taxable Payments Annual Summary Report?

The Taxable Payments Annual Summary Report is used to report payments to contractors. This was introduced back on the 1st July 2015 by the Australian Taxation Office. As of 1 July 2018 they will be imposing penalties for those that are not lodged on time. Due date is 28th August annually. We understand that these can be confusing and ask that if you require help to please contact your accountant to avoid penalties.

DATES TO REMEMBER

22 December 2017 – 7 January 2018 – RSM Office closed

28 February 2018 – Final lodgement due for Medium size Company tax

28 February 2018 – BAS lodgement and payment due date for December 2017 quarter

28 February 2018 – Lodgement date for newly established Self-Managed Super Funds

30 April 2018 – BAS lodgement and payment due date for March 2018 quarter

15 May 2018 – Final lodgement date for all Individual, Small size Company tax and all other Super Funds

28 May 2018 – FBT Return due, lodged via Paper

25 June 2018 – FBT Return due, lodged Electronically

FARM SUCCESSION – HOW TO GENERATE INCOME WHEN RETIRING FROM YOUR FARM

By Paul Lindley

One question I am often asked by my farming clients when considering farm succession is...

How much do I need to fund my retirement when considering retiring from my farm?

The answer to this question is quite complex but it basically comes down to two key questions;

- What are your spending needs now?
- How will they change in retirement?

When you are trying to answer these questions and put together a budget and estimates when considering retiring from the farm, it's important to consider the following:

- Are you single or part of a couple?
- Will you own your home outright (no mortgage) or be paying no rent?
- Do you wish to travel in your retirement, is this domestic or overseas?
- Rates, water, electricity, gas, groceries, telephone, medical – what are these costs?
- Are you willing to draw down on your investment capital to fund your income needs?

This is not an easy task and can be even harder for farming families as usually these expenses have been funded by the farm business.

However, this is breaking the habits of a lifetime and therefore more time should be spent on planning for farming families in this area. Investing the time to estimate and budget for these living costs can, with some assistance, help you formulate a monthly or yearly figure which will form the basis for funding your retirement lifestyle.

Once you have your estimate it's now a matter of looking at the different ways to fund your ongoing income needs.

The usual options are likely to include a combination of;

- Superannuation
- Investments, such as shares or property outside of Super
- Part-time work
- Lease from farmland
- Share farming
- A full or part Centrelink age pension (depending on eligibility)

What can complicate matters is the decision whether or not to purchase a house in town, to stay in the family farmhouse for some time before moving on or to simply remain on the farm.

Where you decide to purchase a house in town, starting this planning early is crucial as this may require assets to be sold or maybe even some short-term debt to be arranged.

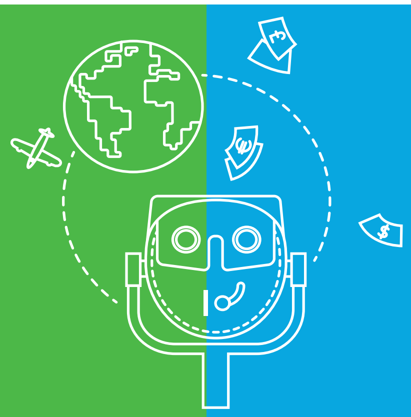
If the plan is to stay in the farmhouse, while your son or daughter take over the farming business and/or farm assets, there are some other income-producing options the farming family can look at. This however, can get quite technical, so you will need to get your family solicitor, farm consultant and accountant involved to ensure that all transfers are done correctly and tax effectively.

But My Farm is My Superannuation

The passing over part or all of the farming business and farming assets to the next generation can be a complicated process. Especially where part of the asset value in the farm needs to be realised in order for you to secure the income you need in retirement.

There are some key points to consider, which include:

- Intergenerational transfer stamp duty concessions – transfer of certain business property between family members.
- Small business sale proceeds (capital items such as farmland) can be contributed to superannuation if certain conditions are met. The current CGT cap sits at $1,445,000.
- Even with the current 'noise' around changes to superannuation legislation, superannuation is still the most tax effective retirement vehicle. A couple can have up to $3,200,000 ($1,600,000 each in superannuation) at 0% tax rates on any income earned.
- $1,200,000 in superannuation could provide a minimum tax-free pension of $60,000* per year for a farmer between the age of 65-74.



- Farm leasing for additional income – Do not discount leasing part of the farm for income. Leasing can be a great way for a farmer to transition away from farming. You need to be aware however that leasing the farm long-term could impact your ability to qualify for generous small business tax and superannuation concessions.
- Superannuation can hold direct property assets including farmland.

**this figure is based on minimum pension drawdown rates Not investment returns.*

Can a Centrelink Age Pension assist a Retiring Farm Owner?
The Age Pension can offer farmers some financial assistance such as fortnightly income, utility discounts and health care benefits.

Remember it is the income levels you desire in retirement which guide your decisions regarding how much you need to fund your retirement. It should be noted that some retiring farmers may not need the superannuation assets levels discussed above or there could be external circumstances that will limit the ability for the farm owner to accumulate large assets to fund their retirement.

Where this is the case there are some key points to be aware of when considering Age Pension benefits as part of your retirement income strategy including;

- The Assets Test Limit – which caps how much you can own and receive a part pension.
- Income Test Limit — which caps how much income you can receive and still be eligible for a part pension.
- Asset transfers (such as farmland) – are still counted under the assets test limit for five years from date of transfer where the assets is Gifted or part of the asset value is forgiven.
- Farmland which includes your house which you reside — all of this land which is on the one title can be exempt if you meet certain conditions.
- Forgone Wages, Unpaid Care and Capital Contributions — Can be useful in Centrelink and Farm succession planning and requires careful consideration before attempting to claim Centrelink benefits.

While the $827,000 asset limit does limit payment values for retiring farmers that have a higher asset base, there are some smart strategies that you can still use to acquire a small fortnightly pension.

It's important to note that if you qualify for $1 of Age Pension per fortnight, this still makes you eligible to the many associated benefits that Centrelink Age Pension provides.

These benefits, in addition to a combination of some of the income streams outlined above, can help achieve a comfortable retirement.

With the complexity that Farm Succession brings to a farmers retirement, it's crucial that the process is started early and all generations work together to achieve the optimal result. This requires careful planning and professional advice.

The size and mix of the assets and liabilities of the business, tax implications and needs and wants of those involved will determine the strategies needed to guide your family through the process and produce an outcome acceptable to all parties.

Farm succession planning early is the key message for farming families.
If you are starting to consider your retirement options and need some assistance from a team of specialists regarding farm succession planning, we encourage you to contact the specialist team at RSM who have been involved with the farming community for over 90 years..

We will walk you through the specific strategies relevant to you, assess your circumstances to see what is appropriate and tailor the solution to meet your needs.

FARM MANAGEMENT DEPOSITS, DO YOU HAVE A PLAN FOR THE END?

By Jed Carson

Farm Management Deposits (FMDs) are an integral part of year end planning for Primary Producers. They continue to be an extremely valuable tool for averaging the annual income of Primary Producers which ensures a more balanced and manageable annual tax liability.

From 1 July 2016, the maximum amount an individual can hold in FMDs increased from $400,000 to $800,000. This will be of great benefit to larger farming operations. The increase in FMDs allows them to decrease their tax burden and provide greater security in the face of poorer seasons and possible droughts.

Whilst there are many positives in accessing the greater limits, careful consideration needs to be given to the negative implications of individuals having a balance in FMDs in excess of $400,000. The hardest impact is felt once an individual ceases to be a Primary Producer, as they are required to withdraw all FMDs within 120 days

In the event of death of a Primary Producer, all FMDs are assessable in the Date of Death Tax Return. For the older generation involved in the farm, care needs to be given to the level of balances held in FMDs. For example, if a balance in excess of $400,000 is to be included in a Date of Death Tax Return, the tax payable may end up being more than if the FMDs had not been used as a tax planning tool in the first place.

In many instances, the solution is to remain part of the farming operation and continue to receive a distribution of Primary Production income with FMDs withdrawn over time. For balances in excess of $400,000 this may take up to a decade or more to achieve.

A balanced approach to FMDs involves having the younger generation holding the majority of the funds in FMDs. It is also important to incorporate other tax minimisation tools such as deferred income, prepayments, and concessional superannuation contributions into your annual planning.

A review of the farming operation's current structure is also important to ensure you achieve the most tax effective outcome. The inclusion of a Company into the organisation's structure can prove valuable for the older generation of primary producers. Rather than holding large funds in FMDs, they can instead distribute from a Trust to a Company. Much like an FMD, the cash can be transferred to the company to repay the entitlement from the Trust. The major strength of the strategy here is that 30% tax is paid on the amount distributed to the company whereas an FMD is not taxed at all.

The payment of 30% tax does not need to be seen as a negative. Rather this might be the maximum average tax rate that is achieved. In the event of death or ceasing primary production operations there is no adverse tax effects in regard to the cash retained by the company. There is no requirement for any of this income to be declared in individual Tax Returns at that time. Cash Dividends can be taken when convenient from the company during retirement or alternatively when the company is passed to Estate Beneficiaries, they too are able to access Cash Dividends as and when they please. Not only can this be used as an effective succession tool for those retiring from the Farm but it can also assist with Estate Planning Matters.

Another useful strategy is deferring income. This is not always an easy task as consideration needs to be given to cash flow requirements and an appropriate level of income needed for the current financial year. We can help you develop a target income so that you can sell your grain with confidence and ensure that you are deferring a level of income suitable to your needs.

Do you have a large balance in FMDs and no clear plan as to how they will come out without paying the highest marginal tax rate or could you be marketing your grain differently and benefit from having a target income? Our Business Advisory team can assist you with ensuring you have a balanced approach to FMDs and that you have a solid plan for the end game.

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