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FARMERS TO TAKE BIG TAX HIT

Farmers could be severely affected by changes to the way that trusts are taxed.

Farmers often use trusts as the preferred vehicle through which to carry on their business.

Historically, the Tax Office allowed farmers to access specific farming tax concessions such as averaging and Farm Management Deposits even if the trust was in a loss position. However, owing to the Tax Office's interpretation of an important recent High Court decision, these concessions may soon be unavailable to farmers operating their businesses through trusts that have recently incurred a loss.

As yet, the Tax Office is yet to release anything definitive on this. However, it appears that when trusts are in a loss position in the current year, then the beneficiaries of those trusts will no longer be considered to be primary producers. If you lose the primary producer classification you will lose access to many of the tax concessions available to farmers.

This is a huge change in the way that the Tax Office approaches trusts that are operated by farmers. Now more than ever it is important for farmers that are operating through trusts to monitor their profitability and cash position and to keep an eye on new developments coming out of the Tax Office.

Obviously it would be devastating for some farmers to lose access to averaging and have the total of their Farm Management Deposits deemed to be accessible income. This may happen within a few months so the appropriate action must be made now.

Trusts are often the most appropriate structure through which to carry on a farming business. However, these changes are significant. It is recommended that farmers consult their accountants and conduct a thorough review of their business operations as soon as possible. This will mitigate the effects of the above changes.