Agricultural Competitiveness White Paper Submission - IP605
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Submission on White Paper

I would like to highlight an issue that is relating to finance and managing drought that has come to my attention through my own misfortune.

One of the ways of managing fluctuating incomes as a result of drought and other natural disasters is to put some money aside in Farm Management Deposits in relatively good years, and take the money back out in poorer years. This is effective from a cash flow point of view, and it also evens out one's tax liabilities as well. It could be used like insurance.

However the one big problem with this is that on the death of an individual, (and they can only be lodged in individual's names), they all have to come out at once. Note that the maximum that an individual can have in FMD's is $400,000, so even if only half of that money is in FMD's on their death, they will have a very large tax bill when it is added to whatever other income they have had that financial year already. This is at a time when extra pressure should not be added to a typical husband and wife farming team, when the loss of one of them already puts severe pressure on the surviving partner.

It is also not fair as typically FMD's are put in when one's income is slightly above average, and certainly not in the really high tax brackets, but when forced to come out in one hit like this, it takes one's income into the very highest brackets. This means that the tax loss is very high and very unfair, compared to when it was put in.

I would ask the Government as a matter of urgency to put in place measures to make this tax fairer and more equitable, so that farming families can use FMD's with more confidence, without having to consult their crystal balls to try to guess when someone is going to die, and even then the crystal ball would have to look at least 5 years in the future to be able to withdraw the money over a spread out period of time.

FMD's have much potential for farm management, except for this one drawback!