Improving Farm Management Deposits

Making important improvements to the Farm Management Deposits Scheme from 1 July 2016

The Government is providing more options for farm enterprises to set aside funds for bad years and to reduce the burden of debt.

Arrangements around the use of FMDs need to be kept up to date and meet the needs of a modern farming business.

From 1 July 2016, **primary producers will be able to hold up to $800,000 in FMDs**, double the current limit.

Banks will also be able to offer primary producers the **use of FMDs as a farm business loan offset**, reducing farmers' interest costs.

ABARES has estimated that, if all FMD holdings were used to offset loans, the benefit to the farm sector in interest savings could amount to $150 million a year.

The Government encourages banks to offer this opportunity to farmers.

In times of drought, new rules will be introduced to **allow primary producers to withdraw FMDs within 12 months of making the deposit**, without needing to amend the previous year's tax return.

The $3.55 billion held by primary producers in FMD accounts at 30 May 2015 shows the success of the FMD Scheme.

The Government's improvements to the Scheme will ensure it becomes an even more valuable tool in farm finance management practices.

These changes build on the changes made to FMDs in 2014 to:

- exclude FMDs from the operation of the unclaimed money provision in the Banking Act 1959;
- increase the off-farm income threshold from $65,000 to $100,000; and
- facilitate the consolidation of FMD accounts.

What will this mean for farmers?

Rebecca and her partner run a cropping enterprise. Recently, they have had high yields and good returns from their wheat harvest.

Rebecca has used the FMD Scheme in the past, and now has a number of FMDs with a total balance close to the limit of $400,000. From 1 July 2016, the deposit limit will double to $800,000. This means Rebecca will be able to deposit more into the FMD Scheme to prepare for future bad years.

If Rebecca makes a deposit, and then is affected by drought within 12 months, she will be able to withdraw her FMD without needing to amend her previous year's tax return.

From 1 July 2016, Rebecca's bank will be able to offer an FMD account that provides an offset against a farm business loan. The interest rate difference between Rebecca's farm business loan and the bank's standard FMD interest rate is 4.5 per cent.

With this difference, given Rebecca's new holdings of $800,000, she would save up to $36,000 for every year she holds the FMD as an offset against her debt.

Rebecca would still retain all of the usual benefits of a FMD, and can draw on it in the tough times–instead of seeking an additional line of credit from the bank.

Further Information

- agwhitepaper.agriculture.gov.au