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Media Publications
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

Dear Sir

Re: Government Drought Support
Draft Inquiry Report

We wish to make comment about the above draft Report, in particular with regard to the extension of Farm Management Deposits to Trusts.

We are a firm of Public Accountants in Horsham, Victoria. Being principally dryland agriculture based, we have seen and encouraged, significant use of Farm Management Deposits. Our experience is that they are a valuable incentive for farmers to save for a poor year. We would enthusiastically encourage the retention of Farm Management Deposits for farmers.

A noticeable and disappointing aspect of the current system is that it does not extend to Trusts. We are very confident in saying that Discretionary Trusts are generally the most appropriate structure to operate a farming enterprise, and this would be supported by most legal and accounting professionals working in our field.

By excluding Trusts from utilising Farm Management Deposits, then these farmers have little tax incentive to put aside cash for a poor season. The unfairness of the situation can be seen in the following example (these are very real numbers for our client base):

Year 1 – Family Trust Profit	$400,000
Profit Distributed to husband and wife Beneficiary of $200,000 each	
Husband and wife make FMDs of $100,000 each	($200,000)
Taxable Income in Year 1	$200,000
Year 2 – Family Trust Loss	$300,000
Husband and wife withdrawn FMDs due to cash flow necessity	
Individuals taxable incomes ($100,000 each payable at higher tax rates and subject to surcharges such as Medicare and exceeding Family Tax Benefit thresholds).	$200,000

Over the 2 years, the farm enterprise profit is $100,000 ($400,000 profit in year 1 less $300,000 loss in Year 2) BUT -

The individuals will have declared taxable incomes of $400,000 ($200,000 in Year 1 and $200,000 in Year 2).

If this enterprise was a Partnership, taxable income declared would have been $200,000 in Year 1 and zero in Year 2 with $100,000 losses available to offset future income.

The family farming through a Trust is financially decimated due to the poor season and is still expected to pay tax on $200,000 income in Year 2. Would they have the funds available after such a poor year?

Whilst they have $300,000 losses available to offset future year's income, there is no guarantee that they will benefit from those losses any time soon.

The discrimination against Family Trusts in the Farm Management Deposit legislation provides a very unjust tax outcome for those families affected.

This law affects many of our clients who use Family Trusts, and is considered a negative when advising on whether a Discretionary Trust as a legal structure is appropriate for a client.

The question on our mind is what logic is there to exclude Family Trusts from being eligible Farm Management Deposit depositors. There seems to be no reason why they should be excluded.

Yours sincerely
WATTS PRICE & ASSOCIATES

ANDREW PRICE
AP/TP