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# farmingmatters

Spring 2011

## Farm Succession Planning

Have you begun to consider Succession Planning for your Family Farm?

Have you tried before and got nowhere?

Is the process between your Accountants and your Lawyers proving impossible?

Have you avoided the issue for too long already?

At Mulcahy & Co, with Accountants, Lawyers, Financial Planners and Lending Brokers all under one roof, we specialise in providing rural families with a collaborative approach to finalising a sensible succession plan.

Give us a call today. You'll be surprised how easy the process can be when dealing with experts in the area.



## Fuel tax credit rate change for heavy vehicles

On 1 July 2011 the fuel tax credit rate, for heavy vehicles that use taxable fuel such as diesel or petrol, and travel on public roads, was reduced to 15.043 cents per litre. This is due to an increase in the road user charge.

Remember to use this new rate when you complete your business activity statement (BAS) if you are affected by the road user charge increase.

For information on your eligibility for fuel tax credits please contact a member of our accounting team.

## Workcover – Do I need a policy?

You are not required to register or take out a workcover policy if remuneration paid (ie wages and superannuation) to or on behalf of employees (and some contractors) for the year is expected to be less than \$7,500. Note, apprentices are excluded.

## Workcover – What is the buyout clause?

As with many insurance policies, Workcover has an excess component. This basically means the employer is liable to pay the first 10 days of employee compensation (wages), and an amount towards medical and related costs. Once the excess has been paid, any additional payments are met by the Workcover

scheme.

Employers have the option to eliminate the excess so that the entire claim is met by Workcover by buying out the excess. This is done by paying a loading equal to 25% of the Workcover premium.

This is particularly relevant to farmers where seasonal workers are employed, such as shearers. Take the unfortunate example where a shearer arrives at your work place and on day one suffers an injury. Without the buyout option, the farmer will be required to pay the shearers wages for 10 days and other associated medical costs.

The farmer will still also need to pay to have the shearing completed. As can be seen this can result in extra cost to the farmer.

## Recommendation:

Our general recommendation is to hold a workcover policy even if remuneration is below \$7,500. This ensures you are covered in the event that remuneration increases above the threshold. It is also strongly recommended to assess taking out the buyout cover. Assess the cost of the extra 25% of the workcover premium versus the security of knowing that in the event of a claim, wages and associated costs are covered by workcover. For further assistance with this contact a member of the Accounting team.



**IMPORTANT DISCLAIMER:** This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice perse. Also changes in legislation may occur quickly and we therefore recommend that our formal advice be sought before acting in any of these areas. This newsletter is issued as a helpful guide to clients and for their private information.

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## Changes to trust distributions for children

In the May 2011 Federal budget the government has made some changes which effectively reduces the amount of passive or unearned income a child (under age 18) can receive. Passive or unearned income can include trust distributions, interest and dividends.

The amount that minors can receive from these sources has been \$416 per year for many years. However once various tax rebates were applied it meant that a minor could receive just over \$3,300 from these sources tax free. From the 1st July, 2011 the tax rebates are no longer available to minors which means the tax free amount is reduced back to \$416.

Amounts above \$416 are taxed as follows:

- From \$417 to \$1,307 is taxed at 66%
- Amounts over \$1,307 is taxed at 45%

In relation to family or discretionary trusts it means there is less opportunity to allocate taxable income to children. It also means that if you have money invested on behalf of children, if income generated from the investment is greater than \$416, it will be taxed very harshly. For example, a term deposit of \$10,000 earning a 6% return would generate \$600 interest and pay tax of \$121.

Minors will still be able to use the low income tax offset to reduce tax payable on their earned income such as salary and wages.

### Recommendation:

Our recommendation is to review any investments held by children. Please contact a member of the Accounting team for further assistance.



## The difference between Legal Ownership & Legal Control

When working through succession planning, estate planning, Centrelink and age care planning with clients we talk a lot about legal ownership and legal control of assets. Assets may include the farm land, the farming business including livestock and equipment and it can also include non farm investments.

It is quite common that assets such as farm land have been purchased and held in different names and structures over the years. For example, one block of farm land is held in Dad's name, one block is held jointly between Dad and Mum and a subsequent block purchased is held in a family trust. Part of the planning process is to assess the impact of how assets are owned or held and how this will effect future outcomes.

Legal ownership essentially means that an individual legally holds the asset. For example with a block of farm land, the individual or individuals will have their names on title.

Legal control means that an entity such as a company or family trust is the legal owner of the asset and there is an individual or individuals who control the entity. Therefore whoever controls the entity will also have control of the assets held by the entity.

Control of an entity will be determined by a number of things such as with a company (including a trustee company) who holds

the position of director, who or what holds the shares in the company and with a family trust who holds the position of appointor.

As a general rule for planning purposes, asset protection and taxation flexibility it can be an advantage to control assets rather than personally own assets.

By holding assets in an entity such as a trust, this can provide a process whereby the control (and deemed ownership) of the asset is transferred to the next generation over a period of time. This allows a transition for the older and younger generations to have control of assets, including the farming business.

There are currently taxation and stamp duty concessions available to transfer assets from a personal name to an entity such as a trust.

### Recommendation:

It is important to understand how assets are owned and the impact that this can have on the farming operation in the future. It is also important to understand what the worse case scenario could be with the current situation.

For example, if Dad personally owns farm land with a value of \$1 million dollars and needs to enter an aged care facility, the family could need to pay a significant bond to the provider (up to \$500,000) plus ongoing costs.

Will this place financial pressure on the family? What are the options to deal with this now to eliminate this risk?

For further discussion on this please contact **Brad Matthews, Jamie or Chris Mulcahy.**

## Lending rates for farmers

We have seen more competition in the loan market for farmers, particularly between the major lenders.

In some situations interest rates can vary up to 2% between these lenders. On a loan of \$1 million, this equates to a \$20,000 saving. For assistance with your farm lending, contact Neil McCahon in the Lending team.

*With offices in Ballarat, Beaufort and Lake Bolac  
- we offer you flexibility with your appointments.*