

Welcome to the Spring edition of Farming Matters, a quarterly newsletter specific to the farming industry. Please feel free to contact team members from our Accounting & Taxation, Financial Planning, Lending and Succession & Estate Planning divisions that if you have further questions or comments on any of the topics covered.

PROTECTING THE FARM ASSETS

Putting in place measures to protect the assets you have worked hard for is becoming more and more important. The nature of operating a farm enterprises means that there can be a greater risk of something going wrong. Whether its providing a safe workplace for an employee on a farm motorbike or chemical residue on grain produced and stored on farm, all farming enterprises need to be prepared for the situation where legal action is taken against it. And don't assume that insurance will cover all of these situations.

Asset protection means protecting the valuable assets such as farm land, livestock, plant and equipment and other investments. Generally speaking a farm is made up of 2 asset components. The first is the farm land and the second is the farming business. The farming business conducts the day to day operations of the enterprise. It engages employees and produces and sells commodities and therefore is most at risk. The farming business uses the farm land and other assets to conduct the farming enterprise.

To add an extra level of insurance, it is recommended that the farming assets and the farming business are separated. That is one entity operates the business and a different entity (or entities) own the farm land. If the farming business gets into trouble, it is separated from the other valuable farm assets reducing the chance for the valuable farm assets to be at risk.

There are taxation concessions available to farmers that enable the farming business and other farming assets to be separated without creating income tax or capital gains tax liabilities. Usually family trusts and self managed superannuation funds will be used in these situations not only to provide a tax benefit but to also assist with greater asset protection. Separating the farm assets in this way can also assist with estate & succession planning and also accessing Centrelink entitlements. For more information on this important matter, please contact Jamie or Chris Mulcahy.



INVESTMENT ALLOWANCE

The 50 percent and 10 percent investment allowance is set to end on 31st December, 2009. To claim the investment allowance in the 2010 financial year, the capital item needs to be ordered before the end of December and installed ready for use by 30th June, 2010. If you plan on taking advantage of the investment allowance it is recommended that you do so sooner rather than later to beat the expected rush on dealers before the end of the calendar year.

Please do not hesitate to contact a member of the Accounting team for extra information regarding the investment allowance.



SELF MANAGED SUPERANNUATION - AN IMPORTANT PART OF YOUR SUCCESSION & ESTATE PLANNING

Self managed superannuation funds (SMSF's) continue to grow in popularity as a tax effective investment structure. With farming situations we also see a SMSF as a very useful component of a succession plan. Under current legislation it is a tax effective way for income and assets to pass between generations whilst providing asset protection. For estate planning purposes a SMSF provides the opportunity to pass farm assets to the next generation and limiting the risk of a will challenge by non farming family members.

For additional information on how a SMSF may work in your situation, please contact Jamie or Chris Mulcahy.



IS AUSTRALIAN AGRICULTURE THE NEXT BOOM INDUSTRY?

Can China's growing appetite for food do for farming what its hunger for iron and energy has done for Australian mining? Boom.



A recent article in the Australian Financial review posed this question. Highlighted was the continued increase in demand for our lamb over the past decade bought about from clever marketing, falling sheep numbers and demand from China. Some key points from the article are as follows:

- China is now our second largest export destination for sheep and lamb meat.
- Australian meat producers are in an excellent position to continue to capitalize as China continues to develop.
- One nice fat Australian lamb is now roughly worth one tonne of export coal – the only problem is we don't have enough lambs.
- The gains to the sheep meat industry may be replicated by other markets.
- Real food prices could rise not just from growing demand but also from slowing supply.
- Over the next 40 years, the worlds population is expected to increase by 50 per cent to a little over 9 billion people. At the same time, available agricultural land is expected to remain static.
- Raising income levels historically increases the demand for food high in protein. By 2050 the changed diet is expected to include more red meat, chicken, fish and dairy. This increase in demand will double current production levels.
- It is not just China driving the demand. India and Indonesia are currently driving dairy, beef and grain exports.
- The demand from emerging economies coincides with a shrinking of supply from traditional sources. The USA is no longer a net agricultural exporter as the mandated ethanol targets soak up domestic crops and China has been moving from self sufficiency to a major importer.
- This is a huge structural shift from two major economies (USA & China) that Australia can benefit from.
- It may be possible that Australian farmers become price makers rather than price takers, reversing three decades of falling real prices.
- By 2020 it is estimated that Chinese beef consumption will increase by 43 percent, chicken by 36 percent, pork by 23 percent, whilst dairy intake is expected to nearly double.
- To put this in perspective, the Chinese demand for beef in one year is four times higher than what Australia can produce.
- This demand for meat will have a flow on benefit to the grain market. For example a 1 kilogram increase in beef consumption requires an extra 8 kilograms of grain.
- The grain price although currently around long term average prices, has dropped considerably from 2007 record prices.
- The price level extremes have been blamed on hedge funds and speculators (among others) pushing prices to these levels.
- It is expected that prices will move above the long term average due to increased demand and constrained supply.
- Demand is increasing by 2 to 3 percent per year whilst the area harvested is not expanding, the seasons have been less reliable and productivity gains have slowed.
- Continued advancements in research and biotechnology will provide the next round of productivity gains however this research has slowed during the global financial crisis.

The enthusiasm in the Australian agricultural sector has been highlighted by foreign investors buying into or looking to purchase stakes in Australian companies. For example recently Canada's Viterra won control of ABB Grain in a \$1.6 billion deal and China's Sinochem has made a \$2.8 billion bid for Nufarm. Farmers will continue to be subject to more risks and challenges than most other industries. However to be in an industry where demand for the produce (food) is set to outstrip supply should result in a positive outlook for the future.

Assessing the profitability from your farming enterprise is vital to ensure the maximum returns are being achieved and financial risk is minimised. For further discussions on this please call Jamie or Chris Mulcahy.

Free Farm Financial Plan Valued at \$1,980.00.

We have been offering a Free Farm Financial Plan valued at up to \$1,980.00 to all new farming clients. We thought that it would only be fair to offer it to current clients as well. The plan covers a review from your bookkeeping system to your estate plan, asset protection to Centrelink planning. We will identify any areas of concern and a recommended solution. The review is a great opportunity to assess where you are currently at and setting some goals to achieve in the future.



Please contact Jamie or Chris to discuss in further detail.

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