TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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Structure a Farming Business – don't lose the farm because of a dumb structure.

Structure a Farming Business

When you structure a farming business, there are many factors to consider. Asset protection, flexible timing of distribution, income tax, capital gains tax.

Tara Cuddihy of PWC will share some great insights with you in this episode.

Here is what we learned but please listen in as Tara explains all this much better than we ever could.

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I – Partnerships

There are five reasons why partnerships are popular among mum & dad farmers.

1 – Losses are not trapped but can be offset with other income.

2 – Income averaging only applies to farms held in individual / partnership names or individual beneficiaries.

3 – Farm management deposits only apply to individuals, partnerships and individual beneficiaries but not companies or trusts as such.

4 – Partnerships qualify for the 50% CGT discount while companies don't.

5 – Easy to understand.

II – Trusts

After partnerships came discretionary trusts. But the problem with pure trusts is that it is difficult to keep the cash within the business. So if you have a capital intensive business that needs the generated profit to expand, then you will have a problem with trusts.

So this is where companies held by an individual trust come in. And if you want to separate asset and business ownership, then you have two companies each holding one asset.

If you then want tax consolidation, you put a holding company over those two companies, preferably owned by a discretionary trust.

III – Easy Mistakes

1 – Instant Asset Write Off

You need to run a business to qualify for the instant asset write off. So if you have hold the land and business in separate entities, then make sure that the business entity incurs the cost.

2 – Deferring Profit

Deferring profit is allowed for primary production but the calculations are quite complicated. So make sure you get those right.

3 – Family Trust Elections

Watch out for family trust elections and interposed entity elections when ownership of the land passes on to the next generation. Watch out for the test individual.

This is just a quick snap shot. Please listen in as Tara covers a lot more and shares very good insights.

MORE

Farm Succession

Property and Tax

Opportunity Cost of Saving Tax

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