Long and short of no-till tax benefits

ADAM FISHER*

Significant tax benefits are available for no-till farming and primary producers in general.

While writing this article the question front of mind has been – what do SANTFA members need to know about the tax benefits associated with no-till farming and primary production and should they be taking advantage of them?

There's a short and a long answer.

The short answer is that there are numerous tax benefits available that can significantly reduce the amount of tax you and your family pay. Some of the benefits should be considered part of the normal course of business. Others need more consideration and may include capital investment. In the complex world that we all live in, it is vital you and your advisors are aware of these benefits and understand how they fit into your unique farming circumstances.

ELIGIBLE NO-TILL SEEDING EQUIPMENT CAN ATTRACT A SIGNIFICANT TAX CONCESSION.

> **The refundable tax offset is designed to encourage the uptake of conservation tillage practices to reduce emissions, increase soil carbon and improve productivity.**

For the long answer I'll separate the tax benefits into the conservation tillage refundable tax offset, which is specific to no-till farming, and a collection of other tax legislation that relates to primary production more generally.

Conservation tillage refundable tax offset

As part of its **Clean Energy Future Plan,** the Federal Government has confirmed it will continue the **refundable tax offset for eligible no-till seeders used in conservation tillage farming practices** that are in place ready for use by June 30, 2015. The refundable tax offset is designed to encourage the uptake of conservation tillage practices to reduce emissions, increase soil carbon and improve productivity.

Qualifying primary producers are entitled to a **refundable tax offset** of 15% of the cost of an eligible seeder. The refundable tax offset can be claimed in the year that the eligible no-till seeder is ready for use. The offset is refundable, so in a year of low taxable income and hence low tax payable, the full benefit is still obtained. This tax benefit can be significant. For example, an eligible no-till seeder with a cost of $150,000 (GST exclusive) will generate a refundable tax offset of $22,500. The $150,000 cost of the seeder is also able to be depreciated for tax purposes as normal.

An **eligible seeder** is a no-till seeder (comprising the tool or a cart and tool) that is any of the following:

- a tine machine fitted with minimum-tillage points to achieve minimum soil disturbance and less than full cut-out (for example, narrow points, knife points or inverted 'T' points)
- a disc opener with single, double or triple disc blades designed to achieve minimum soil disturbance and less than full cut-out
- a disc/tine hybrid machine with single, double or triple arrangements fitted with minimum tillage points to achieve minimum soil disturbance (for example, narrow points, knife points or inverted 'T' points)
- a disc/blade hybrid machine with single, double or triple arrangements fitted with blades to achieve minimum soil disturbance and less than full cut-out.

Entities (farmers or businesses) can claim the refundable tax offset for more than one eligible seeder if they meet the eligibility criteria for each machine. An eligible seeder must be new, meaning it must not have been previously used or installed ready for use by the claiming entity or any other entity. There are also rules regarding new tools being attached to existing carts and vice versa.

Conservation tillage farming practices include sowing a crop into untilled soil using narrow or knife points to minimise disturbance to soil (less than 20% soil disturbance) and zero-till practices where a crop is sown with one pass using a disc seeder.

The final step is to apply for a **Research Participation Certificate** for the year the refundable tax offset relates to. To obtain this certificate the entity will need to complete a Conservation Tillage Application Form. The form is available on the DAFF website and includes conservation tillage survey questions. The certificate is issued by DAFF once the application form has been submitted.

Current legislation

The government and ATO continue to have two specific measures in place to compensate for the variability of primary production due to the exposure of farming to natural disaster, climate and market changes.

The primary production averaging system enables individuals with primary production income to even out their income and tax payable over a maximum of five years, to allow for good and bad years. This ensures primary producers do not pay more tax over a number of years than taxpayers on comparable but steady incomes.

The farm management deposits scheme is also used by individuals with primary production income to even out their incomes and acts as a risk management tool to assist farmers with variability and exposure. Farm management deposits are held in specific bank deposit accounts that allow individuals with primary production income a tax deduction for funds deposited in the account in the year the funds are deposited. When funds are withdrawn from a farm management deposit account they are treated as income in that year. To obtain the tax benefit a deposit must be in place for at least 12 months and each individual can have a maximum balance of $400,000.

Tax offsets and benefits are also available for primary producers undertaking eligible **landcare and water facility** construction activities.

Although not specifically targeted to primary producers, many farming businesses are eligible for **small business entity concessions** due to their relatively low turnover (under $2 million a year). These concessions include:

- the pooling of plant and equipment, including large capital structures such as shedding, to take advantage of accelerated depreciation rates
- immediate write off for plant and equipment costing less than $6,500
- simplified treatment of stock values
- option to account on a cash basis (for simplicity, but can be beneficial with the timing of some harvest and vintage payments)

Many farmers can also access **small business capital gains tax (CGT) concessions** when selling land to external parties or changing land ownership within the family group. These concessions and the stamp duty exemption applicable to the transfer of South Australian farm land within the family group mean thoughtful and timely succession planning can have significant benefit.

There are some significant benefits relevant to you and your farming business and I hope I have come some way towards answering the question about what SANTFA members need to know about the tax benefits available to them.

If you have questions, please feel free to contact me to discuss your specific circumstances. For more information: Adam Fisher, 8372 6666, 0401 419 102, adam.fisher@au.gt.com

**Adam Fisher is an SA-based agribusiness industry specialist with Chartered Accountant and Business Advisory firm Grant Thornton.*