2024 FINANCIAL YEAR PLANNING

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The end of the financial year is fast approaching and we have only just received a decent break to the season for many farmers. At Byfields we are seeing some significant potential tax bills as we make our way through our update and tax estimate season thanks to prior year deferrals and a significant drop in depreciation. We are also seeing some great planning opportunities for those with low taxable incomes to set themselves up for future years.

Before committing to tax planning strategies, it is vital that you know what your tax is likely to be for the year. Byfields' has a very rigorous process, where we combine your year-to-date actuals with your budget to 30 June and calculate your expected business profit. This figure can then be combined with personal income from other sources, giving you an accurate estimate of tax payable. We then formulate a detailed plan with you, while considering the fit of any plan to your long-term goals.

We feel this an absolute must before considering the following options.

The 2023/24 Financial Year

The two preceding years were two of the best on record, many clients used the income from these years to invest in their business through machinery and more efficient practices, reduce debt and purchase off farm assets. Thanks to COVID measures and tax planning in these good years, the tax paid did not reflect the great production and income results.

Many farmers also did not have the cash flow pressures of previous years or had optimism for better prices to come, and so deferred the sale of grain or produce from the 2022 harvest to July 2023 and brought forward or prepaid inputs for the 2023 season to June 2023. This has resulted in a significant head start to taxable income which was not wholly offset by the reduced production in 2023/24.

Planning Strategies for 2023/24

Make the most of your business structure. The first step is to ensure you are trading in the right structure and 1 July is the most efficient time to change your structure if it is no longer fit for your business.

Using a company in the structure to cap the tax rates on a portion of income to 25% is an effective tool in high income years. In lower income years, the retained earnings of the company can be paid as fully franked dividends and tax refund be received or reduce tax payable on off-farm income.

Timing, business efficiency and cash flow. Once your budget and tax estimate has been prepared, there may be opportunities to boost your cash flow or set the business up for the coming year.

In a low profit year, it is a good opportunity to get off any deferral merry-go-round where you may have deferred grain sales to average out your income or held for price and marketing opportunities. It is also a chance to redeem Farm Management Deposits and get those funds back into your working capital and growing your business.

If taxable profit is high, you may choose to set yourself up for the coming year. Prepay products have become the favour here as they allow the flexibility to adapt your inputs to the seasonal conditions, have a higher reward rate than interest on FMDs and don't require the funds to be out of working capital for at least 12 months.

Ensure you discuss the accounting treatment of these timing measures with your accountant and your accounting basis as this will affect the cash flow requirements.

Long term planning. Every good tax plan considers the long term goals of the business and family members, there is no point deferring all of this years tax if you end up paying a higher tax rate in coming years, stress your cash flow and accrue additional interest.

The plan should also align with the business plan, goals, succession and off-farm investments. One of the best planning measures is to contribute to superannuation. There are many opportunities that assist in future planning while taking advantage of super's low tax environment.

These planning methods are just a taste of how a Byfields accountant, with the best planning tools, can help you proactively plan ahead of the end of financial year and give you the peace of mind from knowing, and being able to budget on, what your tax is for the future.