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Changes to FMD scheme ahead

The “farm management deposits” (or FMD) scheme is a form of income equalisation which allows an individual carrying on a primary production business (including a primary production business carried on as a partner in partnership or as beneficiary of a trust) to carry over income from years of good cash flow and to draw down on that income on years when the cash is needed.

When an eligible FMD is made, the taxpayer is entitled to claim an income tax deduction for the amount of the deposit (the deduction is limited to the amount of the individual’s taxable primary production income for that year). The effect of the deduction is to reduce the taxpayer’s taxable primary production income by the extent of the deposit. When the deposit is withdrawn, the taxpayer includes the amount withdrawn as assessable income in the year of the withdrawal. In effect, the taxpayer defers his or her income tax on the primary production income until the year in which the FMD is withdrawn.

The FMD scheme has a number of specific requirements, including that the deposit must be held for at least 12 months, and, the person making the deposit must be a primary producer whose taxable non-primary production income is not more than $65,000.

Under the changes proposed by draft legislation released this week, the threshold relating to off-farm income will be increased from $65,000 to $100,000. In addition, further changes will be made to facilitate the consolidation of FMDs, by eliminating the tax consequences of withdrawing and immediately depositing FMDs. The changes if passed will take effect from 1 July 2014.