FARM MANAGEMENT DEPOSITS

The farm management deposit (FMD) scheme has operated since 2nd January 1999.
The farm FMD scheme replaced the income equalization deposits (IED) and farm management bond (FMB).

What is a farm management deposit?
It is basically a specific deposit with a recognised financial institution that allows the depositor to access a taxation deduction for all or part of the deposit made.

Conditions which must be met to claim an FMD as a tax deduction:

1. The owner of the deposit **must be a primary producer**.
2. A deposit must **not be made in joint names** (trustees of trusts can make deposits on behalf of beneficiaries).
3. Each deposit must **be an amount of at least $1,000**.
4. The total of all deposits **cannot exceed $400,000 each**.
5. All deposits at any time must be with the **same financial institution**.
6. The FMD **cannot be charged or encumbered**.
7. The FMD **cannot be a mortgage offset account**.
8. Earnings on an FMD **cannot be invested as an FMD** without being first paid to the depositor.
9. A FMD **cannot be repaid within 12 months** of deposit.
10. Taxable **non-primary production income** must not be more than $65,000.
11. The total amount deposited as an FMD **must not exceed the taxable primary production income** for the year.

Commonly asked questions

What income is earned from your deposit?
Interest will be paid by the bank at normal commercial Term Deposit rates.

What happens when you decide to pull out the FMD either partially or fully?
The amount received forms part of your taxable income in that financial year.

What happens when I die, become bankrupt or cease farming?
The deposit will be repaid and will need to be included as income in that year.

Why would you consider using FMD?
1. To reduce your income tax payable with a safe investment.

2. As a means of placing profits aside in a year when profits are available for a year in which funds may be needed. Example – a drought year or a low commodity price year.

3. To place funds aside on a short term basis for use towards a specific project in a future year. Example – building a dairy, irrigation capital works, laser grading. Thus when the funds come out of the FMD they are partially offset by the deductions available from the capital works.

4. To keep your average income as low as you can to minimise income tax in a strong profit year.

5. As a means of building funds in a tax haven to put towards future needs.
   Example – retirement, future land acquisition.
   These are longer term plans and more growth oriented investments maybe more affective.

Negative
On death or on the cessation of farming activities the deposit is paid back to you and is therefore taxable to you in that year.

You have some control over when you cease farming and other planning measures can be used to minimise income tax.
You have no control over when you may leave this planet.

If you have significant funds in FMD at the date of your death there may be a taxation disadvantage to you.