That small farm dream... *and tax deductions*

Many professionals (and others) who retire – or who are on the verge of retiring – turn their minds to buying farmland and carrying out some sort of small-scale farming activities. And some are already right into it.

But there are some important tax considerations that should be borne in mind in any of those cases – the key one of which is the "non-commercial loss" rules that apply to limit or deny a deduction for losses from that activity.

Importantly, these rules only apply if you are carrying on a business of farming (or any business for that matter) – as opposed to merely "hobby" farming (or any hobby activity). If it is merely a hobby, then generally there are no tax consequences associated with the activity.

However, note that it is not always easy to determine the difference between hobby farming and farming as a business.

But if you are carrying on a farming business (or any business for that matter) the "non-commercial loss" rules will come into play.

And these rules provide that losses from a non-commercial business activity will be restricted from being offset against other income (such as other investment income, rent or salary and wages) unless that business activity satisfies one of the four "commerciality tests".

Furthermore, if the rules apply, then the non-commercial loss is deferred and, in most cases, can only be offset against profits generated from the same activity in a later year. However, the non-commercial loss rules also do not apply for a farming business if income from other sources is less than $40,000.

So, what are these four "commerciality tests"?

Firstly, if the "income" generated from the business activity is $20,000 or more then the rules will not apply. This includes if it would be estimated that the income would be $20,000 where the activity is only carried on for part of the year. However, there are a lot of rules for how "income" is determined in this case.

Secondly, if the total value of real property used in carrying on the activity is at least $500,000 then again the rules will not apply. But, again, there are a lot of rules for calculating what the value of real property is for these purposes.

Thirdly, if the farming activity resulted in a "profit" in at least three of the past five income years then the rules will not apply. But, again, there are many rules for how "profit" is determined in this case.

Finally, if the total value of other defined assets used in carrying on the activity is at least $100,000 the rules will not apply.

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How does your super compare? ... cont

You might be looking at your super balance right now, feeling either satisfied or a little worried about how it measures up to these averages. Remember, averages don't tell the whole story. Your balance can be impacted by various factors like career breaks, part-time work, salary levels, or investment decisions. If you've made additional contributions or opted for higher-growth investment options, your balance may be above average. If it's not quite where you'd like it to be, don't worry – there's still plenty of opportunity to take steps and get back on track.

How much super do you need in retirement?

Understanding what you'll need in retirement can help you gauge whether your super balance is on track. The Association of Superannuation Funds of Australia (ASFA) provides clear benchmarks to define what a "comfortable" or "modest" retirement might look like.

A **modest retirement** covers basic living expenses, with most of the income coming from the age pension. On the other hand, a **comfortable retirement** allows for a higher standard of living, including private health insurance, a reliable car, household upgrades, and leisure activities like holidays.

Here's what ASFA estimates you'll need if you retire at 65, own your home outright, and are in good health:

	Comfortable retirement	Modest retirement
Singles	About $595,000 in super for an annual income of $52,085	At least $100,000 in super, combined with the Age Pension, could provide an income of $33,134 for singles or $47,731 for couples
Couples	Around $690,000 in super to generate a combined annual income of $73,337	

Source: ASFA retirement standard budget for retirees aged 65 to 84 (June quarter 2024)

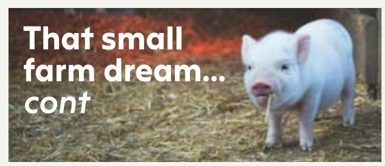
Knowing these benchmarks can help you assess your progress and plan for the future you want.

Are you on track?

Now that you know what the average super balance look like, and you have a better idea of how much you may need, it's time to check where your super stands. If your balance is lower than the targets set by ASFA, don't panic – it's never too late to take action. You can still take steps to boost your super and make it work harder for your retirement.

Consider making extra contributions, whether through salary sacrificing or personal after-tax payments. Reviewing your investment strategy to ensure it aligns with your goals and risk tolerance is also important. If you're unsure about what changes to make, it could be helpful to speak to a financial adviser who can offer tailored advice for your situation.

Super is an essential part of your retirement planning, and understanding where you stand can help you make smarter choices today. Whether you're feeling confident about your balance or realising there's more work to be done, it's always worth taking the time to review and plan ahead. The sooner you act, the more time your super will have to grow – putting you in a better position to enjoy your golden years.



And just to complicate things, the ATO has a discretion not to apply the non-commercial loss rules if it would be "unreasonable" to do so because the business has been affected by events outside the taxpayer's control (eg, by drought, flood, bushfire or some other natural disaster).

This discretion can also be exercised where the business is not expected to make a tax profit in the year, but there is an "objective expectation" that it will make a tax profit within some commercially viable period. However, the exact circumstances in which the ATO will exercise the discretion are also governed by various ATO rulings and policy guidelines.

In summary, most of the non-commercial loss rules are fairly straight forward in principle. However, as with any such matters, the devil is always in the detail – and there is a lot of detail attached to these rules.

So, we are here to help you navigate these rules if you are intending to take on a small farming business (or any other business) on your retirement – or if you intend to undertake any business at any time in your working life as the rules apply to any business activity at any stage it is undertaken.