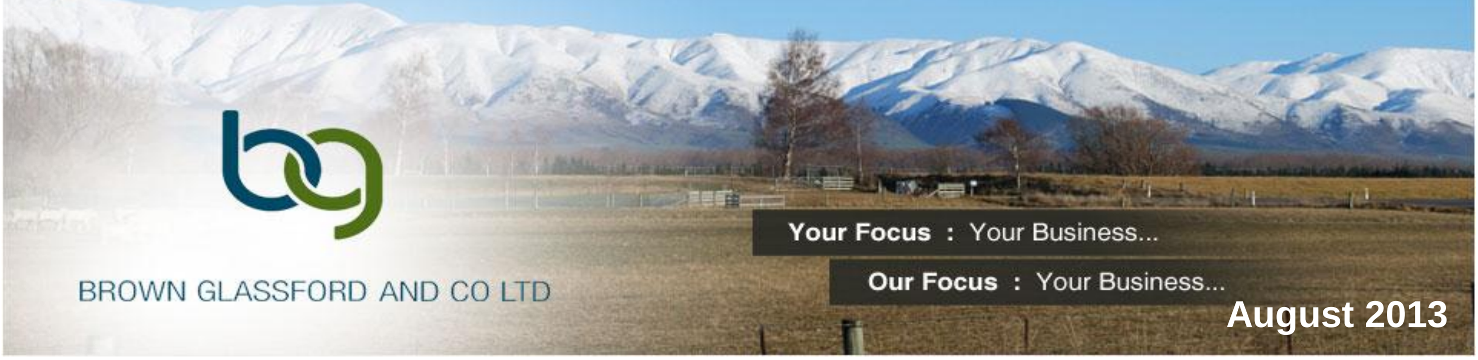
Beyond the Farm Gate – Rural Newsletter



P 03 365 0881 ❖ F 03 377 2991 ❖ admin@brownglass.co.nz ❖ www.brownglass.co.nz

Changes to Livestock Valuation Rules

The recent passing of the Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Bill has confirmed the following changes to the rules surrounding Livestock Valuation:

- Elections into the Herd Scheme are now **irrevocable** unless the election was made before 18 August 2011 (One exception is where a farmer changes from a breeding to fattening operation, and there are some strict rules around how this is defined. Another exception is for numbers in a class above the herd base number from the previous income year for which an alternative valuation option (e.g. NSC) may be used. However, the base number must be adjusted for transfers of livestock between associated parties).

- An election to the Herd Scheme will now be made by **type**, whereas previously they were by class (eg: type is dairy cattle or sheep, whereas class is R2yr heifer, or mixed age ewe). By electing a type into the Herd Scheme, the election **automatically** includes all classes listed in relation to that particular type.

- Valuing animals under the Herd Scheme is now a 2 step process. First, the Herd Scheme election must be made before filing the first tax return in which the election is to be applied. Second, you then file a return that includes livestock in the Herd Scheme. Ie: the election of livestock into the Herd Scheme is not "validated" until a tax return is filed that includes livestock valued under that scheme, which means that you can still use alternative valuation methods for livestock that have not been included in the Herd Scheme, eg: NSC.

  Where a farmer purchases livestock from an associated person (note: there is a wide definition of associated person), and those livestock were valued by the seller using the Herd Scheme, the purchaser must adopt the Herd Scheme and the seller's base number herd livestock for that type/class.

- One exception to the above is where there is a complete inter-generational transfer of livestock on or after 28 March 2012. However, there are strict rules relating to this exception and these types of transactions require careful consideration.

- When a farmer is exiting farming (ie: ceases to derive income from livestock), the farmer must adopt the prior year Herd Scheme values where the stock are sold on or before 31 October, or if the livestock are sold on or after 1 November then the farmer must use the current year Herd Scheme values. Previously the farmer could choose which values to use, and could use the prior year values if he made an election to do so prior to 1 February – this is no longer the case.

- Within the dairy livestock type, the national average market values of Jersey and Friesian animals are to be combined. Similarly, the national average market values of Wapiti and Red Deer are to be combined. There are to be some transitional arrangements where this change results in additional taxable income.

- Although not yet legislated, IRD intend to review (upwards) the deemed rearing and growing costs for livestock valued under the NSC valuation option – this will mean an increase in closing values and taxable income for livestock valued under NSC, with income spreading options for the transition period likely to apply.

As we have mentioned previously, the recent changes simply highlight that where clients are contemplating significant livestock transactions, particularly involving associated parties, then we recommend they consider those transactions carefully alongside advice regarding the taxation implications of those proposed transactions.

Fonterra Shares

Most of you will be aware of the introduction by Fonterra of Trading Amongst Farmers (TAF) and the resulting changes regarding Fonterra shares and how they are now traded and valued. Here, we summarise how a few important points regarding their accounting treatment:

- **Share Price**
  After remaining constant for a number of years at $4.52, there is now a traded market price for both the shares and related units in the Fonterra Shareholders Fund (FSF), with there being a close price relationship between the two. We are now revaluing Fonterra shares in the annual accounts at balance date as follows (with the change in value being non taxable): 31 March 2013 $7.32, 31 May 2013 $7.60, 30 June 2013 $7.92.

- **Dividends**
  Dividends on "dry" shares will now be paid after Fonterra deduct RWT at 33%, whereas dividends on "wet" shares will continue to be paid without deducting RWT. The dividend statements issued by Computershare will provide the detail on this. We will continue to record the dividends on "wet" shares as business income, but will now record the dividends on "dry" shares as investment income which means it is excluded for the purposes of calculating ACC obligations.

- **Bonus Shares**
  The 1:40 bonus issue on 24 April 2013 is valued at $7.22/share and is treated as a non-taxable capital transaction. We record this transaction separately.

- **Supply Offer**
  The May 2013 supplier offer, whereby farmers could sell the economic rights at $7.92/share in some of their "wet" shares to the FSF, meant farmers received cash and vouchers. Provided the shares were not originally acquired for the purposes of resale, or in the business of share trading, or with the intention to sell for profit, then the gain on sale from the sale of these will be tax free. Again, we record the gain or loss from the sale separately.

Given there is now more complexity around the recording of Fonterra share transactions, we now request clients provide us with all share related documentation they have received over the course of the reporting year.

Also, we have registered with Fencepost to enable us to have direct access to our clients' Fonterra Statements, to assist with annual report preparation. If you would like to allow us access:

- ***Our PIN is: 624137***
- ***When you add us, please send us an email to let us know and include your supply number(s) as Fencepost will not disclose your name or farm name to us.***

Employer Superannuation Contribution Tax – ESCT
A reminder that from 1 April 2013 all Employer Superannuation Cash Contributions (employer contributions) paid to a superannuation fund, including KiwiSaver schemes, for the benefit of an employee, are liable for ESCT. The exception to this is if the employee and employer have agreed to treat some or all of the employer contribution as salary or wages under the PAYE rules.
ESCT is not included on the employer monthly schedule (EMS, IR348). The amount shown as total KiwiSaver employer contributions on the EMS is the net amount - the gross employer contribution less ESCT. Please refer to the following link if you need to clarify your obligations regarding this:http://www.ird.govt.nz/payroll-employers/make-deductions/deductions/super-contributions/

Farm Supply and Fertiliser Co-op - Rebates and Dividends
We are approaching the period when these companies (eg: CRT/Farmlands, Ravensdown, Ballance) normally pay out rebates and dividends to their farmer shareholders.

Given these rebates/dividends are sometimes significant, we remind you to take care with the GST treatment of these receipts in your records as, in most cases, they do not include GST and therefore you should check to ensure you are not unnecessarily returning GST to the IRD.

Employee Minimum Pay – Audit Activity
We understand that the Ministry of Business Innovation and Employment (MBIE) has recently announced it will be investigating Southland farms to check for compliance with minimum pay legislation.
Their main concern is the practice of seasonal averaging where a salary is offered on the basis that the large weekly hours worked during peak season (eg. calving) will be offset during the low season when the hours are part time.

Where, however, in any one week, the weekly pay divided by the number of hours worked results in less than $13.75 per hour (the minimum wage), an employer will be in breach of the law. It is not currently clear what MBIE will do if this is the case.

MBIE will also be checking to ensure that pay records are complete and up to date. It is not unreasonable to think that the same concerns will be evident in other regions.

For specific employment related advice we are can recommend contacting Merv Johnston or Linda Penno at Johnston Penno Limited, ph 03 982 1204 or email merv@johnstonpenno.co.nz or linda@johnstonpenno.co.nz

Interest Rates
Whilst there has been little movement in shorter term floating rates, there has been a considerable increase in some of the longer term fixed interest rates, driven in particular by a perception that the US Federal Reserve will soon start to ease back on its current money printing programme.

Generally speaking, a borrower's interest rate will consist of the underlying money market interest rate swap rate for a term plus a margin. Since the Global Financial Crisis (GFC), the margin now comprises a significant part of the overall interest rate, whereas pre-GFC it comprised a relatively small part of the overall interest rate a borrower pays.

Given, this, and since interest often makes up a significant part of the cash expenses of a business, we think it is important that clients understand how their particular interest rate is determined.

To get a feel for this it is worth asking your bank the following questions:
1. "What is my margin?"
2. "What is the range of margins the bank charges its clients in similar circumstances to mine?"
3. "Given where I sit in this range, what can I or my business do to reduce that margin?" (ie: in terms of cashflow and/or security offered).

A greater understanding of these will help determine what influence you can have over your cost of funding.

Staff News - Departures

Danie Henderson
We are farewelling Danie who has been with us for almost 4 years.
Danie is looking forward to heading home to the farm initially to spend time with his family.
We wish him all the very best for his future.