

# Beyond the Farm Gate – Rural Newsletter



BROWN GLASSFORD AND CO LTD

Your Focus : Your Business...

Our Focus : Your Business...

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## KEY TAX DATES COMING UP

### **28 March 2017**

2nd instalment of provisional tax for June balance date taxpayers.

### **31 March 2017**

We need to file all income tax returns for the 2016 income year by this date. If you have not yet signed and returned to us your 2016 tax declarations, then please send these back to us as soon as possible.

### **7 April 2017**

Terminal tax due for the 2016 income tax year. Tax letters for any payments due will be sent out shortly.

### **20 April 2017**

Any RWT deducted from interest paid to a lender (but not yet paid to Inland Revenue) for the year ended 31 March 2017 to be paid to Inland Revenue (the annual RWT reconciliation is due 31 May 2017).

## **CONTACT FROM INLAND REVENUE**

If you receive a text or email from Inland Revenue regarding a late payment of terminal tax we urge you to contact our office in the first instance as we will be able to assist, given we have all your information to hand. Inland Revenue's systems can be delayed meaning you may receive a message even if you have paid your tax on time. Receiving this contact from Inland Revenue can be alarming, but often there is a simple explanation, so don't worry - just contact us and we will be happy to help.

## **TERMINAL TAX PAYMENTS**

A reminder to clients who make their tax payments electronically that you need to be careful with the year reference. The year reference needs to be in relation to the tax year the payment belongs to, not the particular year the payment is made. For example, if you make a 2016 year Terminal Tax payment on the 7<sup>th</sup> of April 2017 the year reference needs to be 2016.

Inland Revenue will not automatically re-allocate the payment to the correct tax year and will send out a late payment letter. We then have to contact Inland Revenue and transfer the payment to the correct year.

## STAFF NEWS

### ARRIVALS

#### **Scott Jones**

We would like to welcome Scott who recently joined the firm. Scott started his accounting career working for a CA firm in Invercargill while also completing his Bachelor of Commerce at the Southern Institute of Technology. Scott is currently studying towards his Chartered Accountancy qualification.

#### **Baby Jozko**

We congratulate Hannah Jozko and her husband Mark on the birth of their daughter Zara, born on 13 January 2017. Zara arrived a few weeks earlier than planned, but she is now all settled in at home and doing well.

### TRANSFORMING GST

As some of you may be aware Inland Revenue are rolling out changes to how New Zealanders file and manage their GST as part of ongoing business transformation. More than half New Zealand's businesses now file their GST through Inland Revenue's secure online service myIR, or direct from their accounting software. If this includes your business, you may have noticed there is a new myGST tab on your myIR account. This will provide access to all your GST information.

Taxpayers are now able to use this to register for GST, register as a preparer of tax returns, file and pay GST at the same time, set up payment plans, and track GST payments and refunds online.

We note that Inland Revenue are currently having some processing issues with this new software, however they are currently working to resolve these.

### FASTER GST REFUNDS

It is now compulsory for Inland Revenue to provide GST refunds by direct credit to a taxpayer's identified account, resulting in faster GST refunds. Obviously it's important that Inland Revenue has your correct banking details.

From here on, Inland Revenue will only make GST refunds by cheque if they do not have a customer's bank details or if there are extenuating circumstances such as hardship.



## INTEREST RATE RISK MANAGEMENT

Capital and interest rate markets have been in a bit of a holding pattern over the past couple of months. Expectations of interest rate increases post the election of Trump as US President materialised in the form of increases in longer term fixed rates here in NZ. On average we have seen rates in the 3-5 year range increase by an average of about 50bps or 0.5% in the latter half of 2016 but there has been little movement since then.

Locally the Reserve Bank of NZ held the Official Cash Rate (OCR) at its record low of 1.75% in early February last year after lowering it to that level in November last year. However, shorter term interest rates have not moved down with this change in the OCR because the banks say they now face increased funding costs from elsewhere – partly because they are having to pay higher deposit rates to attract more local funding and less overseas funding as required by the local regulator, and partly because they are being required to hold more capital as a buffer against possible bad debts as required by both local and Australian regulators. So, whilst underlying wholesale interest rates have fallen, the banks have been increasing margins charged to borrowers to cover these costs so that the overall headline interest rate (floating rates in particular) have remained similar over this period – we saw that all banks increased these margins by 10 – 20bps in the latter half of last year, and are now seeing some banks looking to increase these margins again.

As we have noted before, we recommend borrowers develop an interest rate risk management policy that suits their business and tolerance for interest rate volatility. Again, despite longer term interest rates lifting in the latter half of last year, these rates are still at historic lows, and there is some merit in considering locking in interest rates at these levels. Borrowers should also consider what loans are coming off fixed rates in the next 12 months and consider forward booking rates for those loans.

As always, if you would like to discuss those options please contact us.

## GRANT APPLICATIONS

Brown Glassford and Co Limited sponsors various groups and agriculturally based community projects. It has established an annual pool and considers all requests at the same time. Each year we will close off the date for applications on 30 April. Therefore if your rural community group wishes to apply for sponsorship from Brown Glassford & Co Limited for 2017, please have your submission into Allison Brook by 30 April 2017.

If you wish to apply for sponsorship from Brown Glassford, a 'Grant Application Form' link can be found [here](#) for you to print, fill out and return to us. If you have any further queries with regard to sponsorship, please contact Allison Brook.

## MILK FUTURES

The option of selling milk futures on the NZ Stock Exchange platform (referred to as hedging) as a tool to smooth out milk price volatility has been available for just under 12 months. Anyone can sell milk futures but it is likely that only dairy farming clients will use this mechanism. There is a reasonably complicated registration process and if dairy farming clients are interested in this concept our advice would be to develop a hedging strategy and get registered even if there is no immediate plan to start selling futures.

The current futures trading option is significantly more complex than the Guaranteed Milk Price (GMP) Scheme, which Fonterra offered until the end of the 2015/16 year, and farmers considering the use of futures should seek expert advice. We can assist with the introduction of clients to these experts who can explain how the process works.

The contrast between 2015/16 (when milk prices were falling) and 2016/17 (when milk prices have been rising) is a good illustration of the volatility facing dairy farmers. Using the futures market is a way of smoothing out the volatility. Farmers who sell futures i.e. take hedge positions consistently over time will not receive the high prices at the top of the cycle but they will avoid the low price at the bottom of the cycle.

Those farmers who locked into the Fonterra GMP for the 2015/16 did receive an advantage by avoiding the low Farm Gate Milk Price (FGMP) of \$3.90. However, the 2016/17 season has seen the futures price increase from \$4.50 to about \$6.50 before dropping back to just over \$6.00 at the time of writing. The futures price for 2017/18 (next season) has also been volatile, rising to about \$6.40 before dropping back to under \$6.00 at the time of writing. Farmers who sold 2016/17 year futures at say \$4.50 have had to pay cash to the exchange as the futures price has risen. This cash outlay is partly matched by a higher cash inflow from the milk company advance as the FGMP Advance Payments increase.

Milk price hedging via sale of futures will not be for everyone but as long as milk prices are volatile and is difficult to predict they can be a useful tool to lock in a profit on a portion of milk production by "selling" milk at a price which provides a margin over operating and interest costs.

## MINIMUM WAGE – EMPLOYMENT GUIDE

From 1 April 2017, the minimum wage increased to \$15.75 per hour (was previously \$15.25). Federated Farmers and DairyNZ have released various documents that give a good overview of the basics relating to employment agreements, minimum wages, and other benefits including accommodation. It is applicable to all farm types and there is also reference to MBIE's position statement on minimum wages and employment agreements in the rural sector.

Please note that the employee must receive at least the minimum wage over a fortnightly period, these cannot be based on average hours on an annual basis.