Words about numbers

OCTOBER 2017 NEWSLETTER

Quarterly news, so you have one less thing to worry about.

Graham Brown & Co Rebranding

With our 25th anniversary trading as Graham Brown & Co just around the corner, we have been working behind the scenes on refreshing our logo and branding which will be rolled out over the coming weeks.

We are excited to share with you our new look and assure you that our team, services, location and contact details remain unchanged.

Our full website will be temporarily unavailable during the change over but will be live again as soon as possible so please visit us at www.grahambrown.co.nz for more information about us and full contact details.

Client Function – Trusts

You are invited to join us at our complementary client function at 12 noon on Thursday 26th October 2017 at The Plaza, Putaruru.

Guest speaker, Glenda Graham, from Norris Ward McKinnon Lawyers will be discussing the place of Trusts in today's environment, the new Trust legislation including trustee duties and disclosure requirements, and changes to the requirements where we act as independent trustee.

The new Trust legislation codifies a range of Trustee duties which apply to all trustees so we encourage clients with or contemplating trusts to come along and listen to what Glenda has to share with us.

Please register your interest by contacting reception on 07 885 1022 or info@grahambrown.co.nz by 5pm Friday 20th October.

Brendon, Phillip, Debbie, Jasmine and our client managers will be available on the day and would love to see you there.

Motor Vehicles & FBT

IRD recently issued an interpretation statement explaining how Fringe Benefit Tax (FBT) applies to motor vehicles signaling that they are looking more closely at compliance in this area. As such, it is a timely reminder of the obligations where a vehicle is provided to an employee or shareholder-employee for private use.

As a starting point travel from home to work is private meaning many vehicles are potentially caught by the FBT rules. There is an exemption for work related vehicles but to qualify the vehicle must:

- be a motor vehicle
- display prominently and permanently the form of identification of the employer
- not be a car
- not be available for private use except that is travel to and from the employees home that is necessary in and a condition of their employment or travel that arises incidentally to the business use (a letter is required to notify the employee of this).

All of the above criteria must be met, not just one or two. In addition, as an employer you must carry out regular checks to ensure the employees are following the vehicles restrictions regarding private use.

IRD have provided some examples to assist with interpreting the definition which state that double cab utes are not cars, station wagons are cars unless the rear seats are permanently removed or permanently bolted down, personalized number plates are not a prominent form of identification, removable stickers are not permanent, and taking a vehicle home for security purposes only is not enough to meet the test.

The statement also clarifies the interpretation of "made available" for private use. The test depends on the actions of the vehicles owner not the employee and the test involves the employee having permission to use the vehicle and also taking possession of the vehicle. IRD have stated that if an employee goes overseas and parks the vehicle at an airport, FBT will still apply as the vehicle was available for private use.

In light of IRD's interpretation statement and guidance, we have recently updated our standard letters for restricting private use and are happy to share these with you.

If you are providing vehicles to employees and are unsure if you are applying the FBT rules correctly or would like copies of our updated letters to compare with your current letters, please contact your Director and/or Client Manager to discuss.

IRD Use of Money Interest

The IRD Use of Money Interest (UOMI) rules have recently changed in relation to provisional tax meaning it is now easier to plan for provisional tax payments in the early part of the year when predicting income can be difficult. This is particularly useful in industries where income can change significantly from tax year to tax year or throughout the tax year.

Prior to and including the 2017 tax year, companies and trusts were charged UOMI from each provisional tax instalment date on the difference between what was paid either based on IRD's standard calculation or an estimated number and what should have been paid based on the final tax return. As a result, we often estimated the tax liability and recommended payments other than the standard calculation by IRD to limit the exposure to UOMI.

From the 2018 tax year onwards, companies and trusts can now apply either of two rules. Firstly, where the residual income tax is less than $60,000 and IRD's standard instalments have been paid at the provisional tax dates, UOMI will apply from the terminal tax date. Secondly, where the residual income tax is over $60,000, provided the standard instalments have been paid at the first two provisional tax dates and a top up payment is made at the final instalment date, UOMI will apply from the final instalment date.

In summary, when income is expected to increase from the prior year, rather than estimating income at the first two instalments, it will in most cases be appropriate to use IRD's standard provisional tax calculation (currently based on 105% of the prior year's residual income tax). To limit UOMI, tax estimates will generally be completed at the final instalment when the year end position is easier to establish. In cases when income is expected to decrease from the prior year it may still be appropriate to estimate the tax liability earlier.

Fonterra Payout

Fonterra recently announced the final 2016/17 season payout of $6.12 per kgMS which combined with dividends of $0.40 per share, sees share backed farmers receiving a total cash payout of $6.52 for the season – the fourth highest payout since the formation of the Co-op!

The 2017/18 season is also shaping up well with the forecast currently at $6.75 per kgMS excluding the dividends. Add $0.30-$0.40 dividends to this and a share backed farmer is looking at $7.05-$7.15 for the current season.

On the back of two low payout seasons, the current forecasts have relieved some financial pressure, provided the opportunity for growth and/or deferred maintenance and generally lifted spirits of the farming community. On the other hand, please keep in mind your tax obligations as profits lift and tax losses, where applicable, are utilised.

With the first provisional tax instalment for May balance date clients coming up on the 28th October 2017, it is timely to look at the current Fonterra payout profile.

	2017/18	**2016/17**	**2015/16**
Advance to 31st May	$5.40*	$5.05*	$3.40*
Retro Payments	$1.07	$0.50	$0.12
	$6.47	$5.55	$3.52
Dividends	$0.40	$0.40	$0.35
	$6.87	**$5.95**	**$3.87**

**These are derived from the base advance rate plus the capacity adjustment and will vary slightly across farms.*

For tax purposes, the difference between the 2017/18 and 2016/17 season is an increase of $0.92. If we have yet to complete your 2017 annual accounts, the default provisional tax will be based on the 2015/16 which is $3.00 lower than the current 2017/18 season forecast. Other factors such as changes in farm working costs, tax losses carried forward and the impact of changing livestock valuation schemes last year will also have an impact on the 2017/18 year tax result when comparing to prior tax years.

With the change in IRD Use of Money Interest rules discussed earlier and given the expected lift in payout, the default provisional tax instalments based on the last filed tax return is likely to be appropriate in most cases. We will be reviewing tax letters in the coming weeks and will be in touch as appropriate. Please contact your client manager if you receive tax letters and wish for the payment amounts to be reviewed.

Fonterra Loan

With the final payout for 2016/17 and forecast payout for 2017/18 both above $6.00, compulsory repayments are required for farmers who took advantage of Fonterra's loan scheme.

The first repayment will be deducted in October 2017 with $0.12 per kgMS being retained to reduce the loan balance. Based on the current advance rates, the next repayment will be August 2018 and the loan balance will be fully repaid in October 2018.

It is important to note that GST is payable to IRD on the full milk payment including the $0.12 retained to reduce the loan. The $0.12 will also be taxable income in the 2017/18 year so despite not receiving the cash, tax of up to 33% will be payable on the income.

The interest now being charged on the loan is tax deductible but does not include GST so watch for this portion when completing GST returns until the loan is fully repaid.

If you are at all unsure how to handle the loan repayments or interest, please contact your Client Manager to discuss.

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