September/October 2016

Graham Brown & Co Ltd

CHARTERED ACCOUNTANTS

Email: info@grahambrown.co.nz
Website: www.grahambrown.co.nz

DAIRY PAYOUT

The recent increases in the Fonterra payout for the 2016/17 season have been positive news for the industry following an extended period of low payouts and tight cashflows. The forecast for the 2016/17 season has risen $1.00 from the opening payout to a current forecast of $5.25. This is a significant improvement on the final payout for the 2015/16 season of $3.90. However, we remind you that the $1.00 increase is spread between October 2016 and October 2017 so it will take some time before the cash impact is seen.

There are a number of aspects to keep in mind with the changing dairy payout. In the following articles we focus on provisional tax and the herd scheme livestock valuation method.

PROVISIONAL TAX PLANNING

With the first 2016/17 provisional tax payments for May balance date clients being due on the 28th of October, it is important to consider the impact of the advance and retrospective payments. The dividend has also increased over the past few seasons and this impacts the tax answer for clients who are entitled to the dividend.

The current Fonterra payout profile is as follows:

	2016/17	2015/16	2014/15
Advance to 31st May	$4.20*	$3.40*	$4.28*
Retrospective payments	$0.50	$0.12	$1.50
	$4.70	$3.52	$5.78
Dividends	$0.50	$0.35	$0.15
	$5.20	$3.87	$5.93

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

The difference between the 2016/17 and 2015/16 seasons for tax purposes is an increase of $1.18 excluding the dividends or $1.33 including the dividends. As we review your 2015/16 accounts, we will be discussing the impact of this increase on your tax obligations.

If we have not yet completed your 2015/16 annual accounts, your default provisional tax will be based on the 2014/15 season. Some clients will have tax losses for 2015/16 to offset the 2016/17 profit and there may also be stock valuation considerations (see below). Whilst we can estimate the amount due, this comes with its own implications and costs. At this stage while the $5.93 for 2015 is higher than the $5.20 for 2017, costs generally appear to have reduced and with it still being early in the year in many cases it will be appropriate to leave this first instalment based on the 2015 year.

We will be reviewing tax letters in the coming weeks and will be in touch if needed but please contact your client manager if you receive payment letters and do not feel the payments will be needed.

HERD SCHEME

The 2016 Herd Scheme (HS) livestock values are at the lowest they have been in a number of years. We have a separate article available regarding livestock valuation methods so please contact us if you would like more information. The options can be further discussed at your annual accounts interview with a final decision not required until March 2017.

CASHFLOWS & BUDGETS

We strongly encourage clients across all industries to prepare and monitor cashflow budgets for the current year and beyond. We are more than happy to assist with preparing a budget and have a number of reporting options available to assist in monitoring actual performance against your budget. In addition, most software providers also have budgeting and reporting capabilities and we can assist with these as required.

In addition to the cashflow and variance reports we have traditionally produced, some clients (both farming and commercial) are now receiving a report referred to as the Governance Cashflow. This report enables you to look forward and compare projected results against the original Governance Budget. Some extracts from this report are shown below.

	Forecast 2017	Govn Budget 2017	Variance 2017	Variance % Of Budget
	$	$	$	%
Production				
Milk Production (Kgs)	286,235	286,099	136	0.05%
Revenue				
Dairy Produce	1,180,775	1,000,189	180,586	18.06%
Cash Surplus from Dairy Cattle Trading	92,257	90,500	1,757	1.94%
Total Other Income	1,340	-	1,340	0.00%
Total Revenue	1,274,372	1,090,689	183,683	16.84%
Less Farm Operating Expenses				
Animal Husbandry	94,037	97,600	3,563	3.65%
Feed & Supplements	474,895	498,280	23,385	4.69%
Electricity	25,852	26,000	148	0.57%

	Forecast 2017	Govn Budget 2017	Variance 2017	Variance % Of Budget
	$	$	$	%
Vehicle Expenses				
Car	5,740	7,200	1,460	20.27%
Tractor	13,353	16,000	2,647	16.54%
Farm Fuel	25,120	25,000	(120)	-0.48%
Motor Bike	10,364	8,000	(2,364)	-29.56%
Utility	5,479	4,800	(679)	-14.14%
	60,057	61,000	943	1.55%

The forecast column combines actuals to date with the management budget for the rest of the year (this budget can be amended as the year progresses). This is compared to the full year governance budget (being the budget set at the beginning of the year and unchanged) with the variance being reported in dollar terms. The final column shows the percentage over/under budget with these being coloured green if under budget or red if over budget.

Please contact your client manager if you are interested in exploring further the reporting options we have available, discussing different software options or would like assistance creating a budget for the current year or beyond.

FAMILY SUPPORT & STUDENT ALLOWANCES

For clients entitled to working for families the typical approach is to receive a lump sum payment at year end. To assist during tight cashflow times, it is an option to receive fortnightly payments with a year end wash up once your accounts are completed. For clients with preschool children you may also be eligible for the Childcare Subsidy through WINZ especially in low income years. For clients with children at university, student allowances may be available depending on your income to assist your children with their studies.
Please contact your client manager if you are unsure if you or your children are entitled to these benefits.

Brendon J. Hunt
BMS, CA - Director

Phillip G.E. Price
B.Bus, CA - Director

Debbie A. Gisby
B.Bus, PGDipAcc, CA – Director

Jasmine T. Van der Heyden
BMS (1st Class Hons), CA - Director

PROPERTY SALES & THE BRIGHT-LINE TEST

From 1 October 2015 property sales have been subject to a "bright-line" test which means that gains derived on the sale of residential land that was owned for less than two years is taxable unless an exception applies.

In addition to the two year bright-line test, there are a number of other provisions that could make land sales transactions taxable. Proceeds from the sale of land might be taxable if:

- you acquired land for a purpose or with an intention of selling it;
- you acquired land for the purpose of a business of dealing in land, developing land, dividing land into lots, or erecting buildings;
- you dispose of land within 10 years of acquiring it, if at the time of acquisition you were in the business of dealing in land, or developing or dividing land;
- you dispose of land within 10 years of completing improvements to it, if at the time of acquisition you were in the business of erecting buildings;
- you dispose of land that was part of an undertaking or scheme that involved the development of land or the division of land into lots and commenced within 10 years of acquisition and was not minor; or
- you dispose of land that is not caught under any of the provisions above but was part of an undertaking or scheme that involved the development of land or the division of land into lots and the work involves significant expenditure.

Assuming none of the above rules apply, the bright-line test is then considered. The bright-line test applies only to residential land which includes land with a dwelling on it, land for which the owner has an arrangement relating to the erection of a dwelling, or bare land that may be used for erecting a dwelling under rules in an operative district plan. This has the potential to capture lifestyle blocks and the like.

Exemptions from the two year bright-line test apply for a person's main home (discussed in more detail below), non-residential land (business premises or farmland), and inherited property. There is also relief for land transferred under a relationship property agreement.

In relation to the main home exemption this can only be used twice within a two year period. If two prior transactions have occurred, all subsequent transactions fall within the bright-line rules. In addition, the main home exclusion cannot be used if you have a "regular pattern" of acquiring and disposing of residential land that had your main home on it. To establish a "regular pattern" you must consider the number of similar transactions and the intervals between them. Whilst there is no firm view on how many transactions constitute a regular pattern, the IRD accepts that generally at least three prior transactions are needed. Further, for there to be a "pattern" there needs to be similarity or likeness between the transactions and for the pattern to be "regular" requires the transactions to occur at sufficiently uniform or consistent intervals. Where a regular pattern is established, the main home exclusion is not available and the transaction will most likely be taxable. It is also important to remember that one of the other land sales provisions set out above may apply if you are outside the two year period for the bright-line test.

If you have any queries regarding the application of these rules, we encourage you contact us and/or your lawyer as soon as possible.

TEAM NEWS

Congratulations to Jasmine who has recently received her Certificate of Public Practice from the Chartered Accountants Australia and New Zealand institute and Carol who has been admitted to the institute as an Accounting Technician. Congratulations also to Kimberley on her 20 years valued service to Graham Brown & Co Ltd.

Tax Calendar

20th October 2016

- Employer Deduction returns and PAYE payments due
- RWT returns and payments due

28th October 2016

- GST returns and payments due for the period ended 30th September 2016
- 1st Provisional Tax due for May balance date clients
- 1st Provisional Tax due for March balance date clients with 6 monthly GST registrations

21st November 2016

- Employer Deduction returns and PAYE payments due
- RWT returns and payments due

28th November 2016

- GST returns and payments due for the period ended 31st October 2016
- 1st Provisional Tax due for June balance date clients

FUEL REBATES

We remind you that fuel rebates can be completed by farming clients for litres used by farm vehicles on the farm (i.e. off road). The appropriate forms (MR70 or RUCOR) are due quarterly and can be downloaded from www.nzta.govt.nz or contact your client manager for assistance.

MILEAGE RATE

The Inland Revenue Department mileage rate has recently been reduced to 72 cents per kilometre for both petrol and diesel fuel vehicles for the 2016 income year. The reduction from 74 cents per kilometre in 2015 is largely due to lower average fuel costs and overall lower operating costs. This rate can be used for travel up to a maximum of 5,000kms per year. Where travel exceeds 5,000kms you are required to use actual costs to establish the tax deductible travel expense. The IRD accepts that employers may use the 2016 vehicle mileage rate when reimbursing employees for travel in the current income year (2017 year).

Telephone Extensions

The team can be reached directly on the following extension numbers:

Putaruru Office - 07 885 1022			
Reception	**0**	Richard	**735**
Julie Gray	**742**	Rina	**708**
Julie Still	**725**	Shannon	**714**
Kimberley	**746**	Timatanga	**737**
Kirsty	**710**	Tinika	**727**
Linda	**747**		

Tokoroa Office - 07 886 7098			
Reception	**0**	Sally	**213**
Carol	**221**	Selina	**222**
Robyn	**209**	Wiki	**212**

PO Box 204, Putaruru 3443
Phone - 07 885 1022
Fax - 07 883 7297

Brendon, Phillip, Debbie, Jasmine & Team

PO Box 11, Tokoroa 3444
Phone - 07 886 7098
Fax - 07 886 7209