



# Graham Brown & Co Ltd

## CHARTERED ACCOUNTANTS

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### DAIRY PAYOUT



With the volatility of the dairy payout in recent years, profits from one year to the next have changed significantly. This has an impact on a number of accounting related topics, some of which are discussed below.

### TAX ESTIMATES

From a tax planning perspective, the timing of advance and retrospective payments are important. The revised Fonterra forecast announced on 24th September 2015 is as follows:

	2015/16	2014/15	2013/14
Advance to 31 <sup>st</sup> May	\$3.80*	\$4.28*	\$6.90
Retrospective Payments	<u>\$0.12</u>	<u>\$1.50</u>	<u>\$0.65</u>
	\$3.92	\$5.78	\$7.55

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

The difference between the 2014/15 and 2015/16 tax years is currently a reduction of \$1.86 which will have a significant impact on your tax obligations for the 2015/16 year. Further the reduction between the 2013/14 and 2015/16 tax years is much greater at \$3.63.

The first provisional tax payment (P1) for May balance date clients is coming up on 28<sup>th</sup> October 2015. If your 2015 accounts have not been prepared, the default is that P1 is based on 2013/14. Either way, we will be looking closely at the required payments before the tax payment letters are sent out. We will be in contact with clients as needed but please contact your client manager if you receive payment letters and do not feel the payments will be needed.



### INCOME EQUALISATION

The use of Income Equalisation Deposits is an option to help smooth income between tax years. In many cases the reduced payout for the current season is pushing the 2015/16 profit estimate into a loss. The Income Equalisation scheme provides an opportunity to defer paying tax on profits from the 2014/15 year by instead paying the profit amount into the scheme and then withdrawing the funds to be taxed in the 2015/16 year and offset the forecast loss. We will be discussing this with you at your annual accounts interview if we believe there is merit in using the scheme.

### WORKING FOR FAMILIES

Traditionally farming clients have received Working for Families entitlements as lump sum payments at year end once their final tax answer is known. In the current dairy environment with tight cashflows and forecast losses, there may be an opportunity to change to fortnightly Working for Families payments to assist cashflow over this period. This can be reviewed at your annual accounts interview or please contact your client manager and/or partner if you wish to consider this option sooner.



### STUDENT ALLOWANCES

Student allowance entitlements are calculated after taking into account parental income. In many cases farming income for the 2014 year was over the threshold for children to receive student allowances and in some cases even the 2015 income is over the threshold due to the high end of season deferred payments for 2014. With the lower deferred payments for 2015 and the reduced payout for the 2016 year, many farmers are forecasting reduced profits and/or losses for the current year. We can lodge an application with Studylink to have the student allowance application assessed based on a cashflow budget for the 2015/16 year. Please contact your client manager to discuss what is required if you think your children would benefit from such an application being made.



### CASHFLOW BUDGETS

We strongly encourage farming clients to prepare a cashflow budget for the current season and also looking forward to next season. It is better to be proactive than reactive when cashflows are tight so talk to your bank manager and/or us regarding your position. Looking beyond the current year can also be very valuable for strategic decision making.

Monitoring your budget is also vital in tight cashflow times. To assist with this, where we are preparing cashflows on a monthly basis, we can load your budget into our system. You will then receive your usual monthly cashflow with the budget forecasting your monthly and end of season cash position and also a monthly and year to date variance report. Most software providers also have the ability to load your budget and run variance reports monthly.

Please contact your client manager if you would like us to assist with preparing a budget, have a budget in place and would like monthly variance reporting, or would like assistance with running variance reporting from your software.

#### Telephone Extensions

A reminder that staff can be reached directly on the following extension numbers:



#### Putaruru Office - 07 885 1022

Amy	Reception	720	Linda	747
	Erin	724	Richard	735
	Jessica	741	Rina	708
	Julie Gray	742	Shannon	714
	Julie Still	725	Timatanga	737
	Kimberley	746	Tinika	727

#### Tokoroa Office - 07 886 7099

Reception	202	Robyn	209
Carol	221	Sally	213
Jasmine	210	Wiki	212

## VOUCHERS TO EMPLOYEES

The cost of providing vouchers, i.e. Prezy cards, to employees is a tax deductible expense to the business. As the business owner you also need to consider whether the non-cash benefit is taxable to the employee under the PAYE rules or subject to FBT.



Vouchers fall under the PAYE rules if there is a salary sacrifice arrangement in place. In other words if the employee's salary is reduced and they are instead provided with vouchers, the vouchers would be subject to normal PAYE rules as they are provided in place of what would otherwise be paid in cash.

If there is no salary sacrifice arrangement, you then need to consider the Fringe Benefit Tax (FBT) rules. These rules do not apply unless an employer provides benefits in total of more than \$22,500 per annum or a single employee receives more than \$1,200 per annum. These tests are calculated on an annual basis so it is important to keep this in mind when providing non-cash benefits to employees multiple times within the same income year.

From a GST perspective, GST cannot be claimed on this employment related expense so the cost should be coded to wages or a separate employment code set up without GST.

If you have any queries about how to treat non-cash benefits to employees please contact your partner or client manager to discuss.

## DAIRYBASE

DairyBase is the dairy industry's online benchmarking tool and is available to all DairyNZ levy-paying farm businesses. DairyBase provides farmers with a standard set of financial and physical key performance indicators with the objective being to better understand the business and its performance by benchmarking your farm against other similar farms on a regional and national level.

Our internal DairyBase process has changed this year. For the past few years we have worked with DairyBase to enter farm accounts free of charge however this is no longer possible. Instead, this year we sent farming clients a green DairyBase Terms of Engagement letter with our yellow Annual Questionnaires. This sets out more background about DairyBase and also the approximate cost being \$150.00 plus GST for us to provide the financial data to DairyBase on your behalf.



Please note that it is optional and we do not use the information internally. If you sign and return the engagement letter, we will check with you at your annual interview that you do want your accounts put into DairyBase and only your final accounts will be sent to them. You will receive login details directly from DairyBase to access and use the online information as and when desired.

## MILEAGE RATE

The Inland Revenue Department mileage rate has recently been reduced to 74 cents per kilometre for both petrol and diesel fuel vehicles for the 2015 income year. The reduction from 77 cents per kilometre in 2014 is largely due to lower average fuel costs and to some extent more efficient vehicles. The IRD accepts that employers may use the 2015 vehicle mileage rate when reimbursing employees for travel in the current income year (2016 year).



## TAX PAYMENTS TO IRD

A reminder that all tax payments to the Inland Revenue Department need to be received by them on or before the due date to avoid late payment penalties and/or interest.

The most common payment methods are:

- **Internet Banking** – must be made before the banks online processing cut off time on the due date. This differs by bank so please ensure you are familiar with your banks timing.
- **Cheques** – must be posted in plenty of time for the cheque to physically reach the IRD before the due date. It is not sufficient for cheques to be posted on the due date.



Please refer to our October 2014 newsletter which can be viewed on our website for more information on what payments are considered as "received in time".

## COMPANY ANNUAL RETURNS

Due to changes in the Companies Act, we are now required to provide the date and place of birth for all Directors when completing the Companies Office Annual Return. We understand that the information is not being made publically available and is for the Companies Office internal records only.

In June this year we sent letters out to all Directors requesting this information to update our database. A large number of responses have been received and we thank you for your prompt action. We are no longer able to file Annual Returns without this information so will be contacting any Directors who have not yet provided the details when it is time to file your Company Annual Return.

In addition to the above information, companies must provide the details of ultimate holding companies if more than 50% of the control is held by a company or limited partnership. Companies must also have at least one Director that lives in NZ or lives in Australia and is a Director of a company incorporated in Australia.

## FBT INTEREST RATE

With falling Reserve Bank interest rates, the Inland Revenue Department's prescribed rate of interest for low-interest, employment loans has been reduced from 6.70% to 6.22% for the quarter beginning 1 July 2015.



### Tax Calendar

20<sup>th</sup> October 2015

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

28<sup>th</sup> October 2015

- GST returns and payments due for the period ended 30<sup>th</sup> September 2015
- 1<sup>st</sup> Provisional Tax due for May balance date clients
- 1<sup>st</sup> Provisional Tax due for March balance date clients with 6 monthly GST registrations

20<sup>th</sup> November 2015

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

30<sup>th</sup> November 2015

- GST returns and payments due for the period ended 31<sup>st</sup> October 2015
- 1<sup>st</sup> Provisional Tax due for June balance date clients