

INCOME EQUALISATION DEPOSITS

Early Refunds

The IED scheme was widely used to help manage the tax impact from the 2008 year. Usually the funds are required to be with the IRD for at least 12 months before they can be withdrawn. A deposit can be refunded early due to financial hardship and it is pleasing to note that the IRD has been approving these requests.

MEET OUR RURAL TEAM



We are pleased to introduce our specialist rural team. Our local team comprises skilled professionals who bring to their clients a strong understanding of the rural sector through both relevant tertiary qualifications and personal experience within the industry.

At PwC, we are dedicated to the rural sector and we have invested in staff to ensure we deliver. We also have specialist rural practices in Waikato, Hawkes Bay and the South Island. This allows us as a Firm, to share and collaborate for the benefit of our clients.

We are also supported by national and global capability, so if you have a complex issue, we will know how best to deal with it.

This month we farewell Craig Taylor from our rural team. He has decided to take up an opportunity in the Waikato. We wish Craig all the best for the future.

Neil Evetts and Grant McQuoid will be responsible for Craig's clients, with Neil taking care of our rural clients and Grant taking care of our commercial clients. We will ensure that you continue to receive a high quality service.

OPUNAKE OFFICE

Our Opunake office is located at 30 Tasman Street and is open from Tuesday to Friday from 10am to 3pm. Marion Collins is available to help if you have any queries. We also have one of our senior advisors visit the office every Tuesday. To make an appointment with either Gary Cleland or Grant Sarten, please drop in and see Marion or contact her on 06 761 8168.

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Disclaimer: Farming News is intended as a guide only. Readers are advised that before acting on any matter arising in this bulletin, they should consult a PricewaterhouseCoopers senior staff member.

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SURVIVING THE DOWN TURN

We have all read articles about cutting costs in order to survive on reduced incomes but it's worth revisiting some of the basics.

When reviewing your costs, start with the major items and work down to the smaller ones.

Feed Purchases – Do the sums. You can make it very complicated but at least start with some basic numbers, eg. 1kg of PKE might convert to 80g of milk solids and at a \$4.55 payout that's 32c in the vat. If you are paying 25c a kg for the PKE there is not much of a margin to cover the cost of labour and machinery to feed it or to cover wastage. Sure, some will get a better response than 80g but many will get less. A rule of thumb is to never pay more than 5% of payout for feed. At \$4.55 that's 22c a kg.

Fertiliser – Get soil tests done and complete a nutrient budget. Determine what the minimum maintenance level is that can be applied.

Interest – Determine if a high interest term loan can be broken and reset at a lower rate. The bank will charge a break fee but there could still be an advantage. Ask the bank to do the sums for you. Determine if you can fix a loan now and what period you should fix it for. The general expectation is that interest rates will stay fairly low for perhaps the next year but may then begin to rise. Be proactive in discussing this with your bank.

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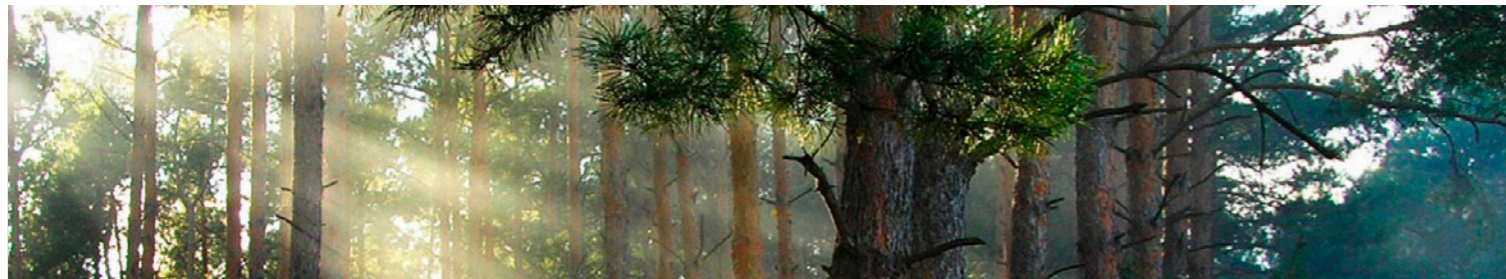
SURVIVING THE DOWN TURN (continued)

Wages – Establish whether you or your family can do more yourselves. Ask yourself whether that milker that you employed last year is a necessity or a luxury. This area can be difficult if you are an older farmer (the average age of a dairy farmer is 56). Do you really want to go back into the shed to cover what is hopefully a short term problem? If so, then ask yourself what if it's a problem that lasts for two seasons?

General farm expenses – Every time you pop down to the farm supply store you need to ask the question: Do I really need to buy this? Think carefully before ringing the vet to come and look at that old cow. Is she really worth it? Is there another humane option? When the digger is on the farm just do what is necessary and try to avoid doing those few extras while it's there. A few days with the digger can easily turn into a week.

In farming there are many factors that can influence the bottom line. Perhaps it is worth spending a bit more on feed just to get the cow condition up a bit for next season. The weather will almost certainly be wetter (or drier) than planned.

It's important to do the basic sums before getting the cheque book out. It's also a good idea to write down the plan and the reasoning behind it. What appears to be a good idea now may not look so great in hind site but at least you will have a clear idea of why you ended up where you did. If it was a good idea based on the facts available at the time then there's no point beating yourself up over it. Learn from it and move on.



EMISSIONS TRADING SCHEME – SUSTAINABLE FORESTRY

On 30 June 2009 Parliament passed an amendment to the Climate Change Response Act 2002 which affected the deadlines relating to the pre-1990 forest land. The changes are summarised as:

- The notification deadline for deforestation of pre-1990 forest land that occurred during 2008 & 2009 has been deferred from 31 January 2009 to 31 January 2010.
- Participants will not be penalised for failing to notify deforestation by the old deadline provided the participants notifies MAF on or before 31 January 2010.
- Participants who deforested pre-1990 forest land during 2008 & 2009 are still obliged to file an emissions return quantifying their deforestation liability, between 1 January and 31 March 2010.
- The deadline for surrendering emissions units to meet deforestation liabilities reported in an emissions return has been deferred from 30 April 2010 to 30 April 2011.

If any area of more than 2ha has been deforested since 1 January 2008 then the Forest land owner needs to notify the NZEUR of the deforestation.

If the land has already been deforested there is an opportunity to get an exemption for your pre-1990 forest land. The two types of exemptions are:

- Less than 50ha; and
- Deforestation of Tree weeds.

Currently the final forestry plan is still being worked on but is expected to be issued towards the end of the year. Once the plan is out, forest land owners who own areas of less than 50ha can make a decision as to whether to apply for an allocation of units or for the exemption for their pre-1990 forests.

STAFF REIMBURSEMENTS AND BENEFITS

Many farmers will be employing staff for the new season and negotiating salary packages. Reimbursements and benefits are a common feature of these agreements.

Reimbursing Allowances

Reimbursing allowances are payments made to an employee to compensate them for expenditure that they have incurred in doing their job.

Farm workers can supply their own gear, protective clothing, wet weather gear, motor bikes and more. As employees they are unable to claim for this expenditure, but they can look to the employer for a reimbursement. That reimbursement is a tax deductible expense for the employer and a tax free receipt in the hands of the employee.

Many years ago the legislation allowed some employees a flat 10% of the gross wage as a tax free "gear allowance". The Inland Revenue also published a schedule of non taxable allowances for some employees.

All of that changed from 1 April 1995 when the legislation was completely revamped. The notion of Unions or Industry Groups negotiating fixed dollar amount reimbursing allowances with Government and Inland Revenue publishing prescribed dollar amount allowances was dropped. From 1 April 1995 the onus

falls on the employer to determine how much employees have expended, and the reimbursement (tax free) is limited to that amount. The employer must decide and be prepared to justify it to Inland Revenue if called upon to do so.

Benefit Allowances

Benefit allowances include both payments made in addition to wages and salary, AND food and/or accommodation provided to employees. The latter is included in the definition of "monetary remuneration" and both are taxable.

Most farmers are reasonably familiar with the need to deduct PAYE on the value of "free" houses supplied to farm staff or "free" board and lodging (keep) supplied to farm staff.

Where employees are offered "free" food and accommodation as part of the employment package they are, in effect, being paid partly in cash and partly in kind. Both elements of the package are subject to PAYE because both are included in the definition of monetary remuneration. Often we see the "free" accommodation accounted for but the "free" food tends to get forgotten about.

BUDGETING

There is the saying that "failing to plan is planning to fail". Given the current economic climate and payout, this saying is even more relevant this season. Every farm business should have a financial budget.

The banks have been diligent in reviewing budgets for anyone carrying material debt. We have obviously noticed quite a change in attitude to those with very high debt. In particular the banks are now reluctant to become too involved in preparing the budgets themselves. In preparing budgets they are often providing advice of one form or another and this must lead to a potential conflict of interest if the bank is a significant stakeholder. We think that the banks have recognised this and are repositioning themselves for those they see as higher risk.

PricewaterhouseCoopers has the budgeting tools and expertise available to help in preparing budgets. We can help you to prepare budgets using your own computer based cashbook, review your budgets or prepare detailed budgets using forecasting tools. Contact us if you would like help.

Loan Covenants

Many loan agreements include a covenant requiring that financial statements and sometimes a budget, be presented to the bank within a certain period. The banks are now starting to enforce some of these covenants with some insisting on financial statements within three months of balance date. Please contact us early if you are in this position.