



# FARMING NEWS

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## SEASON OF CHANGE

Welcome to our spring newsletter edition.

As you all know, there have been a number of significant changes that have taken effect from 1 October and so far adjusting to the transitional period seems to be going well. For those of you having difficulties, our GST team are always on hand and happy to help.

The theme I want to briefly comment on is the difficult economic environment we find ourselves in and the importance of 'credibility.'

Our partners attended an economic update on 25th August, and the briefing was not surprising but humbling. For some time we have been hearing forecasts and commentary that the economic environment is improving and so activity is improving. The Reserve Bank has increased the OCR a few times to take some of the heat of the growth rate.

We questioned where all of this good news was coming from, because in provincial New Zealand it is still very difficult. Perhaps we are heading in a different direction to our urban cousins?

The premise of the briefing was that economically, it is about as good as it's going to get for a while. This is going to be a long slow recovery and the indicators are starting to support this. Commercial construction activity is currently at very low levels with few new projects starting, and you only have to take a drive through any retail precinct to witness the reason – the number of empty shops has increased dramatically.

This environment imposes challenges on most businesses, and the most important challenge is cashflow management. Adaptation of the business model is required to preserve cash or collect cash as quickly as possible. Banking relationship managers are very interested in the cash position and projections of the businesses being financed.

We have experienced an increased level of analysis from relationship managers with applications for additional working capital requirements that have not been as obvious for some time. We have had 'push-back' on applications with questions and statements such as;

- Why should we provide additional working - capital to finance hire purchase payments? You should approach the finance company to reschedule these first.
- Sale of capital livestock is required to be - applied to reduction of total debt, not placed in the working capital account.
- We require the full statement of personal - assets, liabilities and monthly/weekly personal income and expenditure to be completed and signed.
- We require a cashflow forecast to be - prepared, including financial performance and balance sheet.

We are finding that 'credibility' is probably the most important attribute in business at this time. This relates to knowing your business, your financial numbers, and the environment you operate in, understanding the threats posed by competitors and business management, and most importantly being profitable or achieving 'budget' results.

On a separate note, this is the last newsletter we will produce this side of Christmas. We hope the warm weather continues and wish you and your family all the best during the festive season.

Neil Evetts,  
Partner

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# SWEEPING GST RULES INTRODUCED

## Compulsory zero-rating of transactions involving land

The aim of compulsory zero-rating of land transactions is to prevent GST abuse and, in some cases fraud. These schemes typically involve a purchaser claiming GST refunds but no GST being paid by the vendor.

### Application of the new rules

Compulsory zero-rating (GST at 0%) will apply to any supply involving land between two GST-registered parties, if:

- The purchaser acquires the land with the intention of using - it to make taxable supplies; and
- The land is not intended to be used as a principal place of - residence for either the purchaser or associate.

The Bill introduces a wide definition of “land” that includes an estate or interest in land, rights that give rise to an interest in land, and options to acquire land. “Land” includes fixtures and leases of commercial property but mortgages over land and leases of dwellings are specifically excluded.

The current zero-rating of a going concern, on an “opt in” basis, will be retained for non-land transactions. Because many businesses will be sold with premises, the compulsory zero-rating rules will apply to these transactions from 1 April 2011. Compulsory zero-rating will also extend to business sales where leases are assigned for nominal or nil consideration.

The zero-rated design ensures that no GST is paid or claimed. This will prevent abuse of the GST system. The fact that a purchaser will be required to account for GST if it is exempt or partially exempt will give rise to commercial and funding issues.

A supplier will be required to maintain certain records:

- The name and address of the purchaser;
- The GST registration number of the purchaser;
- A description of the land; and
- The purchase price.

### Example

Company A is a farmer. On 1 June 2011, Company A sells a farm to Company B for \$2,000,000. Company A obtains Company B's GST registration number and a written statement that Company B will use the property for business/farming purposes.

Because Company A has made a supply of land and has obtained details that Company B is GST-registered and will use the farm to make taxable supplies, Company A must treat the supply as zero-rated. The \$2,000,000 should be disclosed in box 6 of Company A's GST return as a zero-rated supply.

If the purchaser makes exempt supplies, the purchaser is required to pay GST on the amount that would have been charged if the sale was not zero-rated less the amount of GST the purchaser would have been entitled to recover.

A vendor could be liable to account for GST on a supply of land in a case where the required information has not been obtained from the purchaser or sufficient enquiries have not been made into the purchaser's GST registration status. Similarly, a GST-registered purchaser could be liable to account for GST where they have incorrectly made out that the land is acquired with the intention of using it for making taxable supplies or that the land will not be used as a principal place of residence. Careful drafting of contracts will be essential. All standard forms and agreements (including warranties) will need to be reviewed and amended to ensure that they incorporate the required information.

## GST rate increase - Transitional rules

New transitional rules will allow businesses, in some situations, to carry on accounting for GST at 12.5% after 1 October. The rules will also better align the current GST timing rules with modern business practices.

The rules – announced on 9 August 2010 by the Minister of Revenue and the GST Advisory Panel – provide clarity and reflect that the Government, the GST Advisory Panel and the Policy Advice Division of Inland Revenue have taken a pragmatic approach to the GST rate increase challenges faced by businesses.

### Details of the new transitional rules

If you:

- Give credits by reversing the original tax invoice and issuing a new one;
- Issue invoices with a different date from the date of posting; or
- Provide goods or services and receive periodic payments,

the new rules will be relevant.

All of the rules are independent and “elective”. Businesses therefore need to immediately assess the commercial and systems compliance impact and proceed accordingly.

## Grand parenting certain contracts entered into before 1 October

Many businesses which make supplies over a term and receive regular payments periodically will be able to lock in GST at 12.5% for contracts entered into before 1 October even though payments are not received or due until after 1 October.

The new transitional rules will apply to contracts (with a term of one year or less) entered into before 1 October 2010 if:

- The customer is able to pay the price on a periodic (e.g. monthly) basis; or
- The contract has an option to pay up front but that option has not been exercised.

The main provisos for contracts to be eligible for 12.5% GST are:

1. The supplier must account for GST (at the old rate of 1. 12.5%) on the total amount payable under the contract before 1 October 2010.
2. Where the supply is to a GST-registered business, the supplier will be required to notify the recipient that the GST deduction must be at 12.5% (this is designed to ensure that GST-registered recipients do not claim GST deductions at 15% where the supplier accounts for GST at 12.5%). Inland Revenue is working on the practicalities of this notification to ensure it is easy to comply with.

The new rules will not apply if the contract is renewed monthly or every time a payment is made.

This rule is designed to apply to some general and health insurance contracts, but it may also have a broader application to other successive contracts e.g. advertising, alarm monitoring, ACC Levies, Rates and Private School fees.

## Delay between creating and mailing tax invoices

Some billing systems generate invoices at the end of the month but the invoice may not be posted (or issued) to the customer until early the following month. However, under the GST timing rules, GST should be accounted for on the date of actual issue i.e. date of posting to the customer. In these circumstances, the transitional rule will allow businesses to physically post invoices by Monday, 11 October and still account for GST at 12.5% for any invoices dated in September, provided the goods or services were supplied before 1 October and the invoice is due to be paid within 60 days.

## Credits by reversing the original invoice and issuing a new one

Businesses which give credits by reversing the entire original tax invoice followed by the issue of a new invoice will be able to issue the new tax invoice at 12.5% after 1 October if the credit relates to a supply which arose before the rate increase. This will ensure that suppliers are not out of pocket for any additional GST payable when the new tax invoice is issued, e.g. for replacement goods.

## Other transitional matters

Inland Revenue has recently issued practical guidelines (IR106) on the GST transition. These guidelines deal with matters such as split GST returns and adjustments which incorporate the transitional rules discussed in this newsletter.

Please feel free to visit the IRD web site which provides information on these matters [www.ird.govt.nz/changes](http://www.ird.govt.nz/changes)

## Reduction in tax rates: consequential changes

The rates at which tax is deducted from personal incomes came into effect in 1 October 2010.

- Employers need to ensure that they deduct the correct PAYE.
- Any automatic payments currently set up for salary/wage staff may need updating.
- New tables and on-line calculators will be available from the IRD in early September.
- Lump sum payments such as bonuses will be subject to the new rates.
- FBT flat rate will reduce from 61% to 49.25%. The multi rates will also change in line with the changes to personal tax rates.
- KiwiSaver or other Employer Superannuation Contribution tax rates and thresholds have all changed. Ensure you have viewed the new rates.
- RWT rates also change to align with the new personal tax rates. Top rate will reduce from 38% to 33%. PIEs maximum tax will be capped at 28%.
- Provisional tax payers under the uplift method can reduce their uplift to 95%.
- Ensure your payroll software has been updated with the new PAYE rates.

Please contact us if you have any questions or wish to discuss anything.

## BankLink Books Software and GST increase

BankLink will be releasing a software upgrade containing minor enhancements to address the changes to GST. You will be prompted to upgrade your BankLink software next time we email you your Books files. The upgrade process will work the same as the annual upgrade procedure.

The upgrade will include the new GST forms produced by the Inland Revenue Department.

As always, please call us if you have any questions.



# TAX POOLING

## What is tax pooling?

Tax-pooling benefits both sides by allowing underpayers to pay less interest and overpayers to get more. If a taxpayer overpays provisional tax they receive only 1.82% use of money interest (Uomi) but if they underpay their tax they are liable for interest of 8.91%.

Tax-pooling allows taxpayers to spread this differential and get more interest on overpayments and pay less on underpayments.

Currently tax pooling can reduce the Uomi from 8.91% down to approximately 6.5% depending on the amount and time the tax was due for payment. There can also be some substantial benefits if there are any late payment penalties involved.

## How tax pooling works

Tax intermediaries operate "tax pooling" accounts with Inland Revenue. The provisional tax payments they deposit into these accounts are held until the intermediary instructs Inland Revenue what to do with them, for example, transferring a payment to a taxpayer's income tax account.

When a payment is transferred into an income tax account, it will be treated as an income tax payment made to that account, either on the date it was deposited to the tax pooling account, or at a later date, as instructed by the intermediary.

The intermediary will hold payments in trust for the payer until they need to be actioned.

## Benefits

Apart from saving on use of money interest tax pooling can also reduce penalties. For example if a tax payer missed an RWT payment of \$27k due 20th August 2010 and payment wasn't actually made until 5th February 2011 the interest and penalties would be around \$4k. By using tax pooling the interest and penalties could be reduced by as much as \$3k.

In times of fluctuating incomes (unpredictable payout) it is difficult to make accurate estimates of your tax liability. This is particularly the case early in the season. If a tax payer is running an overdraft it is especially worthwhile to consider using tax pooling to fund the income tax. The amount required to borrow can be calculated when the final liability is known and the interest rate is likely to be very comparable to the OD interest rate and in some circumstances better.

Generally the amount of tax involved needs to be at least \$5,000 to take advantage tax pooling. Contact our Taranaki team if you would like to know more.

# IRD AND AGRICULTURAL AND HORTICULTURAL CONTRACTORS

IRD have indicated that one of the items that they are focussing on in 2010/11 is the non-compliance by agricultural and horticultural contractors. Due to this focus we wish to remind you of some important details in regards to this industry for your information.

The difference between a casual agricultural worker and an agricultural contractor is:

**Casual agricultural** are employees who do casual seasonal work on a day to day basis for no more than three months. They need to use the CAE (Casual Agricultural Employee) tax code and have PAYE deducted at a flat rate. Casual agricultural employees will include relief milkers but not contract milkers.

**Agricultural Contractors** are independent contractors not employees and are subject to tax on the scheduler payments basis (see table below)

## Schedular Payments

As employers it is your responsibility to deduct tax on scheduler payments (formally withholding payments) when making payments to contractors. The tax deductions are on a flat rate as specified in the Tax on Scheduler Payments list and are included in your monthly PAYE return. If the contractors hold a current certificate of exemption from withholding tax then you do not need to deduct tax. The contractor needs to supply you with a copy of the Certificate of Exemption (IR331) – you will need to check that the certificate is valid and the work stated is the same as the work the contractor is doing for you. We recommend that you keep a record of payments made, certificate number or a photocopy of the original certificate.

## Taxing activities called scheduler payments (formerly withholding payments)

If the activity is.....	the normal tax rate is...	the rate if no tax code is declared is...
Agricultural contracts for maintenance, development or other work on farming or agricultural land	15c	30c
Agricultural, horticultural or viticultural contracts by any type (individual, partnership, trust or company) of contractor for work or services rendered under contract or arrangement for the supply of labour, or mainly for the supply of labour on land in connection with fruit crops, orchards, vegetables or vineyards	15c	30c
Forestry or bush work of all kinds, planting, sowing or gathering vegetables, or flax planting or cutting	15c	30c
Shearing or droving	15c	30c

Source: Excerpt from scheduler payments table, [www.ird.govt.nz/payroll-employers/make-deductions/withholding-tax](http://www.ird.govt.nz/payroll-employers/make-deductions/withholding-tax), 01/09/2010.

## Other:

**Contract milkers** - should have a written employment contract in place  
**Relief milkers** - generally an employee and PAYE deducted from wages at CAE rate  
**Drovers & Musterers** - if normal employees – deduct normal rates of PAYE

## Contacts

### Our key rural specialists:

Neil Evetts, Partner

Grant Sarten, Director

Gary Cleland, Senior Manager

Clay Jordan, Manager

Paul Petrowski, Manager

Heather McEwan-Nugent,  
Senior Associate

New Plymouth Office  
PricewaterhouseCoopers  
Level 7, 54 Gill Street  
New Plymouth  
Ph: 06 757 5477  
Fax: 06 757 9497

Opunake Office  
30 Tasman Street  
Opunake  
Ph: 06 761 8168  
Fax: 06 761 8168

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