



### *Payday Reporting*

From 1 April 2019, electronic Payday Filing will be compulsory for all employers. Payroll information will need to be filed with IRD within 2 working days of filing the returns electronically, or within 7 days of filing the returns in paper form. Employers will be required to file their returns electronically if their annual PAYE/ESCT is \$50,000 or more.

Currently, employers file employee earnings and PAYE information each month regardless of how often employees are paid. Only those employers with more than \$100,000 PAYE/ESCT annually must file electronically, and only those with PAYE/ESCT over more than \$500,000 must pay PAYE twice a month.

One of the key reasons for the change from monthly to payday reporting is to improve the accuracy and speed of the information received by the IRD.

The current system means that the IRD can be waiting up to 50 days to get employment and pay information from an employer. This is not ideal as correct tax codes, student loan deductions, Child Support and Working for Families Tax Credits all rely on this information. The faster the IRD can receive this information, the faster the information can be acted on.

For those employers who pay their employees on a weekly basis, this will require the payroll filing to be done 52 times per year. There has been discussion about changing to fortnightly payruns to halve the compliance work, although this would require changes to employment contracts to change the pay frequency clauses.

Most payroll providers are looking to automate their payroll software to automatically upload the information directly to the IRD website, rather than to manually upload the payroll file through the myIR section of the IRD website. This should reduce the amount of extra compliance work of filing the information to a couple of extra mouse clicks.

The employers that the payroll reporting changes will add the most work to are those employers who still calculate and return their PAYE manually.

These employers will be having to complete and file the payroll returns within 7 working days.

This provides an opportunity for us to look at improving the payroll recordkeeping by shifting these clients to a payroll program, or Smartphone app, or by taking on the payroll responsibilities ourselves.

For these clients, the shift to a payroll program may improve record keeping, accuracy of hours worked, minimum wage calculations, records of annual and sick leave taken, final pay calculations and KiwiSaver.

As well as having more accurate information, it would reduce the risk of prosecution by MBIE for poor or inaccurate recordkeeping.

### *Other Changes*

Employers will be required to provide additional information to the IRD on new and departing employees, such as contact details and date of birth. This will be able to be done prior to filing the employee's first payday.

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Employers will be able to correct employment information online, rather than manually through the employer monthly schedule amendments form (IR344). However, the IRD still won't be able to accept negative adjustments.

### How to Complete Payday Filing

Most software providers are currently in the process of rolling out or implementing changes to their software that will automatically file the information once the payroll is complete.

Employers will have four ways to file their payroll information. The first method, an automatic upload from the payroll software is being developed, while the other three are existing methods that will continue to be available.

- Directly from the payroll software (within 2 workings days)
- File upload from the payroll returns in myIR (within 2 workings days)
- Onscreen in the payroll returns in myIR (within 2 workings days)
- Manual returns (within 7 workings days)

### Cashmanager RURAL

Cashmanager RURAL have advised that they do not intend to update their payroll software to allow Payday filing. They have advised their subscribers to move to specialist payroll providers. Cashmanager's payroll software will still exist, but the payrolls will need to be filed manually with the IRD; either manually through the myIR or via manual returns.

## Forestry Expenditure – Access Tracks

Many farmers carry on a forestry business on part of their farm. Often this land has been deemed unproductive for livestock farming.

Access is often restricted to an old farm track that is suitable for a quad bike, or at best, the farm ute.

In order for the heavy machinery required to mill the trees, significant work is often required to construct suitable access tracks.

This is usually done by the logging contractor on arrival, they will construct the access tracks on their way to the forestry plantation. This expenditure can be significant as tracks need to be built, metalled, culverts built up, etc.

Where the logging contractor is performing this work, often this work will not be paid, rather it will be deducted from the first few sales invoices, so careful analysis of the logging invoices is required.

The deductibility of this expenditure can cause some debate. Ordinarily, construction of a farm access track of this nature would be considered development expenditure under Section DO 4 and schedule 20 Part A "construction of access roads or tracks to or on the land", it would then be capitalised and amortised at 5% DV.

However, when a forestry business is involved we may be entitled to a full deduction. We can turn to Section DP 1 (1)(h)(i)(ii) which states "A person carrying on a forestry business on land in New Zealand is allowed a deduction for expenditure that they incur on – the construction to or on the land of access tracks that are – constructed for a specific operational purpose, and; used for no longer than 12 months after construction."

Generally, the construction of these tracks meets Section DP 1(1)(h)(i), as they are built specifically for the need for the heavy machinery to gain access to the forestry plantations and transport the milled logs away.

However, to fully meet the test of Section DP 1 (1)(h) and allow a deduction for this expenditure, the new access track must also be "used for no longer than 12 months after construction." Forestry blocks owned by our clients are smaller by nature and milling is usually completed comfortably within 12 months, therefore, it would appear that we would satisfy Section DP 1 and be allowed a full deduction.

If a full deduction for the expenditure has been claimed, is the track no longer allowed to be used? The farmer now has a track that is over and above what is required for the day to day running of the farm. If the track is going to land that is not farmed as it is unproductive, the future use may be merely incidental.

If the land is replanted in trees, it is unlikely when they are milled (likely 20-25 years) the track will still be in a fit state to handle machinery required and a completely new track will be needed.

Where timber milling is involved, it is important to have the discussion with the client to gain a clear understanding of the work. It is easy to sit in our office and take what is noted on the invoice at face value. We risk making an incorrect conclusion and potentially miss out on a substantial expenditure claim in a period where taxable income is likely to be substantially higher because of the timber sales.



## ***GST Change of Use Adjustments***

For clients on lifestyle blocks or small farms, being GST registered allows them to receive GST deductions on their business-related expenses. For many, the decision to be GST registered was made at the time the land was purchased, as it reduced the purchase price of the land. Because of the small scale of the farm, there are often GST refunds. However, there comes a point when many taxpayers decide they have had enough of the paperwork. If their turnover is less than \$60,000 per annum, they can deregister from GST.

For some blocks of land, whether the business exceeds the \$60,000 GST threshold depends on how the land is being farmed. Originally it may have involved a dairy, or a sheep and beef farm. However, over time the activity may have changed from selling livestock to grazing or renting the farm out. Although the net income earned may be similar, the turnover is less.

Consider a 30 hectare dry stock farm that can run six stock units per hectare. This land could run 30 steers that will sell for around \$2,000 head – a turnover of \$60,000 per annum.

If the same land is leased out at \$500 per acre, the total rent received would be \$37,065. If it was used for dairy grazing of Friesian heifers at \$11 per week, the turnover would be approximately \$24,920 per annum. For the dry stock farmer who is trading cattle, the turnover is \$60,000, meaning that they are required to be GST registered.

For the landowner who either leases or takes on graziers, the turnover is below \$60,000, so a GST change of use adjustment can be done. As part of the GST deregistration process, assets that are sold or retained for personal use must also be returned for GST. For those assets retained, a notional sale occurs.

Our advice is to consider the acquisition dates of all assets before starting the GST deregistration process.

How the retained assets are valued for the notional sale depends on when the assets were acquired. Assets acquired prior to 1 October 1986 are returned at the lesser of cost or current market value, while those acquired post 1 October 1986 are returned at their current market value.

For vehicles, plant, and office equipment, normal wear and tear means that their market value is less than their cost. But for land and buildings, inflation and market demand has resulted in the majority having a market value greater than cost.

If land and buildings acquired post 1 October 1986 are retained for personal use, one 15th of the market value must be returned for GST. This means GST ends up being returned on any increase in property value. This can involve a significant cash cost to get out of the GST loop. The high cost of deregistration may make it more attractive to stay registered and shift to filing six-monthly returns.

If the land were acquired before 1 October 1986, then the cost of deregistration may be acceptable as it can be based on the original purchase.

Establishing the cost of the land can be difficult as we may have to dig back to find Sales and Purchase Agreements that are now over 30 years old.

The GST deregistration can be done when the lifestyle block is sold and cash is available to meet the GST liability.



## ***Employing Casual Staff or Family Over Holidays***

With the Christmas holidays approaching, it's the time of the year we see more casual staff being employed on the farm.

With school and university holidays on, the farmer's or the neighbour's children are at home and keen to earn money.

It's also the time of the year that farm owners want to take holidays or need help with seasonal work such as hay making, fruit picking or relief milking.

Some of these casual employees will be working for up to three months over summer, with most university holidays being from November to the start of February.

Where the farmer has their own children working on the farm, there is the question of are they working on the farm as part of the family or as employees. When assisting on the farm as part of the family, there is no requirement to pay a market wage.

If the parents are supporting the child through school or university, this is done from the parents' after-tax income and the university/school fees are non deductible. If the children are paid PAYE deducted wages and the student then uses this to pay their study fees, the wages are deductible to the farming business. The student's tax rate is also likely to be lower than that of their parents (or the farming Company or Trust).

If a taxpayer pays wages, PAYE must be deducted and returned to the IRD. The Casual Agricultural Employer (CAE) tax rate is currently 17.5% (plus ACC levy). Casual staff should be encouraged to look at filing a personal tax summary (PTS), especially if they earn less than \$14,000 pa, as they may be due a tax refund. Going forward from 1 April 2019, these employers will also have to comply with the Payday filing rules (*see earlier article - Payday Reporting*).

### **School Students**

All employees, including those of school age, are required to complete an IR330 and have PAYE deducted from their wages.

### **KiwiSaver**

Employees on temporary contracts of less than 28 days are not required to be enrolled in KiwiSaver. If they are already members and wish to have KiwiSaver deductions made, they must provide their employer with a KiwiSaver deduction form (KS2).

### **Holiday Pay**

Where employees receive holiday pay rather than annual leave, the holiday pay must be calculated at a rate of at least 8%.

### **Employment Contracts**

All employees (including casuals) are required by the Employment Relations Act to have a written employment contract.

The contract should state hours, place of work and any other agreed terms and conditions.

### **Penalties**

Failure by a taxpayer to follow the correct processes when employing staff leaves them open to action from the Inland Revenue and the Ministry of Business, Innovation and Employment.

Both groups have recently been looking into the dairy industry and have found widespread non compliance.

There have been a number of high-profile prosecutions with significant fines and penalties being handed down.

### **Allowances to Farm Employees**

The Inland Revenue's 'Questions We've Been Asked' (QB 13/13) provides an updated approach to the tax treatment of allowances paid to employees.

Prior to this, there was some confusion around the tax treatment of allowances paid to employees, as much of the material was dated and in some cases contradictory.

Some of the IRD Public Information Bulletins that this statement replaces go back to 1965.

The principles covered in this statement are relevant to all businesses and employees, not just those in the farming sector.

It looks at employee allowances as being either reimbursing or benefit allowances.

The statement does not set out allowance rates as had been done prior to 1995. The onus continues to be on the employer to justify treating the allowance as a tax-free reimbursing allowance.

In setting the allowance amount, the employer may pay actual or estimated amounts of the expenditure an employee is likely to incur. Section CW 17(3) allows a "reasonable estimate" of the amount of expenditure likely to be incurred by an employee/ employees. Copies of the workings should be retained to show how the estimate was calculated, and these should be reviewed regularly to show they are still suitable.

## Reimbursing Allowances

A reimbursing allowance is where an employer pays for expenses that the employee incurs, or is likely to incur, in connection with their employment – this will generally be tax-free. These are tax-free to the employee and tax-deductible to the employer.

Where a reimbursing allowance is of a capital or private nature, the payment is taxable as employment income to the employee and subject to PAYE.

Examples of taxable reimbursement allowances would be for the capital cost of an employee providing their own farm bike, or reimbursing the employee for private household expenses such as the private portion of house electricity or telephone.

## Benefit Allowances

A benefit allowance is paid to compensate an employee for the conditions of their employment. Examples of this include using a dangerous piece of equipment, working in a dangerous environment, or working at a remote location. Benefit allowances also include the provision of food or cash allowances paid in lieu of the employer providing food or rations.

These types of allowances have been described as “*benefit allowances*” because they give a financial benefit to the employee rather than to compensate the employee for expenses they incur, or are likely to incur, in carrying out their employment duties. Benefit allowances are classified as either cash or non-cash benefits. If the allowance paid is a mixture of a reimbursing allowance and a benefit allowance, then only that part of the total allowance that is a reimbursing allowance can be paid tax-free.

## Cash Benefits

Cash benefits are those benefits that are paid to an employee to compensate them for the conditions of their employment. They provide a financial benefit to the employee rather than reimbursing them for costs incurred in carrying out their work. They are taxable in the hands of the employee under the PAYE rules, and are tax deductible to the employer.

## Non-Cash Benefits

Non-cash benefits that an employer provides to an employee may be subject to Fringe Benefit Tax (FBT) payable by the employer.

Expenditure incurred in providing these non-cash benefits to an employee is deductible to the employer, as is any FBT paid.

The IRD’s statement looks at the scenario where the employer provides food such as meat, eggs and vegetables to an employee. In a typical farming scenario, this is more likely to be homekill meat, milk, firewood or fuel for private vehicles.

It is the IRD’s view that the provision of food is a “*benefit*” to the employees as it provides an economic advantage to the employees. It gives them benefits (the food) to which they would otherwise not be entitled to if they worked elsewhere.

Although the provision of food is not one of the benefits listed under the Income Tax Act as a fringe benefit, it may still be an ‘*unclassified benefit*’ under Section CX 37.

There is FBT exemption available where the employee consumes or uses the benefit on the employer’s premises.

Meals provided to the employee at the employer’s house are not subject to FBT, while meat provided to the employee to consume at their own house may be subject to FBT.

The normal FBT thresholds apply:

### Employers pays FBT quarterly

- Total unclassified benefits to the employee for the quarter exceed \$300, or
- The total taxable value of all unclassified benefits provided in the last four quarters (including the current quarter) to all employees is more than \$22,500.

### Employer pays FBT annually

- The total taxable value of all unclassified benefits provided in the tax year or income year to the employee is more than \$1,200; or
- The total taxable value of all unclassified benefits provided in the tax year or income year to all employees is more than \$22,500.

The table on the next page provides examples of the tax treatment of different types of farming allowances.

Category	Payment or benefit provided	Type of allowance	Tax treatment	
			Employee	Employer
<b>Working dogs</b>	Allowance for food, registration or vet bills	Reimbursing allowance	Exempt	Deductible
<b>Horses</b>	Allowance for food, saddlery and accessories (less than \$500), saddlery repairs, vet or farrier's bills	Reimbursing allowance	Exempt	Deductible
<b>Motor bikes and quad bikes</b>	Allowance for depreciation, interest, fuel, tyres (less than \$500), servicing or repairs	Reimbursing allowance	Exempt	Deductible
<b>Protective clothing</b>	Allowance for purchase (less than \$500) of protective clothing such as boots, chaps, leggings, gloves, and hearing or eye protection	Reimbursing allowance	Exempt	Deductible
<b>Wet weather gear</b>	Allowance for purchase (less than \$500) of wet weather gear, such as waterproof coats, hats and leggings	Reimbursing allowance	Exempt	Deductible
<b>Shearing equipment</b>	Allowance for acquisition (less than \$500) of hand-pieces or shearing equipment, repairs and maintenance and depreciation of equipment	Reimbursing allowance	Exempt	Deductible
<b>Boarding school fees</b>	School boarding away allowance	Benefit allowance	Taxable	Deductible
<b>Travel costs</b>	Reimbursement of work travel	Reimbursing allowance	Exempt	Deductible
<b>Rations and stores</b>	Provisions of stores and rations, meat or farm produce	Non-cash benefit	Not assessable	FBT (subject to exemptions) Deductible
	Payment in lieu of stores and rations	Benefit allowance	Taxable	Deductible
<b>Remote location</b>	Allowance for working in a remote location	Benefit allowance	Taxable	Deductible
<b>Dangerous or dirty conditions</b>	Allowance for working in a dangerous or dirty environment	Benefit allowance	Taxable	Deductible

Examples of allowances – Inland Revenue QB 18/13: 13 June 2018



## FAQ – Who is in the Farm House?

### Question:

A dairy farm is owned by a Company, with the shareholders being a Trust and a partnership (Bill and Mary). The farm also has a sharemilker to run the day to day farm operations.

The sharemilker is a Company, with its shareholders being the same Bill and Mary, who make up the partnership.

Bill and Mary live in the farm's main dwelling.

1. Are Bill and Mary living in the dwelling as partners of the partnership or shareholder employees of the sharemilking Company?
2. How are repairs and maintenance of the house to be treated? Are these being claimed by the land-owning Company or by the sharemilking Company?

### Answer:

The sharemilking contract between the land-owning Company and the sharemilking Company will determine which entity Bill and Mary are representing when they live in the farm dwelling.

Normally, the sharemilking contract states that the sharemilker is provided with a house on the farm so that they can run the farming operations. This house is provided free of charge. It is not subject to the PAYE rules, as no employment relationship exists between the farm owner and the sharemilker (the sharemilker is an independent contractor).

In this case, the sharemilking Company provides the house to its shareholder employees, Bill and Mary, and charges them a market rental. If they are receiving PAYE deducted wages, the rental would be returned through the PAYE system. Otherwise a year end adjustment is made via their current accounts.

Expenses such as rates, repairs and interest should be claimed by the land-owning Company (the landlord). These are 100% deductible but there is no GST (rental properties are exempt supplies).

Any dwelling expenses paid by the sharemilking Company for the house are also deductible, with no GST for the same reasons as above.

Expenses such as the telephone, internet and power would be claimable under the Type 1 farm criteria. The IRD released a recent '*Questions We've Been Asked*' clarifying that if a farm is large enough to use for a contract or sharemilker, then the contract/sharemilker may use the Type 1 criteria.

We regularly receive questions from subscribers on a range of farm accounting topics. The most interesting questions we will publish in this FAQ column. Questions can be sent to us at [info@farmaccountingnz.co.nz](mailto:info@farmaccountingnz.co.nz). Depending on the level of assistance required, there may be a cost to this service. We will endeavour to ensure that our responses are prompt.

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## THE BACK Paddock

### *The Path to Farm Ownership*

For the second straight year, we are seeing the Taranaki newspapers full of dairy farms for sale. After several years of low pay-outs and droughts when farmers couldn't afford to sell, the \$6.75 and \$6.25 Fonterra pay-outs have been high enough for farmers to test the market. Word on the Taranaki streets is that there are about 120 Taranaki dairy farms on the market.

It's not that it is a buyer's market, it's a case of this is now the new market position. For these farms to sell, there may have to be a pricing correction. So far, we haven't seen this yet, but we may over the next few months if farms don't start selling.

For these farms to sell, there have to be buyers. This has become the sticking point as recent changes to the Overseas Investment Rules, tougher bank lending requirements and farmers with little recent equity growth have made buyers scarce on the ground.

Our next generation of sharemilkers have struggled to build equity on pay-outs of \$3.90. In some regions, variable order sharemilking jobs have ceased to exist, making the step from contract milking to 50/50 more difficult.

Farms in sought after areas continue to sell, as do those that have neighbours with expansionary plans. But for those with large farms, or farms in less desirable areas, there is less buyer interest.

We are also seeing a change in approach from banks as there is more of a focus on the cash flow and loan repayment than in previous years. Farmers who have previously been able to rely on their strong equity position are now being asked harder questions around how and when the loan will be repaid. With the current market feeling that farm prices are unlikely to rise, there is unlikely to be any capital growth to fall back on.

With the traditional path to farm ownership becoming more difficult, other options need to be explored. It is still possible to make the step into farm ownership, but we need to look at alternative ways to keep new blood coming into the industry.

For those farmers with family backing, opportunities exist to take advantage of current market.

Parents are being asked to provide security or guarantees, or to provide the 'inheritance' earlier than planned. This requires all parties to be sitting around the same table and having the potentially difficult succession discussion.

We are starting to see examples of vendor financing being used to facilitate farm sales. It's not a new concept, and it was common place 20-30 years ago. This requires the sharemilker having industry recognition and reputation. It also requires vendors having a positive long-term view of the industry and a desire to assist the next generation. This is a risky proposition for the vendor as they are required to take on additional risks to achieve the desired sales price.

For the sharemilker, it's about building their reputation and standing. The Dairy Industry Awards and the Ballance Environmental Awards are pathways to achieving this. Competition is strong, with others seeing the Awards as a necessary pathway. Can we play matchmaker – and introduce our star younger farming clients to exiting farmers who want to help that next generation?

Due to high farm prices in Taranaki, we are seeing farmers looking outside the province for that first farm. A number have recently purchased in the Hawkes Bay/Wairarapa region. Some have then relocated to these regions, while others retain their sharemilking positions and put contract milkers on the new farm. Depending on the size of the new farm, an equity model scenario may be used.

The other approach that we are seeing is breaking the goal of farm ownership down into smaller achievable steps. We are having the conversations of where our client wants to be in five years (farm or herd ownership), and how does that break down into smaller achievable steps and goals. The deposit on a herd purchase of may be \$250,000. Over five years, this is a more palatable \$50,000 per annum or \$4,167 per month.

There is no easy solution or pathway for how to help young farmers progress within the industry. We need to be working on this with other rural professionals and industry groups if we are to continue to retain the next generation of agricultural leaders.