Farming Newsletter – March 2017

MBIE PROSECUTING FARMERS OVER EMPLOYMENT OBLIGATIONS

Following a round of recent investigations by the labour department in the Waikato, we want to remind all employers of their basic obligations and record keeping:

- Signed Employment Contracts
- Records of hours worked (even for salaried employees)
- Records of leave taken
- Written authority from the employee for the employer to make deductions from the employee's pay
- Ensuring employees receive at least minimum wage – going up to $15.75 on 1 April 2017

Where we process your wages on your behalf we require a copy of the employment contracts and either a copy of the hours worked schedule or written confirmation that you, as employer have this.

We also keep the leave record so don't forget to let us know when an employee is away and why. i.e. sick leave, annual leave, bereavement leave etc.

RATIONS

If you are providing morning and afternoon tea at the shed or your house, for staff or visits by the vet, accounts, stock agents, reps and sales people, the cost of the tea, coffee, milk and biscuits are a deductible expense.

There is a similar deduction for the contractor shouts that appear at the end of harvest however these are likely to be limited to a 50% claim as they would be entertainment.

To capture the cost it's easier if these are purchased directly from trading stores, such as RD1 and Farmlands. If the cost of these can be reduced by purchasing them with your groceries then you'll need to keep your till dockets and clearly identify them when you drop your papers into us for processing.

VALUING YOUNG CALVES AT BALANCE DATE

If your balance date falls close to your calving date (such as Autumn calving dairy farmers with a March balance date) a situation can arise where there are feeder calves on hand at balance date. If we are using national standard cost (NSC) for valuing your livestock this can lead to a very high value for these calves ($404.10 for 2017). You have the option of recording stock at market value, so please provide this to us with your stock on hand figures to give us the option of removing them from the default rate.

LOWER ORDER SHAREMILKING VERSUS CONTRACT MILKING

If you are considering putting a self employed contractor on your dairy farm or are yourself, looking to move from employment to self employment there are two types of non -stock owning arrangements - lower order sharemilker or contract milker.

The main difference between these is that the lower order sharemilker is covered by the Sharemilking Agreement Order 2011. The Sharemilking Agreements Order gives a lot of protection to the Sharemilker over and above the initial agreement where as the Contract Milker must rely solely on the terms laid out in the contract.

Where the Sharemilking Agreement Order 2011 has the most impact is when the herd is less than 300 cows.

By law, the lower order Sharemilker milking less than 300 cows must receive 21% of the value of milk supplied by the farm, after costs. And where they aren't entitled to a share of the dividend, this is increased to 22%. The agreement covers the costs that are included.

So keep this in mind when you are considering the options.

DEDUCTIBILITY OF FARM HOUSE EXPENSES

IRD are reviewing the 25% deduction currently available to farmers.

They are looking to create two types of farmers – type 1 where the farm is an economic unit and type 2 where a business is run but the value of the house is a significant proportion of the overall value of the property.

For type 2 farms there will be apportionment of costs and the use of a home-office calculation based on the actual use of the farmhouse for business. There is no automatic deduction for interest.

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RENTAL OF FARM HOUSES

Where farm houses are made available to employees (including shareholders) and sharemilkers, if the Sharemilker is a company, then a market value rental must be charged. The market value is automatically determined if the house has ever been rented out previously. Otherwise the value should be set based on similar type accommodation that is rented in the area.

There are some discounts that can be applied to reduce the value:

- Part of the dwelling is used for business (employment contract can set aside parts of the house for an office)
- Employee contributes to the maintenance of the house
- Supply the house to the employee under a Service tenancy. This means the house is linked to the employment relationship and that the 90 day notice is reduced to 14 days. The reduction in tenant rights will reduce the market value
- Have any sheds attached to the section be for farm business and assets

FONTERRA SUPPORT LOAN INTEREST CHARGE

The initial loan advanced back in 2015/16 season was interest free until 31 May 2017.

Fonterra are yet to announce the actual interest rate but have indicated that it will be based on Fonterra's cost of borrowings being the wholesale rate + 0.5%. This will make the interest cost around 2.5%.

Interest payments will be deducted from farmers' monthly milk payments, so if you are doing your own GST watch for this as there is no GST associated with the interest or loan repayments.

Farmers will receive a Co-operative Support Loan Statement each month which will show any interest charges or loan repayments.

The loan will only be repayable once the Total advance payment rate (base rate + capacity adjustment) is over $6 per KGMS. Once this happens the excess over $6 will be multiplied by season to date production to determine the loan repayment.

NOTE: for winter or Organic suppliers the loan repayments are only calculated on the standard Advance Rate.

You can make voluntary repayments of the loan at any time - the minimum amount is $500.