The Flame

JUNE 2017

Covering the burning issues and hottest gossip The official newsletter of the FLAMIN' ACCOUNTANTS

IMPORTANT:

New Rules For Deductibility Of Farm House Expenses And Interest

The IRD has issued a new Interpretation Statement which replaces IRD's long standing policies allowing full-time farmers to claim full deductions for rates, interest and telephone rental, and all farmers to claim 25% of the expenses relating to the farmhouse. The IRD no longer considers these rules appropriate given changes to business structures, deductibility and apportionment rules and now has reduced the deductibility of certain expenditure.

The new rules will apply from the start of the 2017-18 income years, so for most farmers that will be 1 June 2017 or 1 July 2017.

The rules Introduces Type 1 and Type 2 Farms and the deductibility of certain expenditure depends upon whether the farming business is Type 1 or Type 2.

TYPE 1 FARMS

These are farming businesses where the value of the farmhouse (including curtilage and improvements) is 20% or less of the total value of the farm (usually full-time farming businesses)

EXPENDITURE CLAIMS FOR TYPE 1 FARMS

Farmhouse expenses - can apply a flat rate of 20% (formerly 25%) of farmhouse being used for farm purposes without supporting evidence. Type 1 farmers are entitled to do an actual use calculation if they consider that the business use is greater than 20%.

Rates and Interest relating to the farmhouse – continue to claim 100% for interest and rates relating to the farmhouse.

Telephone rental and fixed line charges - the claim has been reduced to 50% unless the farmer can prove the actual business use is greater than 50%.

TYPE 2 FARMS

Farming businesses where the value of the farmhouse (including curtilage and improvements) is more than 20% of the total value of the farm. This category will generally be applicable for part- time farmers or lifestyle blocks.

EXPENDITURE CLAIMS FOR TYPE 2 FARMS

Farmers who live in the farmhouse on Type 2 farms must determine whether their expenses are deductible under the general permission and general limitation rules. There is no minimum percentage of the farmhouse that the IRD will accept as being for business purposes.

Interest, rates and farm house expenses – must dissect the expenses between actual business use and private use where possible. Apportionment between the farm and the farmhouse must be on a fair and reasonable basis (E.g. Apportionment based on the values of the farm and the farmhouse). This will mean undertaking a "home office" calculation like other taxpayers who carry on their business from home.

Telephone rental and fixed line charges - 50% deduction will be allowed unless the farmer can prove 50% is too low.

We will be contacting farming clients who we believe to be on the cusp of fitting into Type 2 Farms to discuss the Type 2 calculations and how being classified as a Type 2 farm will affect your expense claims.

Farm Type	Interest and rates charges	General farmhouse expenses	Fixed line telephone charges
Type 1 farms	100% deduction for rates and interest expenses relating to the farm, included the farmhouse	Dissection where possible, then 20% deduction unless the taxpayer can substantiate a higher deduction	50% of telephone rental charges used for both business and private purposes, unless the tax payer can show that 50% is too low
Type 2 farms	Dissection where possible, then apportion between farm and farmhouse on a fair and reasonable basis. Deduct amounts attributable to actual business use of the farm house.		50% of telephone rental charges used for both business and private purposes, unless the taxpayer can show that 50% is too low.

MARKET VALUE RENTAL FOR FARMHOUSES

Continuing on from our last newsletter….

Market Rental value is not defined in the Income Tax Act 2007, however the IRD have recently issued a determination on this. Essentially:

"market rental value refers to the periodic rental that would be paid if similar accommodation in a comparable location, subject to similar restrictions or conditions relating to the tenancy, was rented on an arm's length basis between non-associated parties."

- In determining the market rental value of accommodation, the aim is to estimate the amount that would be likely to be paid if the specific accommodation was available for rental on an arm's length basis. So how do we determine market value?

  We could:

- Obtain a valuation from a registered valuer (can be expensive)
- Obtain an estimate of the market rental value from a real estate agent, property manager or other suitably experienced person (can be unrealistically high)
- A review of comparable properties on internet sites that advertise rental properties, for example, Trade Me. Take an average value of at least 3 rentals (preferred)
- Any other reasonable basis that takes into account the features of the accommodation being provided and compares it with similar accommodation. (Preferred).

It would be expected that accommodation in a sought after urban location will have a higher market rental value than similar accommodation in a less sought after location.

DOCUMENTATION IS VERY IMPORTANT:

- Document the basis on which the market rental value was reached. For instance, if you are using a TradeMe rental site, we recommend that you print and retain two-three rental advertisements found on TradeMe AND
- Document why these properties were used for comparison
- Document the factors taken into account in adjusting the rental value to take into account the unique factors that apply to the farmhouses, including the weight or discount given to each of those factors.

Factors that the IRD considers are important in determining market value of accommodation include the location of the accommodation, its condition, convenience and its specific functional characteristics.

NATIONAL AVERAGE MARKET VALUES (HERD VALUES) 2017

The 2017 herd values have just been released and all sheep, beef cattle and dairy cattle have seen increases over and above last year.
The Dairy category has seen the biggest increase in values compared to last year with Mixed Age Cows herd value increasing to $1649 from $1356 last year, R1yr heifers are up by $289 on last year's value to $819. If you have some animals on the Herd Scheme, the increases will be to your advantage as the increase in value is a tax-free write-up.

FONTERRA DAIRY SUPPORT LOAN

Repayments: Now that Fonterra has released its final payout figures for the 2016-17 year, and the advance rate has exceeded $6.00 ($6.15) there will be a loan repayment being made by way of deduction from dairy farmers' October payment. The amount will be 15c/kg of farmer's milk solids production for the season.
Interest rate on loan: 2.47% from 1 June – 31 August 2017, and to be reset every month with updated rates advised at the time. Interest will be deducted from monthly milk payments.

We will be updating cashflow budgets to reflect both interest on the loan and loan repayments.

CONGRATULATIONS TO LOCAL DAIRY AWARD WINNERS:

Two local farm managers have won firsts in the recent Dairy NZ awards:

Euan and Mikki McLeod who are managers on clients Murray and Janet Gibb's farm in Taupiri won the Waikato Dairy Manager of the Year award along with several merit awards at the Waikato Regional final

Client **Rachael Foy** (Trish Foy's daughter) was the winner of the Dairy Manager of the Year for the Auckland/Hauraki Region and then went on to place 3rd in the National Award for Dairy Manager of the Year and won the Fonterra Farm Source Feed Management Award

Rachael placed third in the "Dairy Manager of the Year" Sky City NZ Dairy Awards - shown here with mentor Emma Dingle, and Team Rachael Supporters.

It's great to see the talent and success in our local area and we congratulate Euan and Mikki and Rachael for their achievements. These awards are a great opportunity for developing skills and all participants recognize the enormous benefits from entering and being placed in terms of progression in the dairy industry.
Both entrants couldn't have achieved their success without the valuable mentoring input they have had from their respective bosses and farming colleagues - Janet and Murray Gibb for Euan and Mikki; Emma Dingle (a Cowley Stanich client) , Neil Bateup, Bert Costar and Matt Young for Rachael. The value of this input should not be under-estimated – and it is wonderful to see farmers sharing their knowledge, skills and encouragement with those who are at the beginning of their journeys in the farming sector.

So do encourage members of your farming team to enter these awards as it will benefit both you and the entrant.