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Are you planning your Tax Payments?

As the old saying goes, ’Cash is King’. There’s another saying in the business world, “What you can Measure you can Manage”. Here at CooperAitken we believe our role is to not only take care of clients’ compliance and related taxation needs but also challenge clients’ thinking to provide tools and strategies to assist with managing their business and cash flow.

Currently, of particular importance for Dairy Farmers is the timing of taxable income and managing the resulting tax payments. With dairy payout having significant swings between the tax years, careful planning can result in both significant delays of tax payments and permanent tax savings.

For many farmers, current payout forecasts could lead to an approximate drop in taxable income of $1.85 per kilogram of milksolids between the May 2014 and May 2015 income years. This drop in taxable income could continue into the 2016 tax year depending on the advance payments made to May 2016. Although farmers are adjusting cost structures to assist with managing the drop in payout, a significant drop in taxable income will still result for many.

For decades there have been simple mechanisms for farmers to manage the timing of their income, and therefore tax payments through either the Income Equalisation scheme or the ability to defer fertiliser. Planning is also available in determining the correct basis of paying provisional tax.

For example, if a husband and wife farming partnership had a taxable income in the 2014 year of $200,000, and forecast taxable income for 2015 of $15,000, a total of $49,415 of tax would be payable for both years. However, if the Income Equalisation scheme was used to spread the income evenly over the two years, a total of $34,580 tax would be payable. An added benefit is that the tax payments are also partially delayed until the following year. There can be overall, significant savings if planned and managed.

The Income Equalisation scheme requires the farmer to make a payment to the Inland Revenue Department, which is tax deductible to the farmer. When this payment is later refunded to the farmer it is treated as income in the following year(s). A number of rules and processes are attached to the Income Equalisation deposit and need to be discussed with your Chartered Accountant. Timing is important with Income Equalisation, and, if you have not already considered the option, it is important to do so before filing your 2014 tax returns and at the latest before 31 March 2015.

Planning is also needed for the future with the increase of income when the payout recovers. For example, if the same husband and wife farming partnership had a taxable income in the future of $15,000, which then increased to $200,000 in the following year, the fertiliser deferral option would be exercised to bring forward tax payments, having the same effect of decreasing the combined tax payments over the two years from $49,415 to $34,580. The limitation with fertiliser deferrals is that you can only defer what you have spent on fertiliser. Again your Chartered Accountant will be able to plan and manage this process for you.

Consideration on the appropriateness of your provisional tax payments is needed. For many farmers your 28 February 2015 and 28 June 2015 tax payments should not be based on your 2014 income. Instead, these payments should either be based on your 2013 year, or estimated 2015 income; otherwise you will be paying too much tax and waiting for a refund. We consider you need these funds in your business to manage your cash flow.

Overall there are simple and effective mechanisms to assist in managing your tax affairs in changing income years. Remember ‘Cash is King’ and if you need assistance with strategies on managing the timing of your income and provisional tax payments the team of specialist rural accountants at CooperAitken are able to assist.

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