

**May 2016**

## **2016 Livestock Herd Scheme Values Announced**

Last week the IRD released the National Average Market price (Herd Scheme Values) for livestock which will be used when preparing 2016 annual financial statements.

Dairy cow values have dropped substantially from 2015. On the other hand, other livestock types including dairy bulls, beef cows, beef bulls, sheep, pigs, milking goats and deer have increased from last year.

In the last three years, from 2014 to 2016, the Herd Scheme value for Dairy cows has gone from \$1,963 to \$1,655 to \$1,356.

In fact, the herd scheme value of a dairy cow is now only \$83 more than that for a beef cow. Back in 2012 the value of a beef cow was \$1,025 compared to \$2,155 for a Friesian cow.

This significant trend downward affects dairy farmers as their equity in livestock drops, but there are also tax consequences and cash flow implications.

In a continuing status quo operation, if livestock is already valued on the Herd Scheme there will be no tax consequences following the decrease.

For those dairy farmers with stock valued on National Standard Cost (NSC) there could be some major decisions to make regarding the possibility of changing valuation methods. If the NSC value is close to the current Herd Scheme value, this could be a good time to change as the tax implications will be minimal. Livestock can be transferred from NSC to Herd Scheme at any time as long as IRD is notified of the change. As the reverse is no longer possible, if thinking of changing valuation methods, the strategy must be well thought out for the long term.

For farmers ceasing ownership of livestock there could be significant tax implications exaggerated by the large decrease in values this year. Also very important is whether the farmer retains any livestock at all, because this could influence which years Herd Scheme values are used in the tax calculation at disposal.

Also, if thinking of selling the herd in the next few years this could be a good time to switch to the Herd Scheme. Potentially, values will have increased by then and even if the change now results in a small amount of taxable profit, this is likely to be offset by 2016 operating losses, as well as resulting in less taxable profit at the time of sale.

This is a similar scenario to last year, but will the values drop any further? No one will know if we are at the bottom of the trough until we are climbing out the other side. However, we do have until 31 March 2017 to make the decision, the deadline for filing the 2016 tax returns.

The final 2016 provisional tax payment for May balance date farmers is on the 28<sup>th</sup> June. As 2016 has brought a drop in income for most dairy farmers, a review is needed before then of the financial situation. If tax is paid according to what the Inland Revenue are expecting it is likely that it will be overpaid. At CooperAitken, the livestock valuation method will be considered as part of this review.

Every farmer's situation is different, and this is a complex area. Ensure you get the best financial advice available or the consequences could be substantial.

Coral Phillips, Associate at CooperAitken Ltd Accountants, Morrinsville, Matamata and Thames, DDI 07 889 8822 or email [coral@cooperaiken.co.nz](mailto:coral@cooperaiken.co.nz) . [www.cooperaiken.co.nz](http://www.cooperaiken.co.nz)