CooperAitken

BalanceSheet

March 2021

Now is a good time to get familiar with the new Co-operative Difference payment so you can make a plan on how to achieve the standards and receive the 10 cent payment.

From 1 June 2021 Fonterra is changing the way farmers are paid for their milk through the introduction of a new milk payment parameter called the Co-operative Difference. This will see a proportion of a farms milk payment influenced by the farms progress under the Co-operative Difference by up to 10 cents per KgMS. It is important to note that the 10 cents is included in the current milk price not on top of. So if the milk price is set at $7.60, you will receive $7.50 unless you reach the required standards under the Co-operative Difference milk parameters.

The regime is part of getting the best return for farmers and is determined by Fonterra's ability to access opportunities and markets who demand good practices on farm in relation to animal wellbeing and guardianship of the land. This means staying at the forefront of issues such as quality, safety and sustainability – that is what the new Co-operative Difference is all about.

The Co-operative Difference payment is divided into 2 parts.

The first part (Te Putake) being the 7 cent standard which is based on four main areas of achievement which cover Environment, Animals, People, and Co-op & Prosperity. The second part (Te Tihi) is the 3 cent achievement which is based around milk quality. To access this payment you must have first past the achievements to receive the 7 cent payment.

The milk quality standard requires a farm to achieve milk quality excellence for at least 30 days. From that point onwards, ensuring you still maintain the milk quality excellence, you will get the 3 cents for milk supplied during this excellence period.

So where to from here for my farm?
The first step is to get the four achievements to access the 7 cent payment. These are listed below and give a brief outline of what they might look like to achieve. Further detailed information is provided in the official Fonterra documentation, and more information can be found here.

Achievements under Te Putake

1 Co-op and Prosperity
The requirement under this achievement is not a lot different to the current Dairy Diary. The big change here is it needs to be done online.

2 Animals
The requirement under this achievement is to have an Animal Wellbeing Plan signed off by your vet annually. This shouldn't take longer than 15 minutes to complete and conveniently many vets already have a good template that covers the main areas.

- Nutrition – Strategies to ensure cows reach body condition targets.
- Health, mastitis, lameness, mortality and minimising antimicrobial resistance.
- Environment – Planning for extreme weather events and development of management strategies for heat stress.
- Behaviour – Discussion about current and future herd improvement strategies through genetics.

3 Environment
To pass the environment standard the farm must have a farm environment plan in place and be achieving 3 out of the 4 key practices (more on this below).

If your farm does not have a Farm Environment Plan completed, please ensure you are registered for one with your Area Manager. You will still need to meet three of the four key environmental practices areas:

Environmental Practices;
- Purchased Nitrogen surplus is at or lower than 138kg/N/ha – you will find this figure on your Fonterra Environment Reports
- Participation in product stewardship scheme for on farm plastics and agri- chemicals – verification of this will be receipts. One of the approved schemes is Agrecovery
- No discharge of farm dairy effluent to water
- 80% farm grown feed fed across the system

4 People and Community
To pass this achievement your farm is required to achieve 100% on the Dairy NZ Workplace 360 Assessment on the Foundation level. Many of the questions in the assessment cover items in relation to Health and Safety, Employee records timesheets, leave records and rosters. The farm must have evidence to support the answers submitted. The good news here is you can complete the test as many times as possible until you get 100%, and the test gives you examples of where you can improve and how you can achieve a pass (Dairy NZ Workplace360 Assessment).
The official verification of your achievement of the four achievements will be completed at your Farm Dairy Assessment. You will need to give Fonterra no less than ten days' notice prior to the Farm Dairy Assessment (you can do this through logging into your portal on the Farm Source website – the verification is the green circles on the Farm Source home page). QCONZ will be verifying documentation at the time of the assessment. The payment for this milk will be paid with the Retrospective payments.

So where to from here?
- Co-op & Prosperity – Start doing dairy diary online from 1 June. It's easier than paper, your Area Manager can help and provide training in this area.
- Animal – Make a phone call to your Vet to get the Animal Wellbeing plan completed.
- Environment Plan – this is something that the farm has to complete anyway
- People – Achieve 100% in the **Dairy NZ Workplace360 Assessment**

Continued....

One thing is for sure, change is constant in business and farming is no exception. The Co-operative Difference payment is an opportunity for Fonterra farmers to make steps towards what will eventually become compliance.

For some farmers there will be changes that need to be made to achieve some standards, in particular around the People and Community Standard. Achieving the 100% on the Foundation Level may require some changes or new procedures to be implemented with regard to Employees and Health and Safety.

We are here to help you through this process. If you would like to come in and sit the test at our office, please get in touch. We can also help you to set up and manage your documents and systems to allow you to achieve the 100% pass.

www.fonterra.com/makethedifference

For more information, contact **Amy Coombes.**

CONGRATULATIONS MR & MRS VISSER

Congratulations to our Matamata Client Manager, Tracey Bowater, and new husband, Luke Visser. The newly married couple celebrated the day in their own backyard on 13 March. Congratulations Mr & Mrs Visser!

PROUD TO SUPPORT

Team members, Tracey Bowater and Vanessa Ward, completed the Piako Triathlon in Morrinsville last weekend.

Both ladies entered the Mad Cows category and completed the 300m swim, 9.75km bike and 3km run, and finished in the top 5.

We love getting behind this awesome community event and seeing some tough kids (and adults) give it their all!

ARTICLE

March 2021

The Tax Battle:

Property Investors vs. First-Home Buyers?

The Government's latest announcement regarding changes to legislation in response to soaring house prices will affect existing and future property investors as well as the first-home buyer. It is clear the government are making the ownership of rental properties less attractive with use of the taxation system. The potential impact being the exit by these investors and in turn providing housing stock that would be available for First-Home buyers to then purchase.

The removal of interest deductibility will have a significant impact on both the return on investment and free cash flow from investment properties with a high level of borrowing. There is already the impact of ring fencing of residential rental losses being felt by investors, this however, is a significant deviation from the long established concept of being able to deduct interest costs where the borrowing relates to earning income.

The extension of the bright-line was widely expected; many picked ten years was the next logical step for increasing the proportion of property caught in what is essentially a capital gains tax. This will have an impact beyond just investment properties. In particular, some lifestyle properties and holiday homes will become subject to tax if sold within a ten year period and a gain is made.

Less expected was the inclusion of a change-of-use rule for the bright-line test. This means that if the property is not used as a main home for a period longer than 12 months it would be subject to tax for the proportion of time not used as a main home if sold within the bright line period and a gain is made.

The Government's detailed announcements are as follows:

1. Bright-line test extended to 10 years which means that people who buy and sell investment property within 10 years will need to pay income tax on any gains made from the sale.

The Bright-line test looks at whether the property was either:

- Purchased on or after 1 October 2015 through to 28 March 2018 and sold within 2 years
- Purchased on or after 29 March 2018 and sold within 5 years
- Purchased on or after 27 March 2021 and sold within 10 years

The family home and any inherited property will continue to be exempt from the bright-line test, and the bright-line test for new build investment properties will remain at 5 years.

2. Interest deductibility on investment property removed, therefore property investors will no longer be able to deduct the interest on the loans used to purchase the property from their rental income as an expense.

The legislation will apply from 1 October 2021.

Interest deductions on residential properties purchased on or after 27 March 2021 will not be allowed from 1 October 2021.
Note that interest on loans for properties purchased before 27 March 2021 will remain deductible but the amount you will be able to claim will be reduced over the next 4 years. At the end of the 4 year period none of the interest on the loan will be deductible for income tax purposes. There would however, be an exemption for newly built homes.

3. $3.8 billion Housing Acceleration Fund set aside to aid the funding of infrastructure around housing developments.
4. Price and income caps raised for the Government's First Home Grants and First Home Loan which means that more first-home buyers will be eligible for the existing First Home Grant and First Home Loan.
5. The Government will also help Kainga Ora to borrow an additional $2 billion to aid in strategic land purchases to enable the building more affordable state housing.

It is disappointing to see the continued use of tax measures to try to control house prices resulting in different taxation outcomes within a group taxpayers.

The risk of creating distortions in investment decisions and the unintended consequences are high when taxation is used as a lever. Each business owner and/or investor will have a range of structures and operating models. When tax policy is targeted at a desired outcome, this is likely to create unexpected results for different taxpayers depending on their particular situation.

As with any tax change, the devil is in the detail and the impacts of these changes will become better known over time. If you would like to discuss your particular situation and review how these changes may affect you and your business, please contact our office to discuss further.

IMPORTANT UPDATES

Find us: /cooperaitkenaccountants./ /cooperaitkenaccountants./

31 MARCH QUESTIONNAIRES ARE COMING.

Our 31 March Balance date clients can expect to see our End of Year Questionnaires very soon. If we have an email on record for you, your copy will be emailed out. If we don't have an email for you, please keep an eye out for yours in the post.

These will also be available to download from our website very soon (under our Resources menu).

All questionnaires can be completed and;
Emailed to - questionnaires@cooperaitken.co.nz
Posted to - CooperAitken, PO Box 23, Morrinsville.

INCREASING THE MINIMUM SICK LEAVE ENTITLEMENT

Employees are currently entitled to 5 days sick leave per year, once they have worked with an employer for six months. The government have introduced a bill to increase sick days to 10 days per year, with employees becoming entitled to this leave on their next entitlement date.

No changes have been made yet as this bill is currently in progress. We will keep you updated..

MINIMUM WAGE IS INCREASING FROM 1 APRIL 2021

Minimum wage (which applies to all employees 16 and over) will increase from $18.90 to $20.00 per hour from 1 April 2021.

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