



# CooperAitken BalanceSheet

May | June 2022



Included this month;

Did Dairy Farmers actually make a big profit in 2022? by Coral Phillips | 2022 Herd Scheme Values  
Directors Strategic Retreat | Law change for incorporated societies | Matamata office | Proud to Support



## DID DAIRY FARMERS ACTUALLY MAKE A BIG PROFIT IN 2022?

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**As the 2022 financial year comes to a close for Dairy Farmers, the record high milk payout forecast from all dairy companies is a positive to celebrate. But the question needs to be asked, has the high payout resulted in more cash in the pocket?**

Also of concern, what are the tax implications? Was it in fact a good year for our dairy farmers and what will future cashflows look like for the 2023 year.

High demand for our products and good returns overseas along with excellent grass growth in the spring and early good production levels made for much positivity in the sector. The hype of a high payout for 2022 continued to grow through the season when Fonterra forecast it's highest ever of \$9.60 midpoint per kilogram. However, many farmers did not get too excited as they had clear memories of the previous high in 2014 of \$8.40, which was quickly followed by a drop to \$4.40 and subsequently \$3.90 the following year.

Also, for many farmers, the autumn drought has been the worst they have seen. Intermittent skiffs of rain gave hope of more to come. Greater quantities of supplements were fed to push out the drying off date but was mostly all in vain. The 2022 forecast also took a small downward turn on the back of decreasing world demand for product despite a favourable exchange rate for exporters, currently under \$US 0.65.

Meanwhile an inflation rate of 6.9% has been announced for the March quarter. That is bad enough. However, farm inflation is running much higher and has created a lot of nervousness. For example, the palm kernel price has increased by up to \$200 per tonne. Fertilizer has increased and fuel prices continue to soar. The 2022 Federated Farmers and Rabobank remuneration survey shows an increase of approximately 15% in employee's gross income since the previous survey two years ago largely due to a shortage in the labour market due to problems with immigration, and as everyone is aware, bank interest rates continue to increase with the Official Cash Rate (OCR) now at 2.00%, the highest since 2016.

These increases in expenses all counteract the positive of the increased milk price.

Many farmers will feel cash is tight after repaying bulk debt, and potentially having purchased the long awaited new tractor. Using cash on capital items does not mean less profit, but simply less cash in the pot left to pay the tax bills. Therefore, it is important to quantify the effect on the bottom line.

To analyze the effective payout in the 2022 tax year, we need to consider the 2022 advance rate and the previous year's deferred rate, using a Fonterra farmer as an example.

In the 2022 tax year the advance rate was \$7.70 plus deferred milk from 2021 at \$1.49 plus 30c dividend which gives an effective payout of \$9.49.

The 2021 final payout was \$7.54, but when adjusting for the tax year, an advance rate of \$6.05 plus deferred milk from 2020 year at \$1.34 plus a 10c dividend, gave an effective payout for tax purposes of \$7.49. This is \$2.00 per kilo more for 2022 compared with 2021. This is effectively extra income of \$300,000 for a dairy farmer producing 150,000 kg of milk solids – but how much of this is profit?

The majority of dairy farmers have a May balance date, so with their next provisional tax payment due at IRD on 28 June, this is a good time to review the financial year profits. In addition, as the 2023 budgets are currently being completed, it is important to accurately forecast the tax payments which will be due.

No one likes to think about tax, but it is a cost which we at CooperAitken can help to plan for. If funds are short, it is not a good idea to simply not pay the tax that IRD are expecting. Better options include agreeing to an installment arrangement with IRD before the due date. Alternatively, tax pooling is an excellent mechanism to lock in lower interest rates than what the IRD will charge and is simpler than increasing the bank overdraft limit. The use of Income equalization can be another option.

It's a great idea to get your accountant to prepare an estimate of the 2022 profit before provisional tax is due on 28 June. This will help with the 2023 budget, show where the funds are required and give peace of mind. If any of the specialist rural team at CooperAitken can help, please contact us.



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# Herd Scheme Values

## 2022 HERD SCHEME VALUES

(National Average Market Values)

Rising one-year heifers	809.00
Rising two-year heifers	1472.00
Mixed-age cows	1697.00
Rising one-year steers and bulls	476.00
Rising two-year steers and bulls	894.00
Rising three-year and older steers and bulls	1233.00
Breeding bulls	1759.00

Inland Revenue released the 2022 Herd Scheme Values (National Average Market Values) this week. See the values for dairy cattle above.

For all other livestock classes, the Herd Scheme values can be found on the Inland Revenue website. Click below.

[All Herd Scheme Values](#)

# Directors Strategic Retreat

Photo Left to Right: Gavin, Maree, Keryn, Rory, Coral, Peter, Sean, Kiel, Amy, Craig, Grant, Anna, Deb, Peter, Ness, Carissa & Andrew.

Our Director team and their partners recently spent a weekend in Queenstown for their annual Strategic Retreat.

The retreat is designed as some time away from the office to reflect, and this year the partners got to come along and enjoy some team building activities before the strategy portion of the trip begun.

The Director team had a great few days strategising, reflecting on the year that's been and discussing opportunities for the future. Lot of ideas discussed and plans made, we're looking forward to the year ahead!



# Law changes for incorporated societies

The Incorporated Societies Act 2022 (the new Act) came into force on 6 April 2022 and by October 2023 societies will need to re-register.

With the new Act in force, regulations that provide details of the new law will need to be developed, with an expectation that a draft will be published before the end of 2022. Once released, societies will have the opportunity to provide their feedback, with a planned finalisation of regulations no later than September 2023.

Once re-registration commences, it will involve re-registering on the Incorporate Societies Register and providing up-to-date documents for your society to continue operation.

Societies don't need to do anything just yet. We will keep you updated on the process.

[Read more here](#)

# Proud to Support



## THE WATERBOY

We were excited to support #30in5 again this year, a challenge run by The Waterboy, to raise funds in support of our underprivileged youth in the community and provide them opportunities through sport and personal develop.

The challenge sees Dwayne Sweeney (ex Morrinsville lad and rugby player) complete 30 x F45 classes in 5 days - no easy feat!

As part of our support, the team got to participate in an F45 class at F45 Training Morrinsville. Huge effort from the team! One class is hard enough, congrats to Dwayne on doing 30!

Check our our video below!

