GENERATION NEXT

Our Future Sheep and Beef Farmers

Module 1 Workbook

UPDATED FEBRUARY 2024

Thank you to the Red Meat Profit Partnership (RMPP) Partners and Agri-Women's Development Trust (AWDT) for material used in this workbook.

CONTENTS

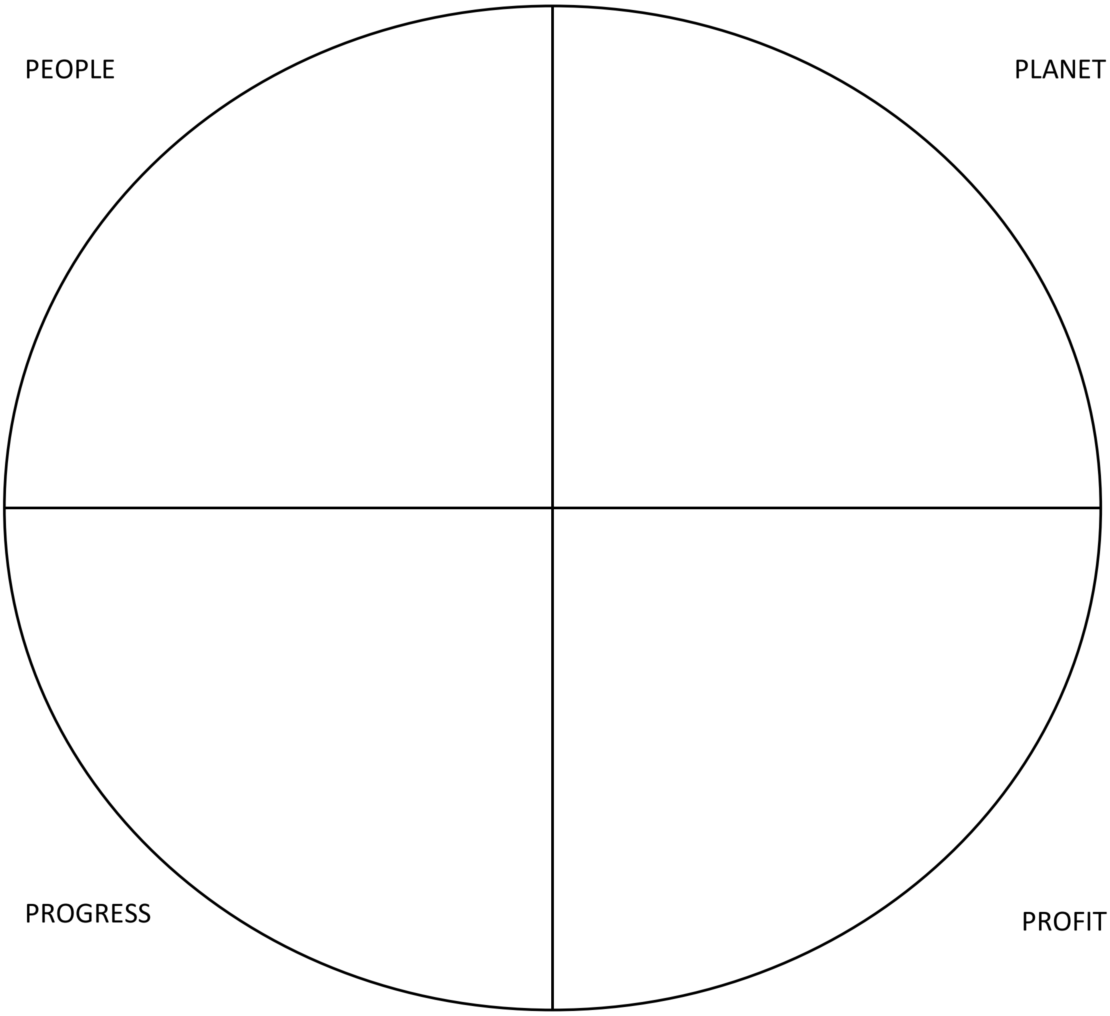
1. SESSION ONE: Financial Budgeting

We look at:

- Why do we want to make a profit? What does success look like?
- Budgeting and barriers to budgeting.
- Your personal budget.
- Risk assessment indices.

What I would like to learn today

1.1 Why do we want to make profit? What does success look like for me?

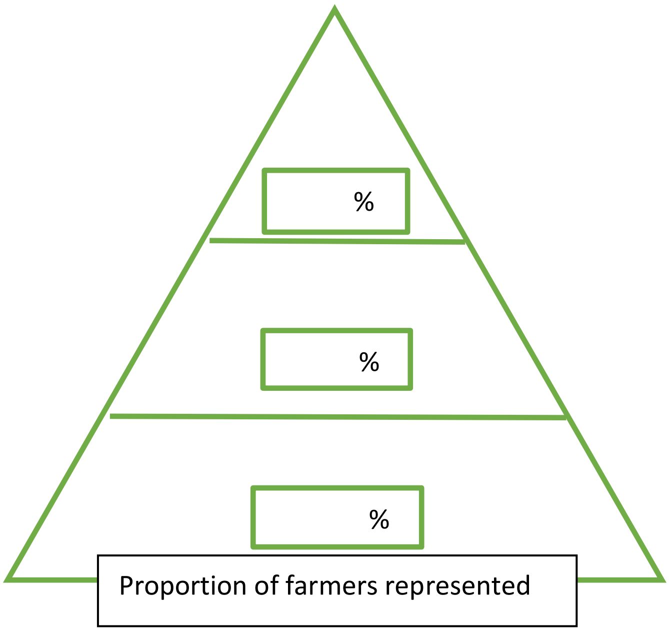


Examples:	PEOPLE:	Personal, social, community
	PLANET:	Sustainability, environment, catchment
	PROFIT:	Financial, savings, farm performances, ownership
	PROGRESS:	Career, leadership, succession, personal development

Budgeting skill levels

Expert budgeters:

- Own their budget
- Know their expected financial results well in advance
- Very rarely exceed banking limits
- Know their cashflow and profitability
- Know key sensitivities in their business
- Assess risk management when they are planning



Budgeters

- Limited ownership of budget
- Budget but are not observing variances between budgets
- Do not make budgeting a priority over farming
- Mainly use cashflow budgeting

Non-budgeters

- No ownership of budget
- Budget produced once a year by financier
- Are most prone to surprises
- Believe that they do not have the ability to influence profitability.

Your notes:

1.2.1 Barriers to Budgeting

Sam discovered there were three barriers to budgeting:

- **1: Time**
  - Budgeting is not working or generating income
  - Takes too much time
  - Not perceived as a priority over other physical farming activities

Cost to get someone to work physically in your business - $20/hr
e.g. paying someone to input invoices for GST
Cost to get someone to manage your business - $200/hr
e.g. paying a farm advisor to set the annual budget.

Value to your business of working strategically on your business planning, setting goals & monitoring - $2000/hr e.g. the value of having a 5 year plan to meet goals.

- **2: Technology**
  - Lack of confidence on computers
  - Using the budgeting programs, but making them too complex by over-coding. E.g. in a stock rec having codes for ram lambs, store lambs and prime lambs when in fact what you need to know is what did we make from lambs?

Rule of thumb is that the computer program needs to be a management tool – if you aren't using it, you don't need it. Ask:

- What ongoing support is there?
- What are other people with similar businesses using?
- Do I need to access the budget online – offline?
- Who else needs access?
- Is it a program that works for you? (Not just the one the accountant uses).

- **3: Training**
  - Focus on profitability, not just cashflow.
  - Stock reconciliations
  - Coding and budgeting structures
  - Monitoring and reporting on a regular basis
  - Identify the drivers of your business
  - Management programs, not accounting/IRD programs
  - Better Budgets Better Business Workshop

Your notes: What holds you back?

1.3 Financial Budgeting

It is an income generation plan, and a spending plan.

A budget is normally prepared for 1 year, one complete production season.

Why budget?

- Failing to plan is planning to fail
- Drive your financial result
- Informed decision making
- Avoids surprises
- Communicate to staff, family, key advisors
- What ifs?
- Creates accountability
- Can reduce stress and uncertainty
- To not run out of funds to pay monthly bills
- To align financial goals with overall farm goals and business plans

Exploring budgeting

- What is a budget?
- Where do I start?
- Where do I get the information from?
- How do I estimate things?
- Once I have a budget, what can I do with it?

Creating a plan or target for the business

- Income
- Expenses
- Physical performance
- Human resource
- Land use
- Succession

What good looks like – top performers have good planning and management

- Focused on what they can influence
- Match policies to land platform and personal competencies
- Set realistic goals and targets
- Own their plan
- Monitor and benchmark
- Utilise the 'Team'
- Finger on the pulse
- Essentially very good business people

What is in a budget?

Gross Farm Revenue (GFR)

How do we make our money?

- Stock sales
- Wool
- Crops
- Grazing

Farm Operating Expenses (FOE) – also known as Farm Working Expenses (FWE)

The expenses incurred to generate the income.

- Wages, animal health, electricity, contracting, fertiliser, weed &pest, vehicles, administration, repairs and maintenance, rates & insurance.

Farm Surplus = GFR – FOE

Used for:

- Interest and rent
- Tax
- Personal drawings
- Farm development
- Capital expenses
- Repaying debt

(As a rule of thumb, FOE are typically in a range of 45-55% of GFR, A better way to estimate and monitor farm operating expenses is to look at FOE/ha. What does it cost to operate your farm, independent of current income levels.)

Your notes:

1.4 Your personal budget

Name		Budget Period - / / to / /	
Your Income	$ Amount per (week/month/fortnight/year)	**Annual Income $**	**Comments**
Salary/wages after tax			
Salary/wages after tax for partner			
Income from investments eg interest/dividends			
Other income eg stock sales, lease cows			
Working for Families, Child Support, Benefits			
Other			
Other			
Total Income			

Your Expenses	$ Amount per (week/month/fortnight/year)	Annual Expenses $	Comments
House rental or rates, home maintenance & repair			
Food – groceries			
Food & drink – dining out, takeaways, drink			
Electricity, gas			
Telephone, mobile, internet, sky, tv			
Clothes, shoes, farm gear			
Hair and beauty			
Vehicle – car, bike – petrol, maintenance			
Vehicle – car, bike – WOF, registration, insurance			
Newspapers, magazines, books			
Education & training eg school fees, courses			
Childcare, babysitting, housekeeper			
Entertainment – movies, concerts, dvds, magazines			
Leisure – sport, hobbies, gym, pets, music			
Travel, holidays, weekends away			
Gifts and Donations			
Healthcare – doctor, dentist, chemist			
Professional fees – eg accountant, lawyer			
Insurance – home, contents, health etc			
Purchases – household appliances, furniture			
Loan payments – house, car student, livestock			
Loan payments – HP, credit card, overdraft			
Regular savings			
Kiwisaver			
Other			
Other			
Total Expenses			

Cash Surplus/Deficit		

1.5 Cashflow

1.5.1 Creating a monthly cashflow

- This is the process of splitting out all the income and expenditure into the months that they will occur
- Farming income and expenses tend to be very ‘lumpy’, they are not spread evenly
- Figures are entered in the month the income will be received, or a payment made, so normally the month following the actual event
- All the expenditure in the annual budget, including interest, tax, drawings, development etc is included in the cashflow
- The monthly result, either a cash increase or a cash decrease, is added to the opening bank balance to get an estimated closing bank balance for every month of the year
- This process is essential to predict overdraft requirements, cash tight-spots and opportunities
- See below for an example of a Sheep and Beef cashflow

1.5.2 Monitoring Cashflow

If you don’t monitor your cashflow it is like trying to drive forward while looking in the rear vision mirror.

Forward and backward looking should be in similar proportions to the windscreen and rear-view mirror.

What to do:

- Record actual transactions at least monthly
- Reconcile your bank account
- Look at any variances of actual to budget
- Review your budget to ensure the months ahead are still accurate:
    - Stock numbers and prices
    - Timing of key expenses
    - Can we still afford what is in the budget?
- Review the annual result and communicate with your banker and accountant.

See an example cashflow below:

2023/24 Working plan Sheep and Beef Demo

Revision date: **End of Jan 2024**, View: **Cash**

FARM FOCUS
27 Feb 2024 22:22

	TOTAL	JUL 23	AUG 23	SEP 23	OCT 23	NOV 23	DEC 23	JAN 24	FEB 24	MAR 24	APR 24	MAY 24	JUN 24
		ACTUALS							PLAN				
INCOME	742,719	3,378	1,600	2,000	12,378	123,687	103,858	242,083	183,600	63,600	3,335	1,600	1,600
Sheep (Sales)	622,367					122,087	100,080	218,200	182,000				
Beef (Sales)	70,600				9,000					61,600			
Wool	22,283							22,283					
Other Farm Income	27,470	3,378	1,600	2,000	3,378	1,600	3,778	1,600	1,600	2,000	3,335	1,600	1,600
PURCHASES	(21,180)						(2,400)			(18,780)			
Sheep (Purchases)	(2,400)						(2,400)						
Beef (Purchases)	(18,780)									(18,780)			
NET INCOME	721,539	3,378	1,600	2,000	12,378	123,687	101,458	242,083	183,600	44,820	3,335	1,600	1,600
FARM EXPENDITURE	(405,262)	(19,202)	(44,356)	(57,117)	(29,173)	(23,254)	(47,257)	(18,381)	(77,609)	(20,048)	(35,999)	(18,808)	(14,058)
Wages	(85,275)	(6,150)	(6,150)	(6,150)	(8,950)	(6,150)	(9,225)	(8,950)	(8,950)	(6,150)	(6,150)	(6,150)	(6,150)
Animal Health	(25,649)			(3,716)	(4,210)	(7,500)	(1,454)	(1,759)	(3,901)	(444)	(1,164)	(1,500)	
Breeding Expenses	(5,265)	(4,265)		(1,000)									
Electricity	(11,846)	(993)	(1,061)	(954)	(843)	(901)	(829)	(865)	(1,080)	(1,080)	(1,080)	(1,080)	(1,080)
Feed Purchased	(9,250)								(6,000)			(3,250)	
Fertiliser	(91,482)		(10,088)	(31,533)					(49,860)				
Freight	(195)									(195)			
Farm Working	(5,149)	(630)	(363)	(181)	(526)	(484)	(499)	(174)	(458)	(458)	(458)	(458)	(458)
Health & Safety	(1,196)	(848)				(348)							
Land Management	(1,000)										(1,000)		
Pasture Renewal	(11,200)				(6,200)						(5,000)		
Shearing	(27,485)						(27,485)						
Weed & Pest	(12,582)			(4,435)	(3,700)			(417)		(3,652)	(378)		
Repairs & Maintenanc	(39,002)	(2,223)	(338)	(4,333)	(1,471)	(1,024)	(5,227)	(1,486)	(500)	(2,900)	(18,100)	(900)	(500)
Vehicle Expenses	(34,414)	(2,216)	(3,570)	(3,936)	(1,839)	(3,169)	(1,658)	(3,268)	(3,225)	(4,333)	(1,833)	(1,833)	(3,533)
Administration	(13,964)	(1,876)	(878)	(878)	(1,433)	(878)	(878)	(1,463)	(836)	(836)	(836)	(836)	(2,336)
Rates Insur ACC	(30,309)		(21,909)			(2,800)			(2,800)			(2,800)	
FARM SURPLUS	316,277	(15,824)	(42,756)	(55,117)	(16,794)	100,433	54,201	223,701	105,991	24,772	(32,664)	(17,208)	(12,458)
INTEREST & RENT	(323,643)	(26,383)	(26,500)	(27,130)	(27,772)	(28,184)	(27,571)	(27,375)	(26,383)	(26,383)	(26,383)	(26,607)	(26,970)
Interest	(83,643)	(6,383)	(6,500)	(7,130)	(7,772)	(8,184)	(7,571)	(7,375)	(6,383)	(6,383)	(6,383)	(6,607)	(6,970)
Rent & Lease	(240,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
OPERATING SURPLUS	(7,366)	(42,207)	(69,257)	(82,248)	(44,566)	72,249	26,631	196,326	79,608	(1,611)	(59,048)	(43,814)	(39,428)
OTHER	(160,802)	(18,067)	(6,067)	(6,067)	(6,067)	(18,067)	(6,067)	(6,067)	(54,567)	(17,067)	(10,567)	(6,067)	(6,067)
Asset Purch or Sold	(3,500)										(3,500)		
Loan Repayments	(55,302)	(1,067)	(1,067)	(1,067)	(1,067)	(1,067)	(1,067)	(1,067)	(43,567)	(1,067)	(1,067)	(1,067)	(1,067)
Personal	(67,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(11,000)	(5,000)	(6,000)	(5,000)	(5,000)
Taxation	(35,000)	(12,000)				(12,000)				(11,000)			
FIN YEAR SURPLUS	(168,168)	(60,274)	(75,323)	(88,314)	(50,633)	54,182	20,564	190,259	25,041	(18,678)	(69,615)	(49,881)	(45,495)
GST	(5,791)	(1,474)	(8,658)	2,780	(4,313)	27,617	6,271	12,860	14,074	(44,598)	(7,669)	1,432	(4,112)
OPENING BALANCE	46,105	46,105	(15,643)	(99,624)	(185,158)	(240,104)	(158,306)	(131,470)	71,649	110,764	47,487	(29,796)	(78,246)
CLOSING BALANCE	(127,854)	(15,643)	(99,624)	(185,158)	(240,104)	(158,306)	(131,470)	71,649	110,764	47,487	(29,796)	(78,246)	(127,854)

1.6 Book-keeping process

Good Process = Efficient Use of Time

Key dates to have on a Monthly plan:

- Check (reconcile) last month's cashbook balance to bank balance
- Coding of invoices as they are received
- Set up and check payment of invoices
- GST return preparation and payments
- Revising cashflow & stock numbers
- Monthly reporting (if required)

Example:

Mon	Tue	Wed	Thur	Fri	Sat	Sun
1 Reconcile cashbook to bank balance	2 Input and code invoices as they are received: Inc & Exp	3	4 Print GST and PAYE report, file with IRD & set up payment for later	5 Meet with partner to revise budget coming up, incl stock rec	6	7
8	9 Write farm report	10 Send farm report to stakeholders	11	12	13	14
15 Ensure sufficient funds available for payments on the 20th	16	17	18 Set up invoice payments	19	20	21
22 Match transactions to coded invoices.	23	24	25	26	27	28 GST Due

Your notes:

1.7 Accounting Software for Farmers

When choosing a software program consider the following:

- Who do I know using this program? Talk to them
- Can my accountant work with it?
- What back-up support and/or training is available?
- How hard is it to get set up, and is it farmer friendly?
- All programs will code and calculate for GST, how useful is it for making informed management decisions?

Can I generate these reports?

- Revised Cashflow
- Stock Flow report and Stock Reconciliation
- Economic Farm Surplus (EFS) with Stock Adjustment
- Variance Full Year: Revised vs Original Budget
- Year to Date (YTD) comparison for the last month and year to date

What is in a good software program?

The rule of thumb is that the computer program needs to be a management tool – if you aren't using it, you don't need it. It needs to work for you, not you for it.

- What ongoing support is there?
- What are other people with similar businesses using? Talk to them
- Is it easy to keep track of stock, to prepare different budget scenarios, and to separate out parts of the business?
- Who else needs access: banker and accountant?
- A program that works for you, not just the one the accountant uses

1.8 How banks assess client risk

1.8.1 What is risk assessment?

Banks measure the risk of each customer. This affects:

- Your ability to borrow
- The interest rate you pay

Risk is measured by rating each customer on:

- Cashflow – how profitable is the business?
- Collateral – what security is there?
- Character – the personal factor

All banks operate under international and national rules, requiring them to hold sufficient capital to protect the banks against risk. This protects the banking system from a number of bank customers failing at the same time. You may have heard comments from the Reserve Bank about farm debt as a source of risk to the banking system from time-to-time. What they mean is that if too many farms have too much debt and markets fail, banks may fail as a consequence, putting the banking financial system at risk.

This means all borrowers are graded on their individual risk. Banks hold capital reserves appropriate to the risk. Bankers have to rate all clients this way and it is based on security, viability and personal factors – the riskier the client, the more funds the bank has to keep in reserve. Because it's expensive to hold capital, this affects the cost of lending – your interest rate on your mortgage. These aren't arbitrary, but have been assessed from analysis of actual loss experience.

When you are an expert budgeter, you have better financial practices, improved profit and reduced gearing, thereby reducing the risk in your business, as well as improving the banks risk assessment. The benefit of this is that your business is more bankable and this will work to reduce your interest cost.

1.8.2 Businesses with low risk tend to:

- have good management practices
  - Stay within credit limits
  - Complete financial accounts on time and provide them to the bank
  - Prepare budgets and monitor them regularly and take action when things change
  - Proactively communicate with key stakeholders and the bank
- Have made a profit consistently in the past
- Plan and budget, so they know how they will make and spend money – debt reduction, capital expenditure, drawings
- Manage their cash well – know what is affecting their results and respond when things change
- Have an appropriate level of equity in the business and provide lenders with adequate security

1.8.3 An example of two farms' risk rating

Bank Risk Assessment	Business 1	Business 2
Profit record	Average	Average
Cashflow	Strong	Poor
Viability Rating	B	D
Management Skill	Good	Adequate
Succession	Well defined	Poorly defined
Annual accounts	On time	Late
Operate within financial arrangements	Trouble free	Marginal
Financial Management & Personal Rating	A	F
Security	2,000,000	2,000,000
Profit Record	Average	Average
Equity	Adequate	Adequate
Equity & Security Rating	C	C
Overall Rating	B	D
Lending Margin (above base interest rate)	.50%	1.00%
Base rate (OCR + bank %)	5.50%	5.50%
Total Interest Rate	6.00%	6.50%

- Both businesses have the same profit and security
- What is a saving of 0.5% worth to your business?

Good questions to ask your banker:

- Where do you see risk in our business?
- What could we do to improve our risk rating?

Your notes:

2. SESSION TWO: Stock reconciliation and planning tools

We look at:

- Budgeting for stock
- Impact on profit
- Stock reconciliations (balances)
- Annual planning tools

2.1 Budgeting for stock

Any budget for a livestock business must start with a stock reconciliation. This will generate a picture of what stock you have available to sell, and what you need to buy. It will also give you a prediction of whether your stock numbers are static, increasing or decreasing. You cannot work out the profit in your business without adjusting for any change of stock on hand.

What is a stock reconciliation?

It is a summary and a balance of what stock you started the (financial) year with, what has been born and purchased and where they have gone. They must have been sold, still be on farm at year end, or died. This balancing of stock inputs and outputs is called a stock reconciliation. We need to ensure that the figures in the reconciliation match what we have physically counted on farm, plus the numbers included on stock sale and purchase invoices.

What role does a stock reconciliation play?

In budgets – how many ewes do we have to lamb, what replacements are we keeping, how many lambs and cull ewes are available to sell, what numbers are we going to take into next winter?

In financial statements – an increase in stock numbers generally implies an increase in income, as well as an increase in asset values. Is the age structure of my stock changing?

In farm management – are my stock sales tracking to budget, are my scanning results, and losses where I want them to be, what impact on my feed budget, and do I need to alter my stock policies?

2.2 Stock reconciliation maths

All stock reconciliations are based on the following formula:

A	+B	+C	-D	-E	=F
Opening	Born	Purchased	Sales	Deaths	Year end tallies

With a double check formula of

Opening +	Born +	Purchased	Must Equal =	Sales +	Deaths +	Year end

Key points on stock reconciliations:

- Each class of stock (age group) stay in their opening class all year until they age up
- Stock age up just before midnight on balance date
- The Year's Closing Stock = Next Year's Opening Stock
- No lambs, calves or fawns in Opening or Closing Numbers
- **Budget or Code an animal to what they were at the beginning of the financial year,**
- Whoever is doing the data-entry or book-keeping needs to be the translator between the on-farm stock description and the accounting system as above

Exercise: From the AWDT Farming Co Statements, record here the stock income for 2019:

	Cash Surplus $	Net change in Value $	Gross Profit $
Sheep			
Cattle			

Exercise: Record the number of Closing Stock for the last three years:

	2017	2018	2019
Sheep			
Cattle			

SHEEP RECONCILIATION EXAMPLE

	A	+B	+C	-D	-E	=F
	Opening	Born	Purchased	Sales	Deaths	Year end tallies
MA Sheep	1500	+0	+0	-200	-50	= 1250

With a double check formula:

Opening +	Born +	Purchased	Must Equal =	Sales +	Deaths +	Year end
1500	+0	+0	=	200	+50	+ 1250

1500 =1500

Sheep Stock Reconciliation Example

Instructions:
1. Enter numbers into columns A-E
2. Calculate column F tallies
3. Age up and transfer into final column – closing
4. Check math totals
5. Check closing numbers against counted farm tallies
6. Once finalised after balance date, send to your accountant who will be most appreciative!

Year: 2023 **2024**

Equation	A	+B	+C	-D	-E	=F		
Stock Class	Opening (1 July)	Born	Purchased	Sold	Died/Lost	Year End Tallies	Aged Up	Closing (30 June) = Next Year Opening
Mixed Age Ewes	1500			210	50	1240	435	1675
2 Tooth Ewes	500			50	15	435	390	390
Ewe Hoggets	400				10	390	360	360
Ewe Lambs	Always 0	380			20	360		Always 0
Sale Lambs	Always 0	2320	200	2265	55	200		Always 0
Trade Hoggets	155			152	3		200	200
Wethers								
Rams	45		12		10	47		47
Totals	2600	2700	212	2677	163	2672		2672
Check	A+B+C			D+E+F				
Check Totals	5512			5512				

Lambing % (if no hogget mating)	135.0%

D&M %	6.3%

Beef Stock Reconciliation Example

Instructions:

1. Enter numbers into columns A-E
2. Calculate column F tallies
3. Age up and transfer into final column – closing
4. Check math totals
5. Check closing numbers against counted farm tallies
6. Once finalized after balance date, send to your accountant who will be most appreciative!

Year: 2023 **2024**

Equation	A	+B	+C	-D	-E	=F		
Stock Class	Opening (1 July)	Born	Purchased	Sold	Died/Lost	Year End Tallies	Aged Up	Closing (30 June) = Next Year Opening
Mixed Age Cows	150			15	6	129	27	156
R2 Heifers	30				3	27	25	25
R1 Heifers	25					25	35	35
Heifer Calves	Always 0	85		50		35		Always 0
Steer and Bull Calves	Always 0	86		26		60		Always 0
R1 Steers and Bulls	95		100	150	3	42	60	60
R2 Steers and Bulls	15			15			42	42
Mixed Age Steers								
Breeding Bulls	4		2	1		5		5
Totals	319	171	102	257	12	323		323
Check	A+B+C			=	D+E+F			
Check Totals	592				592			

Calving % 95.0%

D&M % 3.8%

Sheep Stock Reconciliation Exercise

You start the year with 1,000 in lamb MA Ewes and 300 2ths, 350 dry ewe hoggets, 120 trade hoggets and 35 rams.
You wean @ 130% and decide to keep 390 replacements
50 ewes and 15 2ths die over lambing, 4 rams are killed for dog tucker
You purchase 50 ewes at the January ewe fair, buy 6 top rams, and 200 trade lambs over summer
You carry 100 trade lambs into the next winter, all the rest are sold
All of last year's lambs are sold in October, and cull ewes sold total 250

Year: 2023 **2024**

Equation	A	+B	+C	-D	-E	=F		
Stock Class	Opening	Born	Purchased	Sold	Died/Lost	Year End Tallies	Aged Up	Closing = Next Year Opening
Mixed Age Ewes								
2 Tooth Ewes								
Ewe Hoggets								
Ewe Lambs	Always 0							Always 0
Sale Lambs	Always 0							Always 0
Trade Hoggets								
Wethers								
Rams								
Totals								
Check	A+B+C			=	D+E+F			
Check Totals								

Lambing % (if no hogget mating)

D&M %

Beef Stock Reconciliation Exercise

You go into winter with 100 MA Cows, 20 R2 heifers, 30 R1 heifers and 4 breeding bulls
The cows (MA & R2) calve at 90% with an even split of male & female
4 MA cows die over calving
You purchase 60 yearling bulls in Spring, weighing 280kg but 3 die of bloat
15 old or dry cows are sold to the works, and 5 of the 20 month heifers are scanned as dry and are sold
30 steers and 20 heifers are sold at the weaner calf fair
2 new bulls are bought and one old Angus bull is sold

Year: **2023** **2024**

Equation	A	+B	+C	-D	-E	=F		
Stock Class	Opening	Born	Purchased	Sold	Died/Lost	Year End Tallies	Aged Up	Closing = Next Year Opening
Mixed Age Cows								
R2 Heifers								
R1 Heifers								
Heifer Calves	Always 0							Always 0
Steer & Bull Calves	Always 0							Always 0
R1 Steers & Bulls								
R2 Steers & Bulls								
Mixed Age Steers								
Breeding Bulls								
Totals								
Check	A+B+C			= D+E+F				
Check Totals								

Calving %

D&M %

2.3 Budgeting for feed

How does feed budgeting add value to farm business performance?

By monitoring feed you can anticipate problems/opportunities and do something about it; identify a feed shortage coming up, be aware of what this means at critical times of the year and act in a timely way – de-stock, apply nitrogen etc. The difference between a good farmer and a bad farmer is two weeks. Seeing the feed shortage or surplus two weeks before means you have time to do something about it.

2.3.1 Tools and technology

- Farmax
- Feedsmart www.feedsmart.co.nz
- Beef + Lamb New Zealand Learning Modules
- Interactive tools – Beef + Lamb New Zealand http://www.beeflambnz.com/information/interactive-tools/

How will you use a feed budgeting and monitoring program on your farm?

2.3.2 Make decisions using the Feedsmart App

GENERATION NEXT: FEEDSMART EXERCISE			
	Demand/head/day		Allocation
	Kg DM	MJ ME	
1. Sheep			
Settings Default			
35 kg ram lamb, growing at 300 gm/day			
Mob of 400, 8 ha paddock, start cover is 1600			
What residual cover if feed for 6 days?			
How many animals fed if cover is 1000?			
2. Sheep			
Settings Steep Country, Pasture ME = 10			
60 kg Ewe, maintaining weight, Scanned 160%, Mated on 20th March			
Mob of 800, 14 ha paddock, start cover is 1600			
What residual cover if feed for 6 days?			
How many days if end cover is 800?			
3. Cattle			
Settings Default			
500 kg Cow, on maintenance, calve mid point 1 Sept			
Mob of 120, 10 ha paddock, start cover is 2400			
What residual cover if feed for 11 days?			
How many days if end cover is 1200?			
4. Cattle			
Settings Default			
400 kg 20 month Bull, target growth 0.6 kg/d			
Mob of 40, start cover is 2800, 3 ha paddock, suppl = 2kg			
What size break if paddock is 60m wide, residual = 1400?			
How many days in paddock if residual is 1200?			

2.4 Planning tool – Farm Management Plan

This is a practical way to bring your budget ‘alive’ in a way that is accessible to the whole team.

A farm management plan assists with:

- Planning
- Monitoring
- Communication
- Training and upskilling
- Reducing reliance on all plans being in one person’s head

It can be used as a starting point at monthly budget meetings, weekly team meetings – keeping it visible.

On the following pages, there is an example Farm Management Plan that can be modified to suit your business.

Your notes:

Example S&B Farm Management Plan (mockup numbers only – please insert your own figures)

	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Bull purchase and sales	20 autumn wnr bulls bought June	15 x 4day old bulls bought	90 wnr bulls					30 2 yr bulls	30 2 yr bulls	30 2 yr bulls	20 3 yr bulls	
Animal health and drenching	Drenching Hfrs	Drenching Bulls										
Grazing				120 hfr calves $4/wk	120 hfr calves $4/wk	120 hfr calves $4/wk	120 hfr calves $4/wk	120 hfr calves $4/wk	120 hfr calves $8.50/wk	120 hfr calves $8.50/wk	120 hfr calves $8.50/wk 400 cows winter grazing	120 hfr calves $8.50/wk 400 cows winter grazing
Cropping		30ha barley 40ha maize planted		Urea dressing				harvesting	Sowing 40ha oats			
Feeding out/ supplements	Break feeding to bulls											
Fertiliser							Annual Super					Spring urea
R&M			Troughs	Fencing hill block 10km				Trackwork	Fencing			
Admin	Bank Loan Tax GST	Rates	Account't GST	Bank Loan	Tax GST	Rates Insurance	Bank Loan GST		Tax GST	Bank Loan	GST	

Farm Management Plan

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total for year
Stock purchases and sales													
Animal health													
Mating, Weaning, Scanning													
Grazing													
Cropping													
Feeding out/ supplements													
Fertilizer													
R&M													
Admin													

3. SESSION THREE: Benchmarking and Key Performance Indicators (KPI)

The **productivity gap** is also significant. Beef + Lamb New Zealand's Sheep and Beef Farm Survey showed that the difference in 'price per head' is quite small when comparing the upper quintile (top 20 percent) to the second lowest quintile. But the difference in 'output per hectare' is substantial – around 135 percent in the volume and total revenue from lamb sales.

PRODUCTIVITY GAP *Source: B+LNZ Economic Service, Sheep and Beef Farm Survey*

Farm quintile (profit/ha)	Lamb price ($/hd)	Lamb sales (kg/ha)	Lamb sales ($/ha)
20-40% (Q2)	91.70	44	222.20
Top 20% (Q5)	94.23	103	522.01
Difference (%)	+3%	+134%	+135%

What we often focus on (Lamb price)

Where the opportunity is (Lamb sales)

3.1 Comparing and benchmarking

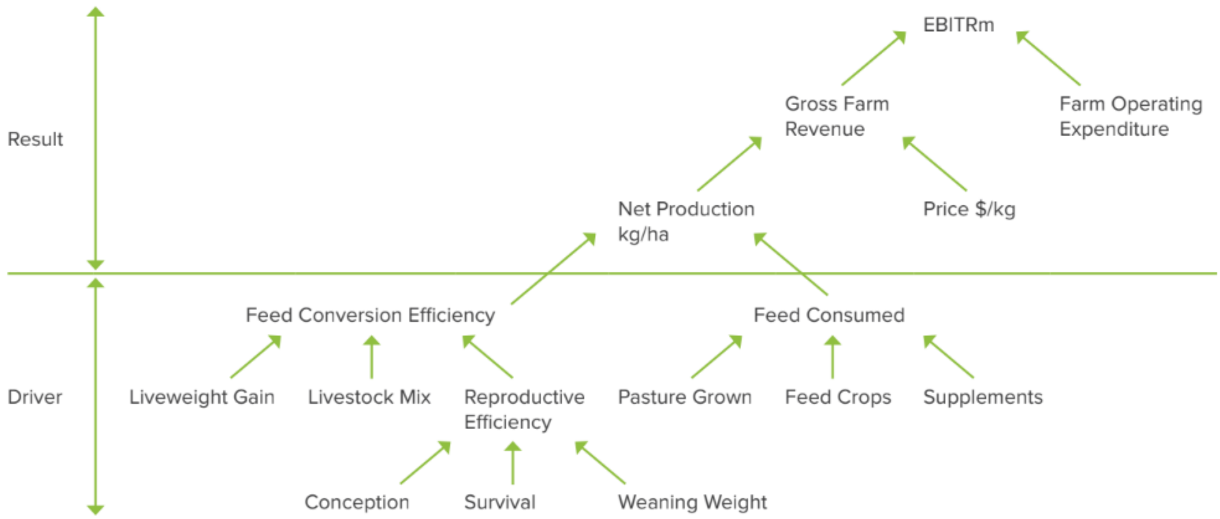
A useful tool is to compare the key numbers in your business for the current year, to the previous 3-5 years. What trends do you see?

To help identify strengths and opportunities it is necessary to compare your business to others that are similar. This is benchmarking. We are very lucky the Beef + Lamb New Zealand Economic Service have been surveying farms and collecting data for over 70 years.

See an example report in your toolkit.

Your notes:

KPIs AND THEIR RELATIONSHIP TO KEY FUNCTIONS OF FARMING



The diagram above identifies the key functions of farming and therefore what a farm business needs to look at to improve profitability. What happens on a farm is a function of many factors and it can be difficult to isolate which are going well or badly. By looking at this diagram you can think about the components separately, how they fit together and how the KPIs can help you to do this.

So, for example, earnings before interest, tax, rent and any wages paid to a manager (actual or family) (EBITRm) is driven by two things: gross farm expenditure and farm operating expenditure. Understanding that allows a farm business to look at how to maximise revenue or decrease expenditure, or both. It's not just a case of maximizing production, it's looking at profitability.

Taking the example to the next, more detailed level, the diagram shows that gross farm revenue is a a function of two measures: production and price. Understanding the drivers for these KPIs leads to feed conversion efficiency and feed consumed, which in turn are driven by further measures.

The point is not to consider all of these at once. Start at the top and look at the key components and how your farm is doing, especially against similar farms. What are their KPIs? Why are they better or worse than yours? Is there something they are doing (or not doing) that you could pick up on? Id there are some key things at this higher level of the diagram, then address these first. Sort them out and then delve deeper to continuously improve your farm profitability.

The KPIs are expressed on a per effective hectare basis and it is acknowledged that it may be more relevant to express KPIs on a per stock unit basis for high country and extensive farming systems.

Overall, KPIs and benchmarking against others are both tools to help you identify where you are doing well and where you need to improve. Used in this way KPIs can help you isolate the great things you are doing (so do more of that) and the things you need to improve (so fix those)

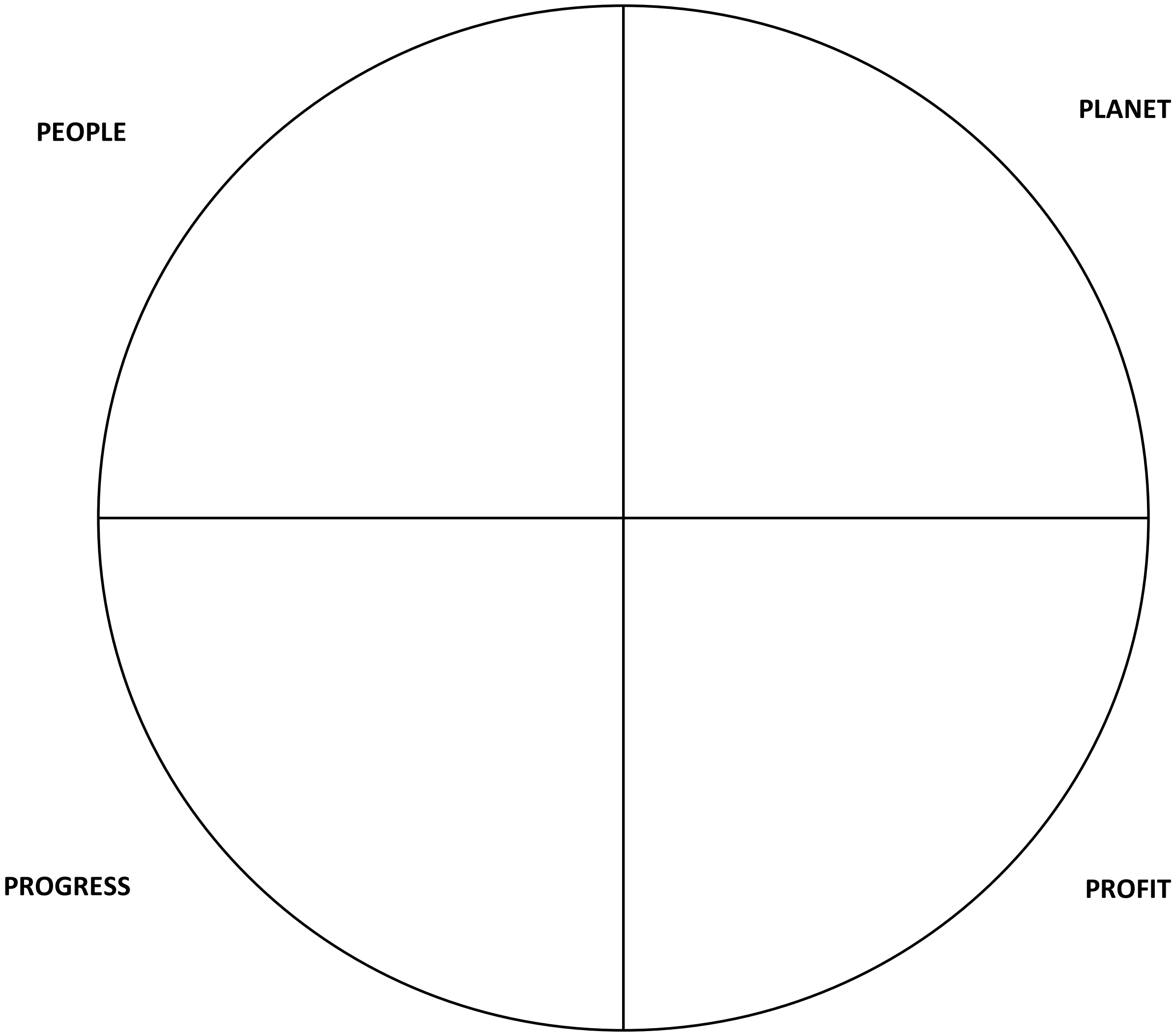
3.2 Your top KPI

Identify the top KPI for your business that you will measure each year.

- Key performance indicators are used to measure your progress towards achieving success.
- These indicators will tell a business if it is on track to succeed. Or
- Identify when it is going offtrack.

Identifying annual KPI gives a business a clear idea of what it needs to achieve each year and becomes the driver for your budget and the first step in creating your Upside Down Budget.

Looking back at what you defined as success, you can now add numbers that will allow you to measure your progress towards achieving that success. These are your top KPI.



Your notes:

Find the following KPI data from your region's S&B Farm Survey

North Island	Class 4	NI Hill Country
South Island	Class 6	SI Finishing Breeding

		2022 Q5	**2022 Mean**	**2023 Prov**	**2024 Fcast**
GFR	$ / ha				
FOE	$ / ha				
FOE % GFR	%				
Depreciation	$ / ha				
EBITRm	$ / ha				
Meat Production	kg/ha				
Wool Production	kg/ha				
Total Net Production	kg/ha				

4. SESSION FOUR: Personal Stocktake and Progression

4.1 Moving up the sheep and beef ladder

Refer back to your goals you wrote down before today, and 'What does success look like for me?' on page 5

Do you want to progress from your current role to one with more responsibility, scale or decision making?

Roles and positions on S&B farms include:

Junior Shepherd, Shepherd, Senior Shepherd, Stock Manager, Block Manager, Farm Manager, Operations Manager, Equity Manager, Lessee, Farm Owner.

From discussions with your peers, and those a step or two ahead, what could you work on now to be prepared for the next step?

Things I could work on now:

4.2 Business Plan

These don't have to be huge or scary.
What you have written down today:

- Goals
- Measures or KPI
- Action Plans

These are the basic elements of a business plan. You have already started!

4.3 What makes a good farmer?

Why are some farmers below average and others consistently performing at a high level?

Think about other farmers you know or have worked for.

What behaviours do they demonstrate in these areas?

Vision	Track Record	Data & Information	Decision Making

4.4 Assess your own performance

- Self
- Spouse
- Family
- Employer
- Mentor

Where do you need to improve?

What would it take for you to provide solutions to existing farm owners?

5. SESSION FIVE: Financial statements

Today we look at:

- The structure of financial statements
- How to find key information
- Assessing profitability

Financial Statements may also be called Annual Accounts or just 'The Accounts'.

They are a report on the previous financial performance of the business.

They are for 12 months up to Balance Date, usually 30 June for Sheep and Beef farms.

Financial statements are prepared exclusive of GST

What do you need to learn for today to be a success for you?

5.1 Questions

A. What profit did we make?
B. Where did it go?
C. Has our equity changed?
D. How much tax to pay?
E. Where to next?

These are the questions that we would typically address in an annual accounts meeting.

We spend time with our accountants going through the annual accounts but do we know why?

Why do we have financial statements? What function do financial statements fulfil? What information can we find out from our financial statements?

Your notes:

5.2 What do they tell us?

What stock have we sold, purchased, and what is on hand?	What have we made?	How much tax to pay?	What are we worth?
Livestock Trading Account	Statement of Profit or Loss	Taxation Summary	Balance Sheet

These are the four key parts of Financial Statements for a Sheep & Beef business.

Your notes:

5.3 Livestock Trading Account

Understanding Stock Profit

Stock Profit	=	Cash Trading Surplus (Sales – Purchases)	+	Change in Value of Livestock (Closing stock – Opening stock)
		Stock Trading Account		Schedule of Stock on Hand

In all Livestock Trading Accounts the calculation for Sales, Purchases, Opening and Closing Stock are all:

Number of Head # of animals	×	Average Price $/head	=	Total $

A good rule of thumb is "if your stock numbers are increasing – your income is likely to increase".

Look at how a typical Schedule of Cattle on Hand is laid out:

AWDT FARMING COMPANY LTD

Livestock Trading Statement (continued)

For the Year Ended 30 June 2019

	2019			2018		
	Qty	Avg. Price	$	Qty	Avg. Price	$
Schedule of Cattle on Hand						
Opening Stock						
National Standard Cost						
Rising 1yr Heifers	115	363	41,688	135	344	46,413
Rising 1yr Steers	102	609	62,110	133	344	45,725
Rising 1yr Bulls	314	609	191,201	-	-	-
Rising 2yr Heifers	78	547	42,682	58	562	32,624
Rising 2yr Steers	101	855	86,336	69	838	57,851
Rising 2yr Bulls	187	855	159,849	100	838	83,840
Mixed Age Cows	56	547	30,643	76	562	42,748
Herd Scheme						
Rising 2yr Heifers	42	1,097	46,074	42	1,137	47,754
Mixed Age Cows	171	1,355	231,705	171	1,497	255,987
Breeding Bulls	7	3,407	23,849	9	3,004	27,036
Total Opening Stock	**1,173**		**916,136**	**793**		**639,978**
Closing Stock						
National Standard Cost						
Rising 1yr Heifers	161	427	68,750	115	363	41,688
Rising 1yr Steers/Bulls	177	602	106,593	102	609	62,110
Rising 1 yr Bulls	-	-	-	314	609	191,201
Rising 2yr Heifers	62	551	34,142	78	547	42,682
Rising 2yr Steers/Bulls	214	547	117,144	101	855	86,336
Rising 2yr Bulls	-	-	-	187	855	159,849
Mixed Age Cows	85	551	46,808	56	547	30,643
Herd Scheme						
Rising 2yr Heifers	42	1,097	46,074	42	1,137	47,754
Mixed Age Cows	171	1,355	231,705	171	1,497	255,987
Breeding Bulls	12	3,407	40,884	7	3,004	21,028
Total Closing Stock	**924**		**692,100**	**1,173**		**939,277**
Net Change in Value of Cattle on Hand			**(224,037)**			**299,299**

On a Schedule of Stock on Hand

Three different stock tallies are represented:

- Last Year Open 1.7.17 (**793**)
- Last Year Close 30.6.18 (**1173**)
- = This Year Open 1.7.18 (**1173**)
- This Year Close 30.6.19 (**924**)

1.7.17	**30.6.18 and 1.7.18**	**30.6.19**
Last Year Opening Stock	Last Year Closing = This Year Opening	This Year Closing

How do we calculate Closing Stock?

Closing Stock \$ = No. Head x \$/head

Stock Reconciliation **Livestock Valuation**

The importance of an accurate stock reconciliation

An important point to remember is that we cannot calculate an accurate closing stock value without an accurate stock reconciliation.

How are livestock valued?

How you choose to value your stock in your financial statements can have a big influence on your profit from stock. The good thing is you have some choices about how this is done. It is important that you understand what method you are using and why.

5.4 Livestock valuation

In order to calculate stock profit, you must have a method of valuing closing stock.

Tax legislation dictates how stock are to be valued.

There are two main options for valuing stock: The Herd Scheme, or National Standard Cost (NSC).

The Herd Scheme recognizes the capital nature of stock and is very generous to farmers, but often has a significant entry cost.

NSC values tend to be a lot lower than herd values. If stock numbers are increasing this will minimize tax in the short term.

Looking at your financial statements how are your livestock valued – Herd Scheme? National Standard Cost? Or both?

Livestock valuation key features		
	Herd Scheme	NSC
Full Name/ also known as	NAMV – National Average Market Value	National Standard Cost
Annual Change of Value	Tax-free	Taxable
Generally, value is	Higher	Lower
Value Based on	Market Value	Cost model + Purchases
Value announced each year	May	February
Flexibility	Once in cannot exit. Must maintain base number in each class. E.g. Rising 1 Heifers	Can change numbers in or out
Taxable profit on sale of capital stock	Generally small Only taxed on the difference between the sale price and the herd scheme value	Can be quite large Taxed on sale price minus a (generally) low NSC value
Advantages/Benefits	Tax free capital gain Minimal tax to pay when ceasing farming	Flexible Minimising the tax cost of increased stock numbers
Disadvantages	Cannot exit Possible high tax entry cost	Possible large tax cost when ceasing to own livestock
Key consideration	Enter at low point in values. Limits tax cost if exiting or changing entity	Will minimize closing stock value. In what time frame (if ever) are stock likely to be sold?

5.4.1 What is the Herd Scheme?

- National Average Market Value (NAMV)
- Announced by IRD in May each year
- Change in value is tax-free
- Once in, in for good
- Base number must remain in the Herd Scheme
- Base number = lesser of opening stock or closing stock for each class
- Little tax on eventual sale of herd
- Tax now vs tax in the future
- If company owns stock – will they ever be sold?

Your notes:

5.4.2 National Standard Cost

- Announced in February each year
- These are cost based not value based
- These Breeding, Rearing and Growing values are combined with any purchases to establish your own NSC values
- 2 categories:
  - Immature – Rising 1 year animals
  - The Rest – Rising 2 year and older
- NSC values tend to be much lower than Herd values
- Your NSC values may be different to your neighbours

5.4.3 Example

Ewe Hoggets 2023: Herd value = $136 NSC Value = $47.50

If 1000 extra ewe hoggets are on hand as closing stock the difference in closing stock value is:

NSC $47,500
Herd $136,000

Extra taxable income = $88,500 from electing to join the herd scheme

As a minimum these extra ewe hoggets will increase the closing stock value by $47,500.

Extra stock mean extra income, this is the minimum increase, and is unavoidable.

If you choose to value them using the herd scheme, closing stock value is $136,000

The extra $88,500 adds onto your taxable profit.

This is referred to as the ‘tax entry cost’.

5.4.4 Key message

If your stock numbers are increasing (in any age group), you have a choice of how to value those extra stock.

Your notes:

5.4.5 Next steps

How will you answer these three questions?

1. **What livestock scheme are we on?**
2. **Why are we on it?**
3. **When might we sell all (or most) of our capital stock?**

5.5 Statement of Profit or Loss

The Profit or Loss is one of the most important parts of your Financial Statements. It shows income and expenses over the last 12 months.

The Profit or Loss Statement is like a video of the last 12 months. It calculates your Net Farm Profit which allows you to understand if you have enough left over to pay tax, personal drawings, principal repayments, and capital expenditure.

Having consistent and strong profit gives your business choices.

The language of Profit or Loss Statements

1. Gross Farm Revenue (GFR) - sometimes called Total Farm Income
2. Farm Operating Expenses (FOE) – sometimes called Farm Working Expenses (FWE).
3. Interest & Rent
4. Depreciation
5. Net Farm Profit

GROSS FARM REVENUE (GFR):

- Livestock Trading Surplus including change in stock values
- Wool Income
- Sundry Farm Income e.g. rebates
- Grazing Income

LESS FARM OPERATING EXPENSES (FOE):

Examples include:

- Farm Working: Fertiliser, Wages, Animal Health
- Repairs & Maintenance
- Vehicle
- Administration
- Insurance & Rates

LESS INTEREST AND RENT

LESS DEPRECIATION

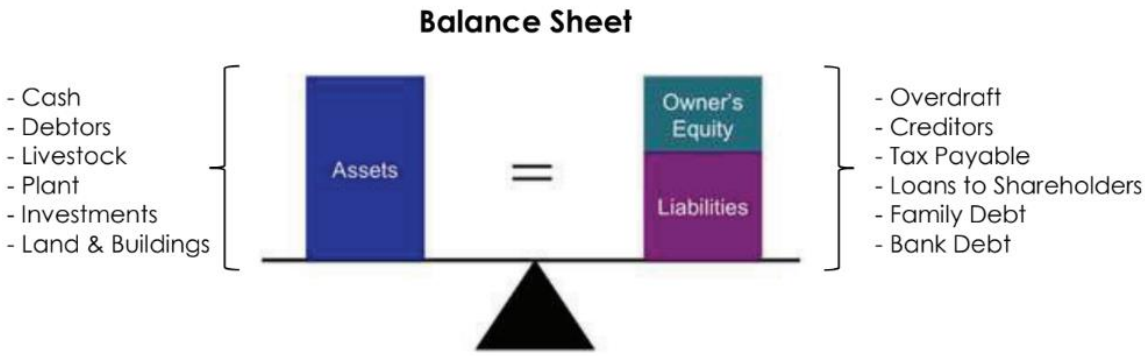
EQUALS FARM OPERATING SURPLUS:

- **Less** owner's renumeration & adjustments
- **Plus** non-farm income

EQUALS NET FARM PROFIT or NET TAXABLE INCOME

5.6 Balance Sheet

This is like a snapshot or photo of your business as at balance date.



Assets = Liabilities + Equity
100% = Debt % + Equity %

If you know your Equity %: Debt % must be 100-Liability % OR
If you know your Debt %: Equity % = 100-Debt%

Or

Equity = Assets – Liabilities
Wealth = Own – Owe

Your notes:

5.7 Your personal balance sheet

	Current Market Value $000
ASSETS: (Owned by you)	
Cash and Term Deposits	
Investments	
Kiwisaver	
Car or Ute	
Motorbike & Farm Plant	
Working Dogs	
Livestock	
House	
Land	
Other Assets	
Other Assets	
TOTAL ASSETS	

LIABILITIES (Debts owed to others)	
Overdraft	
GST or Tax Owing	
Hire Purchase	
Student Loan	
Family Loans	
Term Loans from Bank	
Other Liabilities	
TOTAL LIABILITIES	

PERSONAL EQUITY (Wealth) = ASSETS – LIABILITIES	
EQUITY % = EQUITY/ASSETS X 100	
DEBT % = 100 – EQUITY %	

5.8 Key ratios and calculations

GEN NEXT: KPI Calculations	Year: 2019		
			RMPP KPI Book
KPI	**Name**		**Page #**
GFR / ha	Gross Farm Revenue per Effective Area		K 13
Calculation			
GFR			
÷ Effective Area			
GFR/ha			**$ - / ha**
FOE / ha	Farm Operating Expenditure per Effective Area		K 14
Calculation			
Total Farm Operating Expenses			
Less wages paid to manager (see p9)		$ -	
= Farm Operating Expenses		$ -	
÷ Effective Area		-	
FOE / ha			**$ - / ha**
FOE Ratio	Farm Operating Expenditure Ratio		K 15
Calculation	***Use whole $ not $/ha***	$/ha	
Farm Operating Expenses / ha		$ -	
÷ GFR / ha		$ -	
FOE ratio		0.000	
FOE % (typically 45-55%, varies with product prices)		**x100**	**0.0%**
EBITRm	**E**arnings **b**efore **I**nterest, **T**ax, **R**ent & **M**anagers Salary per ha		K 16
Calculation			
GFR		$ -	
less FOE		$ -	
less Depn			
= EBITRm $		$ -	
÷ Effective Area		-	
EBITRm $/ha (see B&L or RMPP benchmarking data. Range 0 - $1,500)			**$ - / ha**

Instructions & Notes

Where to find the numbers and an explanation of the KPI are over the page. EBITRm calc uses whole $ not $/ha.

Assume Effective Area = 1,100 ha, Manager wages = 0, all Related Party Loan Accounts can be treated as equity, and Market Value of whole farm = $18.5M.

Int & Rent % GFR Interest & Rent as % of Gross Farm Revenue

Calculation

Int & Rent		
÷ GFR	$ -	
Int & Rent % GFR (Target < 15-20% under current low int rates)		**0.0%**

(FOE + Int & Rent) as % GFR

FOE %	0.0%	
Int & Rent %	0.0%	
(FOE + Int & Rent) as % GFR *(Magic Index: target < 70-75%)*		**0.0%**

Book Equity % Owners Equity as % of Total Assets

Calculation

Equity from Accounts		
Plus Related Party Loan Accounts		
Total Book Equity	$ -	
÷ Total Assets		
Book Equity % (typically > 50%)		**0%**

Family Equity % Owners Equity (total value of farming assets less external debt required to pay back) as % of Total Farming Assets

Calculation

Market Value of all assets Farming & Land		(Your estimate or ask bank)
Less External Debt eg Bank, HP		
Less Family Debt to be repaid (hint p30 Related Loan paying interest)		
= Total Family Equity	$ -	
÷ Total Farming Assets	$ -	
Family Equity %		**0%**
Family Liability % = 100 - Equity %		**0%**

Tip: Where to find key information in AWDT 2019 Finan Stmts

Data Inputs			AWDT Finan Stmts Page #	KPI Book Page #
GFR	Gross Farm Revenue	$	9	13
Effective Area	Total Effective Grazing Area	ha	4	13
FOE	Farm Operating Expenses	$	10	14
Int & Rent	Interest & Rent paid	$	11	
Depn	Depreciation	$	11	16
Equity	Net Equity = Assets - Liabilities	$	15	
Total Assets	Total Assets in Business	$	15	
Term & Family Debt	Notes to Accounts	$	30	

5.9 Next steps and commitments

6. SESSION SIX: Taxation & Minimum Wage Calculations

In this session, we will look at:

- Why we need to pay tax?
- What are the different types of tax?
- Minimum wage calculations

6.1 Why Taxation?

- We must abide by legislation
- It's very expensive if you get it wrong
- It's good to have some understanding to enable you to ask the right questions
- There are legitimate opportunities to minimize tax, but if you're paying tax, you must be making profits

6.2 Types of Taxation

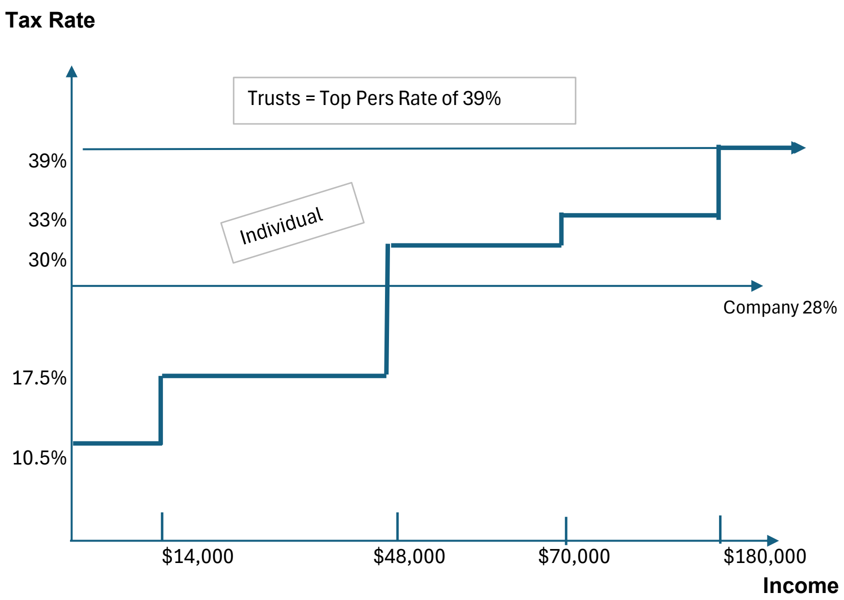
- GST
    - When to seek help
- Income tax
    - Tax rates
    - Provisional & terminal
- Others
    - Resident Withholding Tax (RWT)
    - Fringe Benefit Tax (FBT)
    - Working for Families Tax Credits (Family Support)

6.3 Goods and Services Tax (GST)

- 15% consumption tax on goods and services is added onto all things you sell (by meat co) and most things you buy
- GST exempt goods and services include: interest, wages, financial charges, export items
- Can claim on some business input costs
- Need to build into cashflow as can have large impact when income and expenses are uneven
- Need to watch business/private splits, land sales, hire purchase, asset purchases, beach houses and farm stay accommodation, and lots more!
- More prosecutions on GST than any other tax type!
- If in doubt, check with your accountant

Your notes:

6.4 Income Tax



Personal Income Tax: The more you earn, the higher the rate you pay

Income band	Marginal Tax Rate	Tax payable on the band	Total Tax Payable	Average Tax Rate
$0-$14,000	10.5%	$1,470	$1,470	10.5%
$14,001-$48,000	17.5%	$5,950	$7,420	15.5%
$48,001-$70,000	30%	$6,600	$14,020	20%
$70,001-$180,000	33%	$36,300	$50,320	28%
$180,001 +	39%			

Other Entities:

Trusts 39 % Flat rate (from 1 April 2024)

Companies 28% Flat rate

6.5 Minimum Wage Calculation

From a recent payslip note down the following figures

		Per pay	Annual
Gross Wage or Salary per Pay Period			
+ Value of accommodation added to your salary.			
Gross Earnings (do not include any tax free allowances)			
Deductions			
PAYE			
Kiwisaver			
Rent			
Other			
Total Deductions			
Net Paid into bank per week or fortnight			

Tax Calculation

PAYE Deducted		
Less ACC Earner Levy: Gross Salary x 1.39%		
Total Tax Deducted	T	
Gross Annual Salary	S	
Average Tax Rate Paid	T ÷ S	

Your notes:

6.6 Provisional & terminal tax

You need to have a clear picture of how much taxation there is owing and when it is due. A key part of this is the provisional tax for the following year. It is good to base provisional tax on your updated budget and cash-flow.

Terminal tax: Final tax owing after any PAYE, RWT or provisional tax has been deducted.

Payable on 7 April of year after balance date

Provisional tax: Tax due for the current year. Either based on last year + 5%, or an estimate, or if last year not filed before 1st payment due, based on Year Before Last + 10%

Payable on 28 Nov, Mar & July if you have a June balance date. Or the 5th, 9th, 13th months for other balance dates.

6.6.1 How to avoid huge Terminal Tax Bill or Refund

- Base your provisional tax on your revised cashflow, especially for companies and trusts
- PAYB: Pay as You Budget
- Update regularly through year
- Get your accountant to estimate livestock valuation impacts of any major changes of numbers
- Get your records to your accountant promptly and get lots of warning if terminal tax is high, or if due a large refund – get it paid out promptly

Your notes:

6.7 Other taxes

Resident Withholding Tax (RWT)

- Deducted by banks on interest earned before you receive the net interest
- May need to be deducted on interest paid between family entities

Fringe Benefit Tax (FBT)

- Generally applies to employees and shareholder-employees of companies
- Most commonly is on vehicles
- Exemption on small amounts up to $1,200/employee per year.=

Working for Familiies Tax Credits (WFFTC)

- Tax credts of $3 - $4000/child for families on low and middle incomes
- Children must be under 16, or up to 18 if financially dependent and attending school
- The ‘Family Scheme Income’ is used to assess eligibility. This may be higher than the parents taxable income, as it includes trustee income, income retained in close companies, and other forms.
- WFFTC payments start reducing above family income of $42,700 for one child
- If you may be eligible, ask your accountant to check

6.8 Next steps…

Who am I going to talk to? What am I going to ask? What am I going to find out some more about? What am I going to do differently? When am I going to do this?

7. SESSION SEVEN: Business structures

A business structure is the legal entity that you trade as. It is the name on your GST return or Financial Statements.

In this session we look at:

- The purpose of business structures (why we need them)
- The range of business structures here in New Zealand, and
- Their implications

7.1 Why is business structure important?

- Who actually owns what?
- Who receives the profits?
- Asset or liability? Depends…
- Does your current structure meet your current and future needs?

It is important to understand what structure you currently have and its implications (ownership, tax, risk)

What is the human story behind this?

Who are the people and personalities that make those structures?

Does your current structure meet your current and future needs?

7.2 New Zealand business structure – options & features

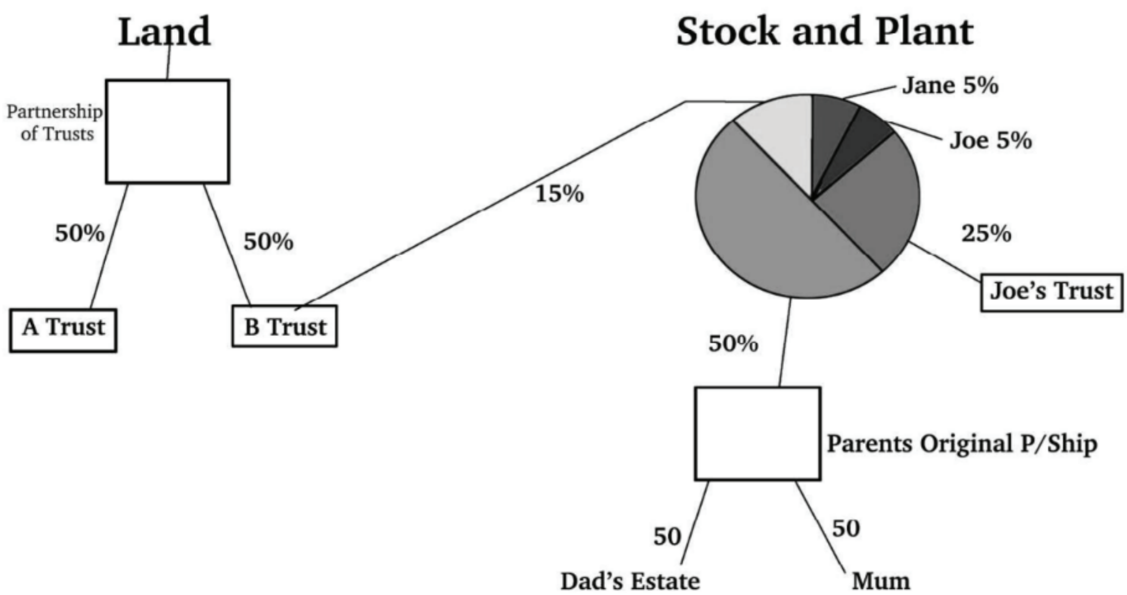
The main structures used to operate a farming business are;

- Sole trader
- Partnership
- Company
- Trust
- Limited Partnership
- Māori Authority
- Combination of above

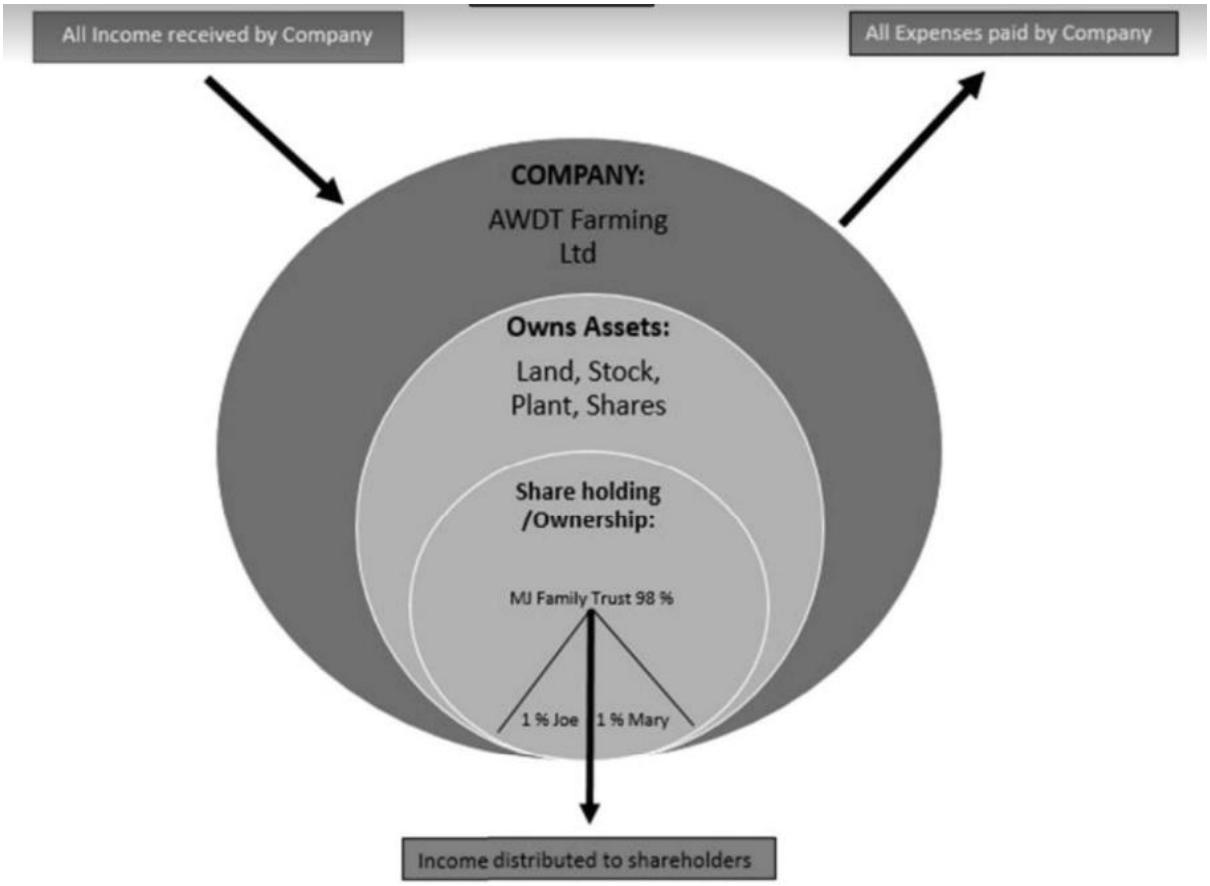
The type of business structure you choose will affect your taxation position, your personal legal liability, the life of your business, and the availability of capital to establish and operate your business. It is therefore important to make the right choice.

7.3 Examples of typical business structure

A – Complex Business Structure



B – Simple Business Structure



7.4 Features of operating as a Sole Trader

- The taxable income of a sole trader includes the entire taxable income of the business
- There is limited ability to spread income between more family members. A sole trader is able to pay a spouse a salary or wage but must obtain advance approval from Inland Revenue as to the value of that salary or wage
- The sole trader therefore has limited ability to manage the top marginal individual tax rate, currently 39%
- The sole trader is personally responsible for any business debt or loss and any business creditor will therefore have the right to claim against the sole trader's personal assets (such as the family home) to enforce a right of payment
- The operational life of the business is limited. When a sole trader dies, the business organization will come to an end automatically, unless provided for in a will
- The sole trader's access to finance for establishing and operating the business is more limited than that of a company. It is much easier for a bank or other financiers to obtain a general security over company assets, as opposed to a sole trader's business assets

7.5 Features of operating as a Partnership

- The taxable income of the business is split between partners. The partners pay tax at their individual rates on their partnership income. Husband and wife parnterships are reasonably common, but can vary in terms of sharing profits eg. 50:50 or 75:25
- The terms of the partnership are usually set out in the partnership agreement. If there is no such agreement, which is common for husband and wife partnerships, the partnership is then governed by the Partnership Law Act 2019.
- A partnership is not a legal entity separate from the individual partners. The members of the partnership are therefore personally liable for all partnership debts. Since partners are legal agents for each other, it is important to choose your partner, or partners carefully
- There is a presumption that partners will be jointly liable for contracts made by any one partner and that they will be jointly and severally liable for costs or any wrongful act committed by one partner
- A partnership can be terminated or dissolved in a number of ways. Subject to any contrary clause in a written partnership agreement, the death or bankruptcy of a partnership can automatically result in the partnership being dissolved. In certain circumstances, a partner can apply to the court for a winding up order. For example, if one of the partners is of an unsound mind, has been guilty of continuous misconduct, or if the business is continuing to run at a loss
- For the same reasons as outlined in the section on sole traders, partnerships generally have more limited access to funds than, say, a company.

7.6 Features of operating as a Company

- A company is a legal entity that is separate from the people who own it (the shareholders)
- A company is taxed separately from its owners at the corporate rate of 28%. It is important to note that the corporate rate is currently 11% lower than the highest individual marginal rate of 39%
- Company directors have many statutory obligations and various common law duties and responsibilities. All companies are governed by the Companies Act 1993. It is from this Act that directors derive these powers, obligations and duties. They must act honestly and in good faith for the benefit of all shareholders and must exercise care, diligence and skill in performing their duties. If a company director breaches these statutory duties, he or she can be fined and/or sued by a shareholder
- In general, company directors are only liable for the company's debts to the amount outstanding on their shares, or to the amount of any personal guarantee given by them. They can however, be personally liable for the debts of the company, if the company continues to trade when it is insolvent

7.7 Features of operating as a Family Trust

- A typical trust has
  - A settlor
  - Beneficiaries
  - At least two trustees, (who are given wide discretionary powers to distribute income and assets among the beneficiaries of the trust and to carry on the business)
  - And a trust deed, (the set of rules that governs the operation of the trust)
- Most trust deeds give the original settlor the power to remove a trustee and appoint a new one. This power of appointment gives the settlor a high degree of indirect control
- A trustee should be fully aware of his or her obligations before accepting any appointment as a trustee and these responsibilities should be clearly set out and discussed at the time of completing the trust deed
- The Trusts Act 2019 clarifies Trustee duties and the rights of beneficiaries to obtain information.

7.8 Features of operating as a Māori Authority

- Māori authorities were originally created to act as trustees to administer communally owned Māori property on behalf of individual members
- There is a very specific criteria that determines whether an entity is eligible to become a Māori Authority. The most common are:
  - An entity established under Te Ture Whenua Māori Act 1993;
  - An entity that holds land subject to Te Ture Whenua Māori Act 1993; and
  - an entity that, on behalf of Māori claimants, receives and manages assets transferred under Treaty of Waitangi settlement claims
- Māori Authorities are taxed at 17.5%, being the tax rate that would be incurred by the majority of its members if income was distributed to them.

- The Māori Authority regime acts in a similar manner to the company imputation regime. For example, tax paid by a Māori Authority forms a credit in its Māori Authority credit account. These credits attach to distributions of income from the Māori Authority to its members.

7.9 Advantages and disadvantages

The choice of the correct business structure can be of critical importance to the success or failure of the business.

It is always wise to seek legal and accounting advice as to the relative initial and ongoing costs of each type of structure.

Certain types of businesses do not have the flexibility to operate under each of the entity types. For example, real estate agents are prohibited from operating under a company structure. It is therefore sensible to check in advance for any industry regulations that prevent a certain type of ownership structure for your particular business.

The following table summarises the advantages and disadvantages of each structure type.

Structure Type	Advantages	Potential Disadvantages
Sole Trader	• **Low cost of entry** • **Easy to set up** • **No significant legal costs** • **Only one tax return required** • **No registration of name required (if trading under your own name)**	• Personally, liable for all business debts • When you die, the business entity dies • Limited ability to split income out to other family members • More limited access to business finance
Partnership	• **Relatively low cost of entry** • **No significant legal costs unless Partnership Agreement required** • **Ability to split income** • **No registration of name required (if trading under your own names)**	• Partners are personally liable for all business debts • Partners are personally liable for debts incurred by other partners • There is always the potential for relationship problems • Limited ability to split income out to other family members, over and above the partners • More limited access to business finance • Limited succession assistance
Company	• **Limited liability for shareholder, although becoming greatly reduced** • **Income splitting opportunities**	• Additional legal and accounting costs to set up • Slightly higher ongoing compliance costs

	• **Easy to transfer shares and therefore ownership, on a progressive basis** • **Company assets do not have to be sold when there is a change of shareholding** • **Greater access to business finance** • **Indefinite life**	• Knowledge of directors' responsibilities required
Trust	• **Protection of assets** • **Income splitting opportunities** • **Trust is ongoing (life of 125 years)**	• Additional legal and accounting costs to set up • Higher ongoing compliance work to administer property • Knowledge of trustees' responsibilities required • Disgruntled beneficiaries still have the power to sue later
Māori Authority	• **A lower income tax rate of 17.5%** • **Simplified tax accounting and compliance procedures** • **Māori Authority Tax Credits attached to distributions that exceed a member's tax liabilities will be refunded** • **The resident withholding tax (RWT) can be a lower rate than that applicable for other taxpayers** • **Māori authorities can 'opt' out of the Māori authority system if they wish without the requirement to wind up and establish another entity**	• Specific eligibility criteria has to be satisfied in order to become a Māori Authority • Māori authorities that are companies cannot group losses, amalgamate or consolidate with other companies that are not Māori authorities • A 33% RWT rate applies on distributions over $200 where Māori authority does not hold a member's IRD number • A Māori authority that elects out and then re-enters later is treated as having disposed of and then reacquired all of its assets at market value

Draw a sketch of your business structure:

7.10 Next steps and actions

- What structures do you have?
- Advantages/disadvantages?
- Do you have any questions to ask or things to follow up on?
- What structure might be best for my next move in farming?

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