

## TAX MATTERS

The Government has been looking at closing as many loop holes as it can in an effort to keep us all honest and to increase the tax take. It has now devised a plan to alter the method of farming stock valuations for income tax purposes.

There have been two methods of valuing farming stock for tax purposes. One treats the stock as capital items and relates to breeding stock, which will be retained for some years thus preventing capital items having an adverse effect on taxable incomes. The other relates to stock which are reared for sale purposes and is commonly known as the national standard cost. Under that system the cost of rearing stock for sale is calculated on figures provided by the Government for various classes of stock and used to work out taxable income.

It became apparent to the Government that some farmers (mainly dairy farmers, it seems) were changing the classification of their stock from one system to the other to get the best result for them under our tax system.

If the plan is implemented farmers will no longer be permitted to switch the stock valuation from the capital value system as from 18<sup>th</sup> August 2011. It is unusual for legislation to apply retrospectively but it is clear why the Government would decide to take that course.

Succession planners have objections to the Government's decision. They are mindful of passing family owned farms between generations as painlessly as possible. There are still many families whose next generation want to take over the family farm but this is less prevalent than in earlier times. Under the Government's plan if a purchaser buys stock from a close family member in the capital valuation scheme they are compelled to continue with that system. So it would be better tax-wise for a young farmer to buy stock from an unrelated party, or look at an alternative plan which would not contravene any proposed changes to tax rules.

This is obviously an impediment for younger farmers embarking on a farming career and wanting to take over the family farm which is usually a gradual process rather than it all happening in one transaction.

These matters all need to be taken into account when considering estate and tax planning which usually go hand in hand and professional legal and accounting advice should be sought on any plans to undertake an estate and tax planning venture.

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