



Special Alert: Livestock Valua

Watch this Space...

The Government's 2011 Budget signalled potential changes to the livestock valuation election process.

Government is concerned that farmers are taking advantage of the ability to switch back and forth between the Herd Scheme and the National Standard Cost Scheme, allowing increases in market values to go untaxed with decreases being deductible for tax purposes.

What we may see is a tightening of the rules around movement between the schemes. It is not expected however that either of the schemes themselves will be removed.

The last review of this legislation was in 1993. A public consultation document will be released on this Budget initiative later in the year.

As your accountants are utilising the valuation schemes to your best tax advantage very seriously.... We'll keep posted as fresh information comes to light.

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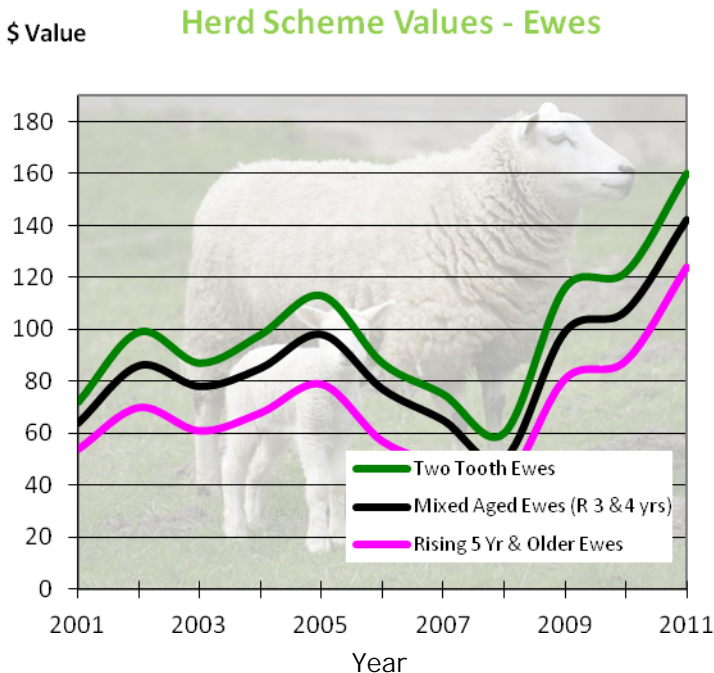
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Livestock Valuations Updated

The IRD have recently announced this year's livestock Herd Scheme Values and this is a great opportunity to update your valuations to the latest movements. The Herd Scheme Values are the National Average Market Values as determined by a process of review of the livestock market as at 30 April.



Sheep Values

Sheep values have increased on average by about 40% to record highs throughout the sector. The profitability being experienced by sheep farmers at the moment is reflected in the values. Playing a part here will be the lack of supply of lambs due to storms experienced in the Central North Island and Southland in spring which led to a significant number of lambs being lost.

Deer Values

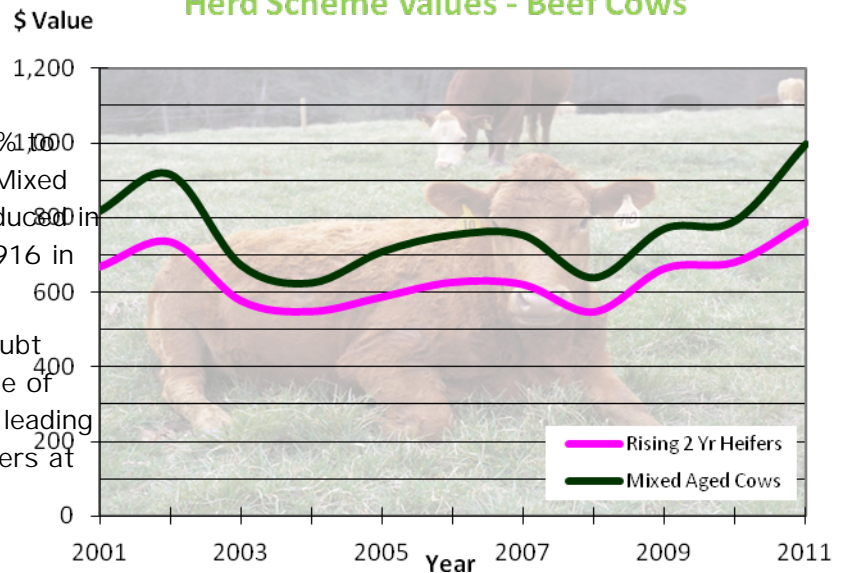
Deer values have generally risen overall from 2009 to 2010. The deer market is experiencing some 'quiet positivity' with worldwide demand for product beginning to increase as worldwide frozen venison stocks diminish. Demand for chilled product is increasing leading to higher meat returns for deer farmers.

Beef Cattle Values

Beef cattle values have increased significantly over the last year's values with Mixed Age cows rising by 26% to \$997 per head. This is the highest value for a Mixed Age Beef cow since the Herd Values were introduced in 1987 and is higher than the previous peak of \$916 in 2002.

The worldwide increase in demand for food is no doubt the driver behind these increases. Certainly some of the supplier driven pricing in the beef market is leading to good returns being experienced by beef farmers at the moment.

Herd Scheme Values - Beef Cows



Dairy Cattle Values

From the 2010 year to the 2011 year there have been good increases in the value of rising 2 year heifers and mixed age cows which reflects the positivity in the dairy market from increasing dairy pay outs and from indications that these will continue for a year or two.

There have been significant increases in the value of rising 1 year heifers. These values were higher than anticipated by many commentators and are no doubt due to the high prices being achieved for heifers being sold into offshore markets such as China.

General Summary

While there is the ability within the livestock valuation legislation to change livestock schemes, the decision to change depends on a number of factors such as:

- § Are market values for that class of livestock perceived to be increasing? What confidence is there in the industry?
- § Is the farmer likely to retire from farming in the short term?
- § Is the farmer in a rapid growth phase, and how important is it to preserve cash flow within the farming operation?
- § What is the taxable income for the farming operation, and how is the livestock valuation decision likely to impact IRD interest?

Election decisions should be made on a case by case basis. We will discuss your valuation options in your 2011 Financial Statements and Taxation Returns. We'll also be in touch when the government announces the outcome of the valuation criteria review, as highlighted in the budget.

Disclaimer

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon for specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.