



Public Information Bulletin

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CONSULTATIVE DOCUMENT ON PRIMARY SECTOR TAXATION

The following is a repeat of a press release issued by the Minister of Finance, the Hon R O Douglas, on 9 March 1986:

CONSULTATIVE DOCUMENT RELEASED

Finance Minister Roger Douglas released last night the Consultative Document on the taxation of livestock and of agriculture, horticultural, forestry and aquacultural capital expenditure.

The public have until Friday 4 April to make submissions on the issues raised in the document. A committee chaired by Dr Don Brash will receive the submissions and report back to Government.

Mr Douglas said that the terms of reference of the committee were to receive and hear public submissions on matters affecting the implementation and efficient operation of the schemes outlined in the document.

"However I have told Dr Brash that he should not feel constrained from reporting on matters outside the terms of reference if he feels that such matters need consideration by Government."

Mr Douglas said that the scheme was not retrospective. The scheme applies for the first time in the 1986/87 income year. This year's income, and last years income are not affected, unless farmers elect to bring part of the write up to account in 1985/86.

He said that the livestock valuation changes did however affect future earning on investments people had already made but that this also applied to a whole range of Government policy changes. Unless this was the case the Government could never change its policies in the community's interests.

Mr Douglas said that the changes meant that livestock would be treated, as far as practicable, on the same basis as the stocks of other businesses. Primary capital expenditure would also be treated on a similar basis to that in other sectors.

Mr Douglas said that changes to standard values would be straightforward to apply on an ongoing basis.

"Two livestock valuation schemes will replace the existing system. The trading stock scheme is simply the old standard value system but with annually reviewable standard values plugged in each year. As is the case with other businesses, increases in the amount of stock during the year increases assessable income," he said.

There would be no other changes required to records or accounting practices. The Herd Scheme applied to mature female breeding animals and although it was not compulsory, Mr Douglas said that many farmers would find that it had considerable advantages.

"In particular the herd scheme means that farmers will not be taxed on the inflationary component of the increase in livestock values as they are under the present system," he said.

"The transitional measures may appear complex but they are required to ensure that the move to the new scheme is achieved fairly. The transitional arrangements allow for a variety of different situations and each farmer would find that only a small number of the transitional provisions actually applied to him," he said.

"Businesses in New Zealand are taxed on an income basis, which is not the same as cash flow. Criticisms that the proposed changes unfairly tax unrealised income are therefore not valid," he said.

Mr Douglas said that the present rules for livestock valuation had a number of severe disadvantages:

- They bias investment decisions such as the choice among different land uses (for instance the choice between deer farming and dairying or between sheep farming and cropping).
- They inflate land and other input prices making it harder for young farmers to buy a farm and making some existing farm activities uneconomic.
- They encourage activities solely for the tax advantages which are available, which are largest for people on high incomes.

Mr Douglas said that he hoped that the consultative exercise being carried out by the Committee chaired by Dr Brash would be as successful as it was in advising the Government on the draft GST legislation.

"I urge people to take this opportunity to help refine and develop the proposals outlined in the document."

"This is a major chance for farm industry organisations to make constructive input and help the Government achieve its objectives in the simplest, most efficient way," he said.

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