

Profit in Taxing Times

Managing profits can in some ways be more challenging than balancing the books or minimising losses. The current economic and farming outlook may mean farming businesses will need to navigate as much volatility as the climate has delivered in the last 6 months. There are real challenges for budgeting, monitoring and tax planning amongst it all.

I have spent a considerable amount of time on international assignments over the last couple of months. It has been a rewarding chance to get a better appreciation of prospects for our economy.

The income side looks promising across the board. International food shortages mean upward pressure on product prices which are already flowing through to dairy. One could argue that previously unimagined product prices are here to stay. Perhaps what is to not being so widely recognized as the impact of farm costs -- especially for inputs influenced by energy, feed and staffing.

This optimism must be tempered by a note of caution. There is a real risk is that we simply celebrate revenue and overlook the budgeting and management control that will be needed to convert this to tangible profits.

The winter "recess" is prime time for extra effort to go into finalising 2008 financial results by insisting you get annual processed as quickly as possible. This will depend on robust recording systems and top communication with your professionals. They need the time and resources to make it happen!

Accounts analysis through facilities such as DairyBase will mean there is access to a third years' information and some valuable trend lines. I encourage all dairy farmers to use this important resource as it gives an excellent snapshot of the operation. Remember though that its benchmark information and will only be as good as the numbers of people who use it and the timeliness and quality of the data. The whole industry can benefit from making full use of it.

Many farms will now generate serious profits which in turn will mean serious tax liabilities. Potential tax bills will require considerable thought and management with time as an ally not an enemy.

A key to converting improved bottom lines to "take-home" profits will be access to the best accounting advice. This in turn will be dependent on information being made available to your professionals accurately and on time.

Having (or getting) the right ownership structures in place will be another contributor to managing success. My experience is that this is harder to achieve retrospectively so it should be addressed early to capture the benefits. Conservative advice or lack of understanding by poorly informed business owners is a very costly option. If in doubt get a second opinion or use your full professional team (banker, accountant, consultant and legal professionals) as a sounding board for strategy selection.

Finally, getting next year's budget and cash flow nailed down will be critical.

This season's changes to timing of final milk payments for the season will have a definite cash flow impact. Combined with increased winter feed costs and

disappointing autumn production they will mean extra overdraft facilities will be required by many.

This planning also needs to take a realistic look at what's happening to farm costs. The pressures on international resources from the demands of biofuel production, environmental protection and changing demographics will have ongoing implications for farm costs. Competition will keep these costs high and they could be further accentuated by a change in currency value.

This all adds up to a number of targets moving at once. Effective planning and control will be dependent on budgeting and monitoring systems complemented by realistic understanding of what is happening in the various resource markets. Accurate historical information from promptly completed accounts combined with up to date income and cost forecasts will be essentials for success.

The winter break is an important time to work on business. Rest and recreation is important. But its so much more enjoyable when the plan is sorted, tax is managed and you can enjoy the fruits of your labour anticipating what is likely to be a most promising future.

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