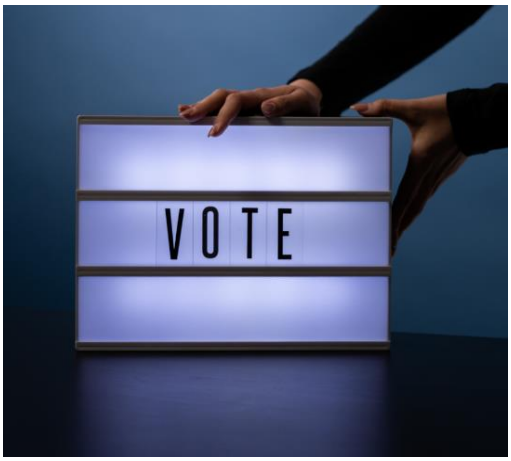
R J PRESTON LTD
Your Rural Accounting Specialists | Chartered Accountants
Throughout Canterbury Region
03 358 5686
32B Sheffield Crescent, Christchurch

Newsletter, November 2020

Election

Now the election is over, the country can focus on the next three years. The election gave the country a center left government, that has a modest alliance from the Green Party. One would think to keep them in the fold for what could be a closer election next time. I do not envy the governments job balancing the social requirements of the loyal Labour constituency, along with the requirements to support business's in the COVID world. For farming, the concerns will be the environment with both, the Fresh Water Act, and New Zealand's Zero Carbon Bill all influencing farmers directly. One interesting feature to come out of the election was the reddening of rural electorates, many to the point of Labour winning the seat. I am sure Labour's competent handling of COVID-19 had a lot to do with this. It probably also says something about the demographics of our rural communities. With traditional urban dwellers opting for the benefits which rural communities offer. I think this will be further extenuated by the COVID lockdown where many people found that working from home wasn't that bad, and they could work from anywhere in the country.



COVID – 19

For many farmers lockdown didn't really change your lives too much. It is COVIDs effects overseas which will hit the demand for our primary produce and therefore the price received, that will effect you most. This spring we are already seeing sheep prices back 15% – 20%, cattle 12% – 24% and deer down 30% on last year. Indications are that the milk solid price will also be back on last year. Still, the prices received will be well above historical lows. The other well documented challenge is labor, hitting horticulture, viticulture and contracting industries directly. These industries rely heavily on migrants and as with the rest of the western world these industries struggle to find people from their own country who are willing to give this a go, even despite the hard times many are facing. It is becoming increasingly clear that in a volatile world the recovery of China is crucial to the well being of New Zealand.

Brexit

For many, this drama of Brexit seems a world away and certainly has been overshadowed by the COVID pandemic. The separation of the UK from the European Union does affect us directly. In August this year we saw sheep meet exports to the EU rise, 12% by volume and 5% by value on the previous August. These increases alone show why it is important the WTO tariff rate quotas are preserved. Splitting the quotas between the EU and UK limit New Zealand's flexibility to respond to market dynamics, and in the end it will affect the export dollar. The splitting of the tariff rate quotas would also mean a significant renegotiation of our terms of trade with these trading blocks.

Residential Care Subsidy / Thresholds / Trusts / Gifting

To receive residential care subsidy applicants must satisfy three criteria.

1. The value of their assets is below the means assessment threshold.
2. Their income is below the allowable amount.
3. They have not deprived themselves of more assets than the Ministry of Social Development allows, for example: by giving them away to a trust.

<u>Means Assessment</u>

The current asset threshold for means assessment are as follows:

- If you are single you are eligible for a subsidy if you have assets equal to or below the allowable threshold of $230,495.
- A couple where one partner is in long term care, there are two threshold options
  1. Combined assets of $126,224 excluding the value of the home and car,
  or
  2. Combined assets of $230,495 including the value of the home and car.

Important to note here, your house and car are exempt from assessment of assets when it is the main place where your partner who is not in care or a dependent child lives.

<u>Couple who are both in long term care</u>

Eligible if you have combined assets equal to or below the allowable threshold of $230,495.

<u>Gifting Criteria</u>

- Gifting rules allow gifts of $6,500 per couple per year in the five years before going into care and $27,000 per couple per year outside of that.

I think in the past, there has been quite a bit of confusion here, because in many cases gifting has been made $27,000 per partner on debts to trusts etc with the belief that those gifts would be exempt from the residential care subsidy when in fact it is $27,000 per couple. It is here that the ministry of social development, when looking at applications can go back and reassess these gifts.

Income Assessment and Deprivation

The best way to describe this is looking at a particular case in point.

Case Study:

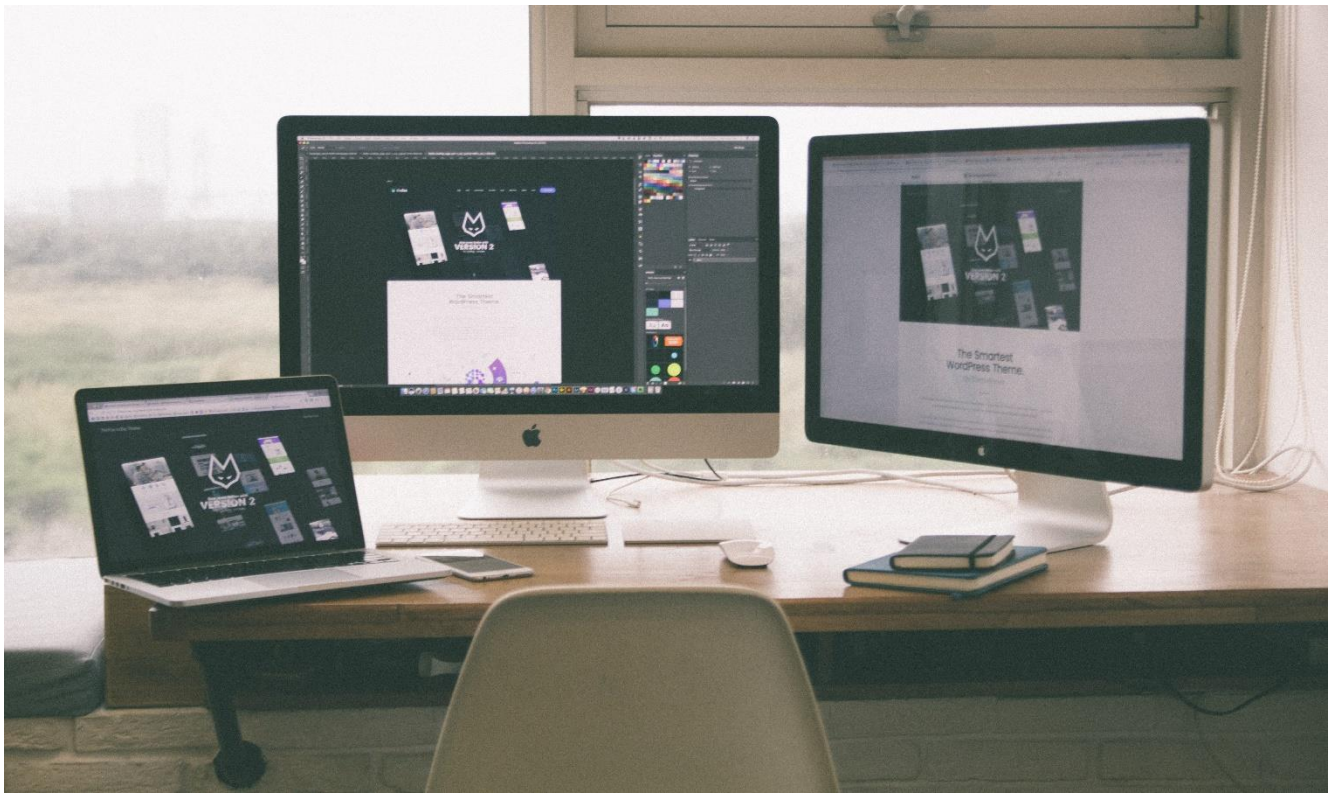
Mrs Broadbent and her late husband sold their house to a trust. (Purchase price the trust paid, was a market price so the Broadbents received fair value). The trust had no money to pay for the purchase, so the Broadbents lent the whole purchase price to the trust. They then gradually forgave the debt over several years finishing more than 5 years before Mrs Broadbent needed to go into care. At Mrs Broadbents needs assessment stage, the Ministry of Social Development accepted that all the gifting was allowed which meant that the gifted assets were not included in Mrs Broadbents $230,495 total asset allowance.

However, at the income stage the Ministry of Social Development decided to treat the house as if it was still owned by Mrs Broadbent and calculated the present day income Mrs Broadbent could receive from renting it out. Ministry of Social Development did that even though the gifting was allowed because they decided that the gift had deprived Mrs Broadbent of income from those assets.

This went to the court of appeal and in summary the court of appeal ruled that the Ministry of Social Development was not entitled to treat the trust potential income from the house in the present day as if it were Mrs Broadbents income and ignore the parts of the debt that were validly forgiven by Mrs Broadbent and her husband before he died.

Rather, the Ministry of Social Development can only look at the steadily reducing portion of the debt over time and then determine, in light of that, what a reasonable current income figure should be in the present day.

What did come out of this case which is important to note, is that where assets are sold to a trust in return for debts that don't provide for interest to be paid, the Ministry of Social Development is allowed to treat that as a deprivation of income which may mean that you can pass the means assessment but fail the income assessment. The Ministry of Social Development has not yet decided how it will calculate the deprivation but it will no doubt be complex.

Computers:

Many of you will be running your own computer cashbooks etc to prepare your information for our office. Many of the programs are being updated so they can be run using the cloud. In some cases the changes to the programs are significant. We suggest here you contact our office and speak with Chathu Wattage of our staff who is our resident computer expert and discuss what is the most user friendly program for you to use that meets your requirements and dovetails into our systems as easy as possible. At the office here, we don't want to change your computer systems just for the sake of change, but we want to assist you in ensuring that the data you have is entered easily, accurately and meets both our and your requirements.