

Contract milking Thinking about signing a contract?

According to Dairy NZ data from 2015 to 2017, 38% of contract milkers earned less taxable income than the average farm manager.



STORY
Amanda Burling
Agri-Accountant
Baker Tilly Staples Rodway Taranaki



Baker Tilly Staples Rodway Taranaki Agri-Accountant, Amanda Burling recently teamed up with representatives from local Federated Farmers, Rural Support Trust and legal firm, Auld Brewer Mazengarb and McEwan to run a workshop to explore ways to avoid finding yourself in this situation.

What should you consider when considering a contract milking opportunity?

Your worth, goals, career ambitions and your obligations

Do you know what you are worth? Are you looking for a role that provides full time work for one person or as a couple? The net income that is produced as a couple

needs to be greater than you would expect on a management wage, plus earnings as a full-time employee.

Growth looks different for different people. For some this means getting bigger,



employing staff, milking more cows. For others this means staying in a role that can be managed by a couple and investing off farm. An agri-accountant can talk you through the many and varied farming specific considerations – including taxes, debt repayment, living expenses, wages and leave obligations.

Size and scope

When you know what you are worth, think about size. How many cows do you want to milk? Do you want to be an employer? What are your obligations as a good employer? If you need to employ will you be the landlord?

Spending a bit of time and money now can potentially save you a whole lot of money and heartache down the line. Read the contract thoroughly and get it checked over by someone that knows how to read legal documents.

Fact checking and budgets

Be diligent. Do you have recent (actual) production figures and estimated costs? There are so many things to think about. Who pays for power, new rubber ware or detergents? Getting accurate prices and detailed information will make a budget as realistic as possible.

Create an annual budget. Does it look good?

Start building a team of trusted business advisors who can help you to review it and test your assumptions. If the budget looks good, push it out to the next 12-month period. If it doesn't, walk away.

Clarify and negotiate any points that you are unsure of. Never assume. Get everything documented and then talk to your agri-accountant about options for spreading income evenly or production as earned. Ensure you've factored in dried-off periods and you understand the realities of relying on an overdraft.

Serious considerations

Ask yourself, are you going to be better off than if you were on wages? Remember that being self-employed means no more rostered weekends off, no holiday pay and no sick leave. Make sure you factor your 4-weeks holiday into your required surplus. If you don't take it that's your perk, but you need to make sure you aren't being penalised as well.

Business structure and planning now, for tomorrow

You need to be completely open with your key advisors about your future plans and aspirations. Knowing more about you and your goals allows us to form a structure for your business and a plan for the future; and this includes planning software selection and ongoing support. There are products that will meet your needs now but will struggle to grow with your business as it expands. These can incur additional costs down the line.

Additional support

Will you need support from a bank? i.e. a loan or overdraft facility. Ensure your account etiquette is good as banks will look at the previous three years 'behaviour' in your account. Make sure you pay your bills on time!

Nitty gritty

Do you understand all the facets of business? Do you understand GST, PAYE, ACC and

Never assume.
Seek advice.
Always review before signing.

income tax? There are compliance costs associated with this, find out what they are likely to be. Seek help early.

CPR – Change, Plan, Resilience

Keep life flowing into your business. Change is going to happen regardless of what you do; however, change presents opportunity. Planning is crucial, without a plan it is incredibly easy to get tied up in the day to day running of your business and lose sight of the big picture. Resiliency is your ability to ride out the volatility in the industry. You have to deal with environmental policy, drought, fluctuating milk and stock prices; if you don't have the capacity for resilience it becomes very hard to survive and continue.

The hardest thing we have to assist with when working with contract milkers is trying to help after a contract has been signed... and there is often nothing we can do at that point!

Take the leap, but know your obligations and be ready to tackle them. Make sure you are running a profitable business, build and grow financial awareness and know your position and your vision.

Plan for the future, plan for change, plan for the unexpected. Monitor your plan closely and get the right people around you so you can utilise all of the tools available to you to achieve a successful outcome. Farming is something Baker Tilly Staples Rodway is passionate about, and we're here to help you make your plans and vision reality.

amanda.burling@bakertillysr.nz

This article first published in Dairy Exporter Magazine, Jan 2020.