

25 March 2022

He Waka Eke Noa  
Primary Sector Climate Action Partnership  
Via email: [yourfeedback@hewakaekenoa.nz](mailto:yourfeedback@hewakaekenoa.nz)

Dear Sir or Madam

## Submission on He Waka Eke Noa agricultural emissions pricing options

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide a submission on He Waka Eke Noa's (HWEN) consultation as referred to above. We have focused our feedback on those areas where we consider we can add the most value as detailed below. Appendix A provides more information about CA ANZ.

CA ANZ continues to be an advocate for, and supporter of, a just transition to a net zero economy. As a professional body, CA ANZ seeks to advocate in the public good on policy areas that impact our members, the accounting profession and the public.

We recognise that climate change mitigation and adaptation will substantially rely on both macro and micro economic policies and the associated market and non-market mechanisms in which accounting practices are embedded. The profession can make a significant contribution to both climate change mitigation and adaptation at individual entity, industry sector and economy-wide levels.

### Preferred pricing option

After consultation with our members in the rural sector, we support the on-farm levy pricing option. We consider this option will provide the best incentive for innovation and emissions reduction activities at the farm level, ensuring more accountability by farmers.

Additionally, we see the ability to recycle the levy back into on-farm emissions reduction technologies (as referred to on page 24 of the consultation paper), and investment in research and development as crucial to achieving meaningful national emissions reduction of biological gases. In our opinion, the ability to do this will super-charge investment in on-farm emissions reduction technologies.

We consider that only the simple methods of on-farm emission reporting would be practical on a national scale by 2025 for 100% of captured farmers. This approach recognises the split gas approach, meaning farmers' liability would more accurately reflect actual emissions.

The major disadvantage of this option is the significant estimated administrative costs (as detailed on page 25 of the consultation paper). This could have the unintended effect of discounting the benefit of on-farm emissions reporting for decision makers, which in our opinion would be to the detriment of overall national emissions reduction. We would appreciate further information on how these administrative costs have been determined and the assumptions made.

We are concerned also that farmers may not be ready to commence their emissions reporting by 2025 and that farm advisers will have limited capacity to assist their farmer clients. To address these issues with on-farm levy pricing, we propose an alternative method for on-farm emissions reporting.

### **Proposed alternative on-farm emissions reporting method**

The alternative method for on-farm emissions reporting which we propose would leverage the existing trusted relationship between farmers and their accountants. It would also leverage the software systems used in the primary industry sector and the tax assessment and reporting resources and processes (both human and infrastructure) that are already in use.

This alternative method would also involve the use of existing calculators (or the Ministry for Primary Industries (MPI) developing only one approved calculator) and Inland Revenue's (IR's) 'START computer system. The below sections set out further detail about how accountants could support the collation of information for the emissions calculators and how IR's system could be used.

### **Collating information for the calculator(s)**

Accountants are already well placed to facilitate efficient on-farm emissions reporting as they currently have access to much of the information needed (by way of their working relationship with farmers). Accountants are also likely to be familiar with the relevant tax system processes and calculators.

Accountants helping farmers to 'know their emissions number' and report on it would free up time for farm consultants and advisers to focus on emissions reduction plans. Further, accountants comply with professional and ethical requirements, which could increase integrity in the reporting process, providing protection to the system as a whole, as a well as a foundation for future assurance or verification of information reported.

Many chartered accountants helped farming businesses complete the Beef and Lamb calculator over the 2021/22 summer. For most sheep, beef and deer farms, 80% of the information needed for the calculator is already held by accountants (again highlighting the possible efficiencies that could be gained by engaging accountants to help with on-farm emissions reporting).

This information is already held in accounting systems, therefore the key to leveraging this potential from accounting systems and achieving 100% of farms reporting on-farm emissions will be avoiding the double entry of data into emission calculators. We understand some emissions calculators are open sourced, for example Beef and Lamb's, and therefore it would be possible for accounting software providers to develop a solution to enable the transfer of this information from the accounting system to the emissions calculator without the need for double entry. However, software providers are likely to be reluctant to invest in such development without clarity about the outcomes of this consultation.

We also note there are benefits of leveraging existing accounting software to store historical source documentation relating to on-farm emissions such as fertiliser summaries and livestock tallies. For example, facilitating the reporting of more credible and comparable information and providing an auditable evidence base for the emissions reporting.

The remaining information and sources not in accounting systems are:

- Fertiliser application history, which can be obtained from annual fertiliser summaries; and,
- Sequestration areas, which can be obtained from mapping software. Where mapping is required, this will be the most time consuming of the exercises (see further detail below).

Excluding any mapping for sequestration, even with double entry of data as is currently the case, experienced accountants have found that completing the simple calculators typically only requires 30 minutes per farm. Further, chartered accountants who use the calculators, are likely to do so frequently for

multiple clients. These members are therefore familiar with the rules and processes, compared with the individual farmer who may only use the calculator infrequently.

We organised a national webinar for accountants on 8 October 2021 to provide training for our members on the use of the most common simple on-farm emissions calculators, including those for sheep, beef, deer, horticulture and arable farms. Further training for our members can also be arranged.

We are neutral as to whether farmers should have the option to use emissions reports from more detailed software, such as Overseer and Farmax, provided the software is approved by Government. This would include calculations currently completed by milk processors. However, in order to do so the Government would have to accept that the same farm could get a different assessment of on-farm emissions depending on the calculator used.

We do not consider that it will be practical to implement more detailed emission calculators for all farms by 2025 due to insufficient time to adequately train consultants and the significant amount of time needed per farm to compile these more detailed emissions calculations.

### Connecting on-farm emissions reporting with the tax system

We present two possible options for the capture and processing of on-farm emissions reporting. Both of the following options involve IR's computer system, 'START. From discussions with IR, we understand that 'START could cope with the addition of new data capture fields so long as these are provided in electronic form.

The two options are as follows:

- 1 Having only one approved emissions calculator and the on-line GHG emissions calculator incorporates a function that enables the user to directly submit the information electronically to 'START'; or,
- 2 Having multiple approved emission calculators (as is presently the case) and the results of an on-line GHG emissions calculator are downloaded to a third-party accounting software and it is submitted from there to 'START in the same way as tax returns are lodged.

The choice of method would be dependent on whether a single calculator is approved, or the current situation remains, with multiple approved calculators. Our members suggest the first option would be the most direct and efficient, but it would also be specific to a particular GHG emissions calculator. Fewer approved calculators would also improve comparability and consistency in reporting and avoid the potential for reporting entities to choose the calculator which gives them the better outcome.

Retaining the multiple approved calculation methods could be a medium term transition measure until the efficiency and practicality of on-farm data collection for more detailed methods reaches a point where a single holistic method can be used.

In connecting on-farm emissions reporting with the tax system, we also recommend the following administrative matters be considered:

- As recommended on page 17 in the consultation paper, we support the threshold for on-farm emissions reporting to be aligned with the GST registration threshold.
- Farms should report on a business owner basis (as contemplated on page 18 of the consultation paper) and either 1) by their IR number, or 2) in a way that aligns with the identity project being developed by the Ministry for Business, Innovation and Employment. We do not consider that reporting should be done on a farm basis.

We consider there are also efficiencies to be gained by aligning the reporting of on farm emissions with accounting and tax reporting. That is, if a taxpayer reports livestock for accounting and tax, they also report their emissions regardless of how many farms are involved and the types of farms. This would avoid a

mismatch of reporting requirements (particularly livestock tallies) and the possibility for double up and missed reporting.

Further benefits of aligning on-farm emissions reporting with the tax system would be improved protection from possible avoidance, providing an auditable evidence base for the emissions reporting and the ability to leverage existing data collection processes. There is also the potential for IR to collect and process the levy payments in a similar way to ACC payments.

For completeness, while we see alignment in reporting with the tax system, we consider the resultant cost to farmers of their emissions is best characterised as a levy rather than a tax.

We have raised the possibility of using IR's computer system to support this alternative with IR Officials and understand that it may be workable but appreciate that this proposal would need to be considered and developed further in conjunction with IR.

We envisage IR's role in the solution as we see it being relatively minor, being limited to collection of data from the output of calculators/assessments and possible processing of payments.

### **Te Uru Rakau and a central system for mapping of sequestration areas**

Not all farmers will have had their sequestration areas mapped by 2025 but those who are proactive in reducing their emissions will have done so. This process does not need to be completed by farmers prior to the commencement of the levy. However, we consider the prospect of paying higher levies will drive the remaining farmers to have their sequestration areas mapped.

Te Uru Rakau already has an opt-in central system for mapping and registering Emissions Trading Scheme sequestration. If the HWEN registration is based on the same mapping platform (but a different section of it with different mapping rules), this would prevent the double up of sequestration areas between the Emissions Trading Scheme and HWEN and also eliminate the need for building a new mapping system from scratch.

Further, we consider this increased demand for sequestration mapping by farms would drive growth in the provision of specialist mapping service providers, similar to when the Emissions Trading Scheme was first introduced for forestry.

For completeness, where a farmer leases the land on which the sequestration occurs, sequestration should be recognised only with the landowner's permission (as would be the case with reporting by the business owner – referred to on page 18 of the consultation document). This approach would ultimately align the income tax result of the profit from the farm being reported in the lessee's income tax return, and livestock emissions would also be matched with sequestration accordingly.

### **Closing comments**

We have yet to discuss the above proposals with representatives from HWEN and would appreciate the opportunity to meet with you to discuss our proposal for on-farm emissions reporting in more detail.

Should you have any questions about our submission or wish to discuss it with us, please contact Karen McWilliams via email at [karen.mcwilliams@charteredaccountantsanz.com](mailto:karen.mcwilliams@charteredaccountantsanz.com) or phone +61 612 8078 5451.

Yours sincerely

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Business Reform Leader  
Advocacy & Professional Standing

# Appendix A

## About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.