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**FINANCIAL FEATURE
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We welcome any input into areas you would like us to cover. If you have any topics you would like covered in a future newsletter, please provide us with some details and we will try and accommodate your request.

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OFFICE MATTERS

With the recent number of farm sales and purchases carried out and sharemilkers moving we need to ensure we have your most recent contact details. Please contact our office if you are unsure whether your details are up to date.

Do you have a mail forwarding service in place for any out of date address holders?

WILLS & INTESTACY

It is important for all individuals who have assets to have a current will to direct the executors of their will on how to distribute the proceeds of the estate. More importantly, where businesses are involved, the succession of the business may rely on the owner's will.

If a will is not present, or is inadequately drawn up and that person dies, they are deemed to have died intestate. The use of a lawyer to draw up a will is preferred. Your wishes may be misinterpreted if you use an internet service. There are no professional controls over the process and they are frequently drawn up incorrectly.

If you have a family trust, more than likely your will leaves your estate to that trust. This would be worthwhile checking, as if the surviving partner retained your share of the assets, the Government would use the assets to pay for the remaining partner's care. Once they are quarantined in the trust, the Government cannot access those assets.

To ensure the assets are quarantined in the trust, the gifting off of those assets needs to have been in place for some time.

USE OF MONEY INTEREST RATES

The Inland Revenue has increased the use of money interest rate from 13.08% to 14.24%. Any unpaid tax you may have will be charged interest at 14.24%. This interest is fully deductible as a business expense.

The credit rate for interest has increased also, from 5.71% to 6.66%. Generally if you are a company or a trust and you overpay your provisional tax, you will receive interest at 6.66%. No Resident Withholding Tax will be deducted as the Inland Revenue has deemed this too difficult to administer.

LATE TAX PAYMENTS

For one reason or another, clients can be late filing their tax returns with the required payment attached (GST, PAYE, etc). Or, their return may have been filed, but they cannot afford to pay the tax at the time (Income Tax).

The Inland Revenue has in the past allowed the taxpayer to set up an instalment arrangement and delay their tax payment to around the 20th of the following month. Although, experience has led us to ask for a payment date of around the 25th of the month. This then allows for a 'couple of days grace' for postage and handling which can be slow on occasion.

All it takes is a phone call to set up an instalment arrangement. There is a late filing fee of 1% if the application is made in time and any interest will be charged at 14.24%. Please note that you must have no outstanding tax returns of any type at the time.

Please contact our office if you would like help with the set up of an arrangement.

PAID PARENTAL LEAVE – SELF EMPLOYED

The paid parental leave has been opened up to self employed people for some time. Fourteen weeks of paid leave is available from the Government. As a Chartered Accountant we may be called upon to make a declaration to support your claim.

Paid parental leave can be applied for with biological and adoptive births. The parent must have worked at least 10 hours per week for 12 months before the leave is taken. If you wish to take more leave for subsequent children you can do so but you must wait at least six months between returning to work after having your last child and starting leave for your next child.

Depending on the value of your wages received, the minimum weekly allowance will be \$112.50 before tax and the maximum \$391.28 before tax. To get the minimum you must still have worked more than 10 hours per week.

The initial entitlement to receive the paid leave is with the mother of the child. However, this can be split and some leave applied to the father. Also, if your partner is employed, they can take up to two weeks unpaid paternity leave if they had 12 months continuous service, or one week for 6 months continuous service.

You must take leave from your business in order to receive the paid leave. However, you can maintain some duties to ensure the business runs as it did prior to the new child arriving.

To ensure you receive the paid leave in a timely manner we would suggest you apply for the leave some months in advance.

PAID PARENTAL LEAVE – EMPLOYERS OBLIGATIONS

As an employer you need to be able to inform an employee of their entitlement to paid parental leave. If you can't, we can always help in this area.

The employee needs to inform you in writing of the prospect of them taking paid parental leave. The notice must be given at least three months before the leave is due to be taken, with a doctor or midwife certificate included. The notice must state the type of leave and when they plan to take the leave.

The employee is also entitled to ten days special leave when they become pregnant to allow them to make doctor and midwife appointments and scans, etc.

At this stage you can ask for more information and you have 7 days to do so. The employee has 14 further days to provide this information. The employer then has another 21 days to consider and either accepts or declines the

application. To decline you need to state the reasons why and do this in the required period of time.

The position vacated then needs to be kept open for a period of 12 months allowing the new parent to return. The employer can argue that the position is a 'key position' that cannot be filled by temporary labour. This situation is fairly rare.

After the paid parental leave has started the employer must write to the employee to confirm the arrangements. This must be done within 21 days. Included in the letter is the proposed date of return to work. Also a reminder that the employee must write to the employer 21 days before they are due to commence work, stating whether they intend to restart work or not return.

KIWISAVER – SELF EMPLOYED

In our last newsletter we outlined KiwiSaver and the implications for employees looking to join. We will now discuss the issues for those self employed workers wishing to take part.

The Government still helps self employed individuals with a kick-start deposit of \$1,000 into the scheme of their choice.

Remember, funds must remain in the scheme until you are 65, or for a minimum of 5 years. Therefore if you are 62 and decide to contribute, you will not get the funds until you are 67. If they are drawn out earlier you will lose the Government contribution. You cannot join the scheme after the age of 65.

The Government will pay a matching tax credit of up to \$20 a week from the time you start making contributions.

The Government will also subsidise the investment provider's fees by \$40 a year. We will wait and see whether this becomes a drop in the bucket for those staying in for long periods. As your investment increases, a portion of the fees are linked to the size of your investment.

After being a member of the scheme for 3 years you can withdraw all or part of the savings to pay for your first home. This excludes the \$1,000 kick-start.

Be aware that when selecting a scheme provider you would want to choose a reputable scheme that can carry out most investment functions 'in house'. For instance, they can trade on the share market and don't rely on other businesses or schemes to carry out their investment activities.

The on-charging of fees becomes a very costly portion of the fees paid. You will not see these fees as they are already deducted from your investment by the firms contracting to your investment provider.

KiwiSaver has a lot of plus's but also a lot of minus's. No one can give you definitive answers to your questions because the events that will determine the success of your investment have not yet happened.

DEBT REPAYMENT

Repaying debt that attracts a high rate of interest is sometimes the best investment you can make. Credit cards, loan sharks and fringe lending institutions approve easy finance but the costs are crippling. If you have a credit card overdrawn attracting over 20% interest, the repayment of that card constitutes a 20% investment savings. If you are considering contributing to Kiwi-Saver, first you must clear yourself of these onerous debts.

Any investment institution will obtain moderate returns in today's market. When the return is achieved, first they deduct the investment portfolio fees before the Government taxes you on the profit. You would need to earn over 30% return on investments to justify having a credit card overdrawn. This is before late payment penalties which will be incurred if no payment is made at all. The minimum payment *always* needs to be made.

Those with mortgages with trading banks also need to analyse their net investment when deciding to repay their mortgages versus contributing to a superannuation scheme. You will not be taxed on repaying your mortgage and your house is appreciating in value all the time. There are more benefits from Kiwi-Saver for those who have never owned a home.

EMPLOYMENT AGREEMENTS

Since the 2nd October 2000 it is illegal not to supply your employees with an employment agreement. Any new or existing staff must have a written employment agreement so each party has guidelines of their duties to each other.

For instance, hours of work, holidays, sick leave, bereavement leave, etc. If a dispute was to arise and an employment agreement did not exist, the employment court would sway heavily on the side of the employee.

For example, you employ a labourer to complete tasks to help you focus on more important aspects of your business. The staff member is required to use the company vehicle to carry out deliveries and pick ups.

One weekend the staff member loses their driver's licence. They now cannot carry out the duties they were hired to complete. You fire them, because you cannot afford to have them idle or run them around while their licence is suspended. Having a licence was part of the conditions of employment.

The staff member consults a lawyer who finds out that a written agreement does not exist. The lawyer will then instruct his/her client to sue for unlawful dismissal as there was not a written agreement stating a driver's licence was necessary for the job.

Now, what sort of financial penalty will the courts dish out for this oversight? Ten, fifteen, twenty thousand dollars? The staff member will get their lost pay if they haven't worked

since and a payout for hurt and humiliation. If the court hearing is 6 months after the dismissal, what value is 6 months wages? Add to that a token sum for the hurt and humiliation factor and the associate court costs and legal fees to defend yourself.

The law is swayed toward the employee to ensure that they are treated fairly. The onus is on the business owner to ensure employment procedures are carried out correctly. An employment agreement is a relatively simple thing to construct. Contact us if you need any guidance with employment related matters.

COMPANY TAX & FORMATIONS

The Government has cut the company tax rate from 33 cents per dollar to 30 cents per dollar. The new rate will start to apply from 1st April 2008 and will apply to the 2009 financial year (we are in 2008 now).

This will mean for most of you with companies that you need to consider any income that can be delayed and billed on or after 1st April 2008 will only attract tax at 30c instead of 33c. The timing issue is the date the invoice is written.

If your balance date is 31st March 2008 and you issue an invoice before this date, even though the payment may not be received until April or May, it will need to be returned in the 2008 financial year. Therefore, to avoid the extra tax you will need to issue the invoice after 1st April.

The cost of forming a company online has risen. Previously a name approval and registration was \$70. This has increased to \$150. If you were to apply manually or with the paper forms, the process would cost \$250.

These charges are set by the Ministry of Economic Development and do not include the minutes and resolutions prepared from the inaugural company meeting and getting shareholders and directors consents signed and returned.

GST – PROVISIONAL TAX ALIGNMENT

In the February newsletter we discussed the alignment of GST with your business income tax year end. For instance, if you have a March balance date and your next GST return covers the two months of July-August your periods do not match.

As your GST ends on an even month, August, the eighth month of the year, the Inland Revenue will make you complete a one month return. This will make your last return for the 2008 financial year as either February-March, or March by itself.

The same will happen with six monthly GST periods. The Inland Revenue has stated that if a voluntary alignment is not completed, a forced alignment will be made at a later date. We are ensuring that any new or changing GST periods will be aligned with their balance dates.

FBT – DISCOUNTED GOODS

As an employer you may supply goods to staff that may be discounted in return for their hard work and loyalty. This includes shareholder-employees of their own company.

You can provide employees with a maximum of \$200 of free or discounted goods or services per quarter without having to return FBT. This may include the use of a company vehicle. If you breach this value, the entire amount is subject to FBT.

DONATION REBATE CHANGES

There are some changes due to take place next year concerning the amount of donation rebates that can be claimed within the financial year. The financial year for donations starts on 1st April and ends 31st March of the following year. The financial year for donations is set, even if your balance date is different from 31st March.

From the 1st April 2008 the rules will change. The maximum amount of donations available for the rebate will equal your individual income for the year. Individuals will be able to claim a rebate equivalent to the amount of tax they pay for their current income tax year.

Companies will be able to claim a donations deduction up to the level of net income for the current financial year.

Many farmers have donated calves to charities in the past. A novel way of this donation taking place is a charity taking a bobby calf and turning it into income. The Inland Revenue had stated that this situation would see the farmer selling the calf to the charity for the value of the donation. GST and income tax would then be due on the proceeds of the sale.

This is a ridiculous situation and we would only advise that because it is not a cash donation by the farmer, we would ignore the transaction completely. You can only claim a rebate on a cash donation.

COMPUTER DATA SECURITY

Every so often clients have problems with their data being lost or have serious trouble retrieving it from an ailing hard drive. The easiest form of protection is to back up crucial data on a regular basis.

This can normally be carried out by backing up to tapes or disks. The backup disks or tapes then need to be kept in a secure place off site. If you were burgled and the disks were sitting next to the computer and both were stolen, you would lose all of your data.

There are other options for more serious users such as having a data management firm take back ups of your disk drives remotely. They would dial into your pc at some stage of the day and transfer your data to a secure location.

The most common forms of data loss are hardware failure and human error. More sophisticated viruses are also a threat.

FINISH WITH A JOKE

Once upon a time there was a young girl named Helen who bought a donkey from a farmer for \$100. The farmer agreed to deliver the donkey the next day.

When the farmer drove up the next day, he said, "Sorry miss, I have some bad news. The donkey is on my truck, but I'm afraid he's dead."

Helen replied, "Well then, just give me my money back."

The farmer said, "I can't do that. I went and spent it already."

Helen said, "OK then, just load the donkey up anyway."

The farmer asked, "What are you gonna do with him?"

Helen said, "I'm going to raffle him off."

The farmer exclaimed, "You can't raffle off a dead donkey!"

But Helen, with a big smile on her face, said "Sure you can. Watch me, I just won't tell anybody that he's dead."

A month later the farmer met up with Helen and asked, "What happened with that dead donkey?"

Helen said, "I raffled him off. I sold 500 tickets at two dollars a piece and made a profit of \$798.00, less my \$100 purchase price."

Totally amazed, the farmer asked, "Didn't anyone complain that you had stolen their money because you lied about the donkey being dead?"

Helen replied, "The only guy who found out about the donkey being dead was the raffle winner, when he came to claim his prize. So I gave him his \$2 back plus \$200 extra, which is double the going value of a donkey, so he thought I was a really great girl."

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