

60 Moorhouse Street, PO Box 34, Morrinsville
 Telephone: (07) 889 7091 Facsimile: (07) 889 3590
 Toll Free Number: 0508 TONYBROWN
 (0508 866 927)

Email: mail@tonybrown.co.nz

**FINANCIAL FEATURE
 FEBRUARY 2009**

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 the details and we will try to accommodate your request.

OFFICE MATTERS

8 Digit IRD Numbers

When filling in your 8 digit IRD number, leave the first box blank. The new IRD numbers have 9 digits. The only time you should enter a number in the first box is if you have the relatively new 9 digit IRD number starting with 100.

Late Filing Fees

The Inland Revenue has in the last year started charging late filing fees on GST returns. The fee is \$50 if your return is received late. The IRD will give the tax payer one warning before charging the fee.

Even if your return is a refund and it is received late, you may find you receive back \$50 less refund than you expect. Remember the last day for filing GST is the 28th of the month. There are 2 exceptions, November's GST is due 15th January and March's GST is due 7th May each year.

Archived Papers

We end up holding on to at least 1 year of most clients' papers until we have completed the annual financial statements.

We attempt to clear these as frequently as possible to ensure we have enough space available.

END OF YEAR ADJUSTMENTS

We are fast approaching the end of your financial year and there are certain issues we need to continually monitor to ensure the most accurate recording of information is completed.

Trading Stock is a common item that can fluctuate from year to year and is easily over or under stated. Work in progress

INDEX	PAGE
OFFICE MATTERS	1
END OF YEAR ADJUSTMENTS	1
EMPLOYEES BREAKS & BREASTFEEDING LAWS	2
INCOME TAX RATES & THRESHOLDS	2
90 DAY EMPLOYEE TRIAL PERIOD	2
INTEREST RATES	2
EMPLOYEE RELOCATION/MEALS	2
WEBSITES	3
PROVISIONAL TAX – RATIO OPTION	3
MINIMUM WAGES RATES	3
USE OF MONEY INTEREST RATES	3
LIVESTOCK VALUATIONS	3
BLOODSTOCK VALUATIONS	4
SCHOOL CHILDREN WAGES	4
FINISH WITH A JOKE	4

is work that is undertaken before balance date that you charge after balance date. This needs to be estimated to allow work completed within the just finished financial year to be recorded within that year.

Debtors and creditors and invoices that are due to be paid or received.

Debtors are those invoices billed at the end of the month, i.e. 31 March or 31 May each year. If you wait and bill your sales out after the end of the year, that work completed then becomes work in progress as stated above. This also needs to be detailed as a year end adjustment.

Creditors are those who you owe as at balance date and these create an expense as opposed to debtors who increase income earned.

When purchasing assets there is no distinct benefit in waiting to the end of the year to complete the purchase. Decades ago, purchasers received a full year of depreciation for purchasing an asset at the end of the year. This was decreased to a 6 month claim, but for the last decade or so, you can only claim the month and subsequent months of purchase.

Therefore if your balance date is 31 March and you purchase an asset in March, only a one month depreciation claim is available.

This situation is worsened if there is a trade-in and a profit occurs. You may end up paying tax on the trade-in profit with only one month claim on your asset purchase. Contact us if you need help with your decision.

EMPLOYEES BREAKS & BREASTFEEDING LAWS

These new laws come into effect on the 1st April 2009. Every employee is entitled to a paid rest break when working over a continuous period.

- One paid 10 minute rest break for a period of work between 2 and 4 hours.
- One paid 10 minute rest break and one 30 minute unpaid meal break if the employee works between 4 and 6 hours.
- Two paid 10 minute rest breaks and one 30 minute unpaid meal break if the employee works between 6 and 8 hours.
- If they work for more than eight hours, the above rules 'roll over' and apply to the next period of work

Most employers factor work breaks in for their employees already. These laws are to protect workers from abusive employers.

Employers will also need to allow for mothers to breastfeed or express milk in the workplace. Employers can take into account 'operational requirements' and 'availability of resources' when negotiating arrangements for employees.

INCOME TAX RATES AND THRESHOLDS

The Labour Government made changes to the way tax payers were taxed on 1st October 2008. Basically the lowest income rate changed from 15 cents per dollar, to 12.5 cents per dollar and affects all individuals income earned up to \$14,000.

Companies and Trusts are on fixed income tax rates and are not affected. Trusts remain on 33 cents per dollar and Companies on the new 30 cents per dollar rate.

These rates were outlined in a table set out in the August 2008 newsletter (Contact us if you would like a copy).

90 DAY EMPLOYEE TRIAL PERIOD

On 12 December 2008, the National Government enacted the Employment Relations Amendment Bill. This allows for a 90 day trial period for businesses with 19 or less employees.

This would mean the employer and employee sign a contract to have a 90 day trial period. At the end of this period the employee's contract can be terminated with the employer free from a personal grievance claim, as long as the employer has acted in good faith.

The agreement is voluntary (the employer may not enforce

it) and must be part of the employment agreement. We cannot stress enough the importance of having a signed employment agreement for every employee. The clause must be present within the contract to ensure it is enforceable.

The employee is entitled to raise issues with the employer and expect the employer to respond to any concerns.

The contract must be terminated within the 90 day trial period, even if the employee still works beyond the 90 day period. The employee must not have recently been employed by the employer to ensure this rule is not abused.

INTEREST RATES

"To break or not to break"; fixed rate mortgages are on most financial commentators lips at the moment. Banks are taking a hard nosed approach on penalty interest charged if you decide to break your mortgage.

Basically they are charging the mortgagor for breaking the loan and resorting to floating, or re-fixing at a lower rate. The loan you are breaking will be loaned back to you and the bank will try and re-coup their lost income.

The break fee will need to be paid immediately, or capitalised on the existing loan. This means you may end up paying interest on the break fee also. You will need to factor this into your decision when deciding to break your loan.

Banks will be feeling a little exposed at the moment with recent mortgages on 100% of the value of a new home. Some homes will have lost 20 – 30 % of the value, leaving the bank susceptible to mortgagee sales.

This also applies to loans made to farmers purchasing livestock at the inflated rates we have seen over the last 18 months.

Contact our office if you are uncertain of the consequences of breaking fixed mortgages.

EMPLOYEE RELOCATION / OVERTIME MEALS

A recent release from the Inland Revenue has stipulated that payments made to employees to relocate their employment and overtime meal allowances are exempt from tax.

Previously the Inland Revenue had attacked payments made to employees through income tax in the employee's hands and fringe benefit tax in the employer's hands.

The Inland Revenue has dropped trying to penalise employees and employers and have applied this ruling back to the 2002 – 2003 financial year.

WEBSITES

If you are thinking of constructing a website, there are numerous businesses that will help you complete this. All of the expense is fully deductible and no capitalisation of the cost is required.

Visit the www.tonybrown.co.nz website for up to date information on financial services, due dates for tax, etc.

PROVISIONAL TAX - RATIO OPTION

The Inland Revenue has provided tax payers with a method of paying their provisional tax from the 2009 financial year. The tax payment is related to business sales for the GST period returned. Therefore you must be GST registered.

The provisional tax is worked out on the total GST sales, less any capital (asset) sales made for the period. A ratio is worked out by the Inland Revenue and provided to the taxpayer.

There are limits to which tax payers can use this system. Your organisation's residual tax due for the year must not be in excess of \$150,000. You must have an income tax history with the Inland Revenue for them to base your ratio percentage on.

It suits tax payers who have seasonal fluctuations as they are paying income tax when the cashflow is high. You must continue to follow the programme, or use of money interest and penalties may apply.

If you believe this system of payment would benefit your organisation, application to use the system must be made before the end of your financial year. If the Inland Revenue accepts your application, your GST returns will include a provisional tax calculation on the reverse side.

Only one or two monthly GST filers can use this system. Contact our office for further information.

MINIMUM WAGE RATES

The minimum wage rates will change again on the 1st April 2009. The current Government were reluctant to increase the rate for the coming year, but have increased the adult wage by 50 cents.

The adult wage will increase from \$12.00 per hour to \$12.50. A new entrant, those under 18 who have worked for less than 90 days with you, increase from \$9.60 to \$10.00. Those employees under 18 who have worked for longer than 90 days are transferred on to the adult wage.

USE OF MONEY INTEREST (UOMI) RATES

The Inland Revenue decided to relax the rates applicable for UOMI. The current rates that apply to unpaid taxes and penalties stands at 14.24%. For overpaid tax you will receive 6.66%.

These rates decrease to 9.73% (14.24) for under paid tax and 4.23% (6.66) for over paid tax.

With the official cash rate plummeting and the effect the high interest rates will have on businesses, the changes will take effect from 1st April 2009.

LIVESTOCK VALUATIONS

Herd Scheme

There are always peaks and troughs with dairy farming, but not as steep as in the past 2 seasons. The national average market value (NAMV) or herd scheme valuation can identify this particularly well.

All the rates quoted below are for Mixed Age Friesian dairy cows.

In 2004 the NAMV was \$817, down from the previous high of \$1,313 in 2001. The 2004 trough increased in value to \$1,245 in 2007 and jumped to a whopping \$2,150 in 2008.

The 2008 value was curtailed by an historic drought and could have been in the vicinity of \$2,400 - \$2,600. As the NAMV is taken from herds sold at the 30th April, the country was still in the grips of the drought.

The 2009 NAMV will be very interesting. Currently the rural areas still need rain and if it doesn't arrive, we may see another drop toward the end of April affecting this year's values.

It is widely expected the 2009 Friesian Mixed Age cow value will decrease. Currently we would expect it to settle around the \$1,700 mark, but without rain, it could drop even further. The NAMV's are released toward the end of May 2009 for the 2009 financial year.

National Standard Cost

Another form of valuation is the cost based National Standard Cost (NSC). The cost determined by the Inland Revenue for your organisation to rear a dairy yearling female or male is \$787.60. This has increased from \$608.60 in 2008.

This seems extravagant for most farmers and we may end up valuing rising 1 year livestock under a market value. The corresponding NSC for a male or female beef rising 1 year is \$261.60, a difference of \$526.00 between dairy and beef!

As in previous years we will be waiting with bated breath on the release of the NAMV's .

BLOODSTOCK VALUATIONS

The recent Karaka Bloodstock sales were affected by the recent worldwide economic crisis, but the industry still remains positive for the future of breeding in New Zealand. The first two days featured the Premier Sale, with the cream of the crop on offer.

The Premier Sale figure fell with the first day average of \$150,136 (2009) down from \$199,265 (2008) falling 25%. The clearance rate fell from 86% (2008) to 73% (2009). That is, there were more lots passed in this year than in 2008.

The top price for the sale was a colt by Encosta De Lago – Giovana, which was purchased for \$800,000. This is well down from the \$2 million dollar lot sold in 2007.

The Select Sale ran for 3 days and demand again fell. The average fell to \$37,894 (2009) from \$59,709 (2008). The clearance rate fell to 70% (2009) from 79% (2008). Top sire O'Reilly proved in strong demand as he had at the premier sale.

The Festival Sale ran for the final two days of the Karaka sale with the average down to \$11,997 (2009) from \$16,857 (2008).

As with dairy livestock values we saw a peak for the bloodstock code in the 2008 year where record average values were reached. Values for bloodstock have settled to around those figures recorded in 2007.

Any bloodstock sold at the recent Karaka sales can register to enter the Karaka Millions 2 year old race held at Eilerslie on Auckland & Northland anniversary weekend. Congratulations to 'The Heckler' who won this year's race.

SCHOOL CHILDRENS' WAGES

Children, while still at secondary school can earn wages of up to \$45 per week without attracting PAYE.

If your children, or other children work for you, \$2,340 (\$45 x 52 weeks) can be paid to them without accounting for PAYE. You must still retain some kind of record of when the children worked.

The Inland Revenue have expressed in the past that they would like to see the wage direct credited, however there is no law to say cash cannot be paid.

If you need this, or any other issue clarified, please contact our office.

FINISH WITH A JOKE

Common Sense

Today we mourn the passing of a beloved old friend, Common Sense, who has been with us for many years. No one knows for sure how old he was since his birth records were long ago lost in bureaucratic red tape.

He will be remembered as having cultivated such valuable lessons as knowing when to come in out of the rain, why the early bird gets the worm, life isn't always fair, and maybe it was my fault.

Common Sense lived by simple, sound financial policies (don't spend more than you earn) and reliable parenting strategies (adults, not children are in charge).

His health began to deteriorate rapidly when well intentioned but overbearing regulations were set in place. Reports of a six-year-old boy charged with sexual harassment for kissing a class mate; teenagers suspended from school for using mouthwash after lunch; and a teacher fired for reprimanding an unruly student, only worsened his condition.

Common Sense lost ground when parents attacked teachers for doing the job they themselves failed to do in disciplining their unruly children. It declined even further when schools were required to get parental consent to administer Aspirin, sun lotion or a sticky plaster to a student.

Common Sense finally gave up the will to live when you couldn't defend yourself from a burglar in your own home and the burglar can sue you for assault.

Common Sense was preceded in death by his parents, Truth and Trust; his wife Discretion; his daughter Responsibility; and his son Reason. He is survived by three stepbrothers; I Know My Rights, Someone Else is to Blame, and I'm a Victim.

Not many attended his funeral because so few realised he was gone.