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**FINANCIAL FEATURE  
 AUGUST 2008**

**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**

**Eftpos**

We now have an Eftpos unit here in the office for those of you that would like to pay your accountancy fees this way. Please note that we are able to accept Eftpos cards but not credit cards. **Please also note that you cannot pay any tax through our Eftpos system.**

**Postcodes**

New Zealand Post issued new postcodes earlier in the year. These new postcodes are unique to everybody's geographical region/postal sorting area and box lobby or rural delivery area. Please ensure that you use the new postcodes, especially when sending mail to the Inland Revenue Department. This will ensure that your tax payments are processed and delivered efficiently. A comprehensive list of all the postcodes is available at [www.nzpost.co.nz](http://www.nzpost.co.nz).

**Inland Revenue Payment Dates**

The Inland Revenue has asked us to pass on that it is important to ensure when payments are being made to apply them to the correct period.

In particular, online payments need to be allocated to the correct period to ensure transfers are not required at a later date. If you are in doubt, please ask as getting penalties and interest reversed can take time to rectify.

**VEHICLE LOG BOOKS**

Vehicle logbooks are required to be kept for a period of three months, every three years. Keeping a logbook enables the user to accurately differentiate between business and private travel costs, as opposed to estimating. The Inland Revenue will not accept estimates and may disallow the % claim you have made.

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If you have never kept a logbook for your work vehicle or require some guidance on this matter, please contact our office. We also have a supply of logbooks here in the office that are available for purchase.

**CHARITABLE DONATIONS**

As we had alerted you in previous newsletters, the Charities Act has changed the way individuals can claim tax rebates on donations made. From the 1st April 2008, an individual can claim a rebate equivalent to the amount of income tax they had paid in the year of which the donations were made.

For example, if you earn \$38,000 and give it all away to a charity, a rebate of 33.33 % should mean you get a refund of \$12,665. However your personal tax due on \$38,000 is \$7,410, which is the limit of the donation rebate you can claim.

The Inland Revenue has stated that you can claim a rebate for donations made to Registered Charities. You can also claim donations made to Inland Revenue approved organisation with Donee status.

To find out more, visit the websites [www.charities.govt.nz](http://www.charities.govt.nz) and [www.ird.govt.nz](http://www.ird.govt.nz).

**REDUNDANCY**

If you are in the unfortunate situation of being made redundant you may be able to claim some relief from the higher marginal tax rate it may catapult your income into.

There is a maximum allowable benefit of \$3,600 that can be claimed. Please ensure that if you are made redundant and are paid out a lump sum, you contact our office to help you with calculations.

**RECENT DEVELOPMENTS – INLAND REVENUE**

The Inland Revenue has recently reviewed the thresholds to guide taxpayers in the way the individual taxes are returned. The Inland Revenue will more than likely introduce the upgrades on the 1st April 2009, affecting the 2010 financial year.

These include;

- The increase of PAYE once a month filing from \$100,000 to \$250,000 per annum.
- Fringe Benefit Annual Return filing from \$100,000 PAYE to \$250,000 per annum.
- The ‘safe harbour’ option for individual’s provisional tax from \$35,000 to \$50,000 residual income tax.
- The threshold for GST registration to be lifted from \$40,000 to \$50,000.
- The threshold for 6 monthly GST registration to be lifted from \$250,000 to \$500,000.
- The low value trading stock level from \$5,000 to \$10,000.

The low value trading stock value, allows those with stock on hand under the threshold to carry over last year’s stock on hand.

New rules are being introduced concerning legal expenses. For example, if you pay legal expenses of less than \$10,000, you can expense the entire amount. Currently if you buy a property, we are obliged to separate out the portion relating to the purchase and the portion relating to the mortgage, if any.

The part relating to the property purchase is capitalised and added to the value of the property. The value relating to the mortgage is claimed as an expense in the year of purchase. This reduces your income in the year of the cost.

If the expense is capitalised against the purchase of a property, a certain amount needs to go to increase the value of the land. Land is not depreciated and therefore this expense is lost, unless you are in the business of property development. In the future all legal expenses will reduce income in the year the expense is incurred, up to \$10,000.

As with legal expenses, there is a change to the way you can claim entertainment expenses. A threshold may be introduced to allow you to claim 100% of your entertainment expenditure up to a certain dollar value. Currently the taxpayer can only claim 50% for GST and Income Tax.

The Inland Revenue is looking to simplify the Fringe Benefit tax rules again. This usually means an extended amount of restrictions and more rules to adhere to, defying simplification.

These will more than likely only affect those with less than \$1.3 million and it will do away with work related vehicles. Your business will pay FBT on work related vehicles, but relaxes the claiming on vehicles not used entirely for business. i.e. other vehicles could claim 100% of running expenses even though they are not entirely business related. Work use would need to account for more than 75% of the vehicle’s use.

**TAX CHANGES – OCTOBER 2008**

The Government introduced tax changes in the latest budget to come into effect on 1st October 2008. It seems the general election will be put off until after this date to get the most mileage out of the changes. These are personal cuts and do not affect companies and trusts.

Personal income tax thresholds have increased across the board. The lowest marginal tax threshold will increase from \$9,500 to \$14,000. This means income for all of us up to \$14,000 will be taxed at 12.5%. Previously the rate was 15% up to \$9,500.

The previous threshold of \$38,000 increases to \$40,000. All earnings from \$14,000 to \$40,000 will be taxed at 21%.

Current Rates	%	From 1 October 2008	%
\$0 to \$9,500	15.0	\$0 to \$14,000	12.5
\$9,501 to \$38,000	21.0	\$14,001 to \$40,000	21.0
\$38,001 to \$60,000	33.0	\$40,001 to \$70,000	33.0
\$60,001 and over	39.0	\$70,001 and over	39.0

Further changes are scheduled to be made, further increasing the thresholds in 2010 and 2011.

From 1 April 2010	%	From 1 April 2011	%
Up to \$17,500	12.5	Up to \$20,000	12.5
\$17,501 - \$40,000	21.0	\$20,001 - \$42,500	21.0
\$40,001 - \$75,000	33.0	\$42,501 - \$80,000	33.0
\$75,001 and over	39.0	\$80,001 and over	39.0

The Government is looking to introduce a lower level of tax on secondary earnings. New PAYE tables will be issued in September to cope with the 1 October changes. Let us know if you don’t receive a booklet and we will ensure one is sent to you. Your provisional tax will also be affected by the changes and we will keep you informed of these changes in future newsletters

**COUNCIL RATES REBATE**

The rates rebate scheme has increased the thresholds for low income earners claiming a rebate. The maximum rebate has increased from \$500 to \$530. The income threshold has increased from \$20,000 to \$21,180.

You may still be eligible for a rebate if you earn above \$21,180. This is calculated on the size of your rates bill and the number of dependants you have under your roof.

**MAXIMUM KIWISAVER EMPLOYER TAX CREDIT**

There has been some confusion concerning the KiwiSaver Employer Tax Credit (ETC) which came into effect on 1 April 2008 and is designed to offset the Compulsory Employer Contribution (CEC). The current legislation states that employers are entitled to claim a maximum ETC of up to \$20 per employee per week.

However this has caused some people to over claim their ETC when there is an extra pay period. The correct formula to use is: take the number of days in the month, divide it by 7 and then times that amount by 20.

For example, you have an employee who is contributing to the KiwiSaver scheme and they were paid five times during the month of July. They are paid \$2,000 gross per week and therefore the 1% CEC you are required to contribute is \$20 per week. Using the above formula you are only able to claim back an ETC of \$88.57, not \$100, as follows:

$(31/7 = 4.43 \times 20 = \$88.57)$

Below is a table which outlines the maximum ETC you are able to claim depending on the number of days in the month.

Number of days	ETC Claimable
28 days	\$80.00
29 days	\$82.85
30 days	\$85.71
31 days	\$88.57

At the moment this affects contributions from employees earning over \$93,000 a year or where an employer contribution (compulsory and voluntary) exceeds \$20 per week. The Inland Revenue Department is putting a new square-up policy in place from April 2009 to ensure that employers are not missing out on their full entitlement.

**WITHHOLDING PAYMENTS TO CONTRACTORS**

Any individual, partnership or trust that is providing your business with a labour only service should have withholding tax deducted from their income and paid to the Inland Revenue. This is completed in a similar way to returning PAYE.

Therefore, a relief milker, fencer, fruit picker or shearer, etc who provides you with labour should have withholding tax

deducted at the rates stipulated on the IR 330 form. There are around 32 activities to categorise your labour unit.

There is an exception, where the labour unit holds a Tax Exemption Certificate. No withholding tax needs to be deducted from withholding payments. If the labour unit holds a certificate, you would be wise to copy the certificate and keep it with the invoice when paid.

It seems an unfair burden to put on the business owner to pay withholding tax as it should be the responsibility of the Contractor. Nevertheless, the Inland Revenue will place the responsibility on your business if you neglect your duties in this area.

**PORTFOLIO INVESTMENT ENTITIES (PIE's)**

With the introduction of KiwiSaver and the numerous investment vehicles that have sprung up with it, it is important to ensure the Portfolio Investment Entity has your correct income tax rate. Your Portfolio Investor Rate (PIR) is influenced by your marginal tax rate.

The PIR for an individual is either 19.5 % or the top rate of 30%. Trusts can elect the top rate of 30% or 0%. You have the ability to choose from your 2007 or 2008 income when calculating the PIR. It may be advantageous to use the 2007 income level which may show a lower rate of income tax.

If your correct PIR is listed with the PIE, this income is excluded from your tax return. If the PIR is too low, you then need to include the PIE income in your tax return. On the other hand, if the PIR is too high and you have over paid your tax, you cannot opt to have the income and overpaid income tax put into your tax return.

**FLEXIBLE WORKING HOURS**

The Department of Labour recently passed the Employment Relations (Flexible Working Arrangements) Amendment Act 2007 which came into effect on 1 July 2008.

The Act gives employees with caring responsibilities a statutory right to request flexible working hours. It will also change the way some employees and employers make and respond to requests for flexible working arrangements.

To be eligible for the "right to request", an employee must have the care of any person and have been employed by their employer for 6 months prior to making the request.

When making the request, the employee must explain how the variation in their working hours will help them provide better care for the person concerned.

The new law requires employers to consider the request and provides the only grounds upon which they can refuse a request. Also a process is provided for how requests are to be made and responded to and also for resolving disagreements which may arise from time to time.

Detailed information on the new Act and how it will affect employers and employees is available from the Department of Labour.

## INCOME SPLITTING - FOR FAMILIES

The Government has released a discussion document which will allow husbands and wives and like relationships, to split their joint income. This is targeted more at wage and salary workers with dependants. In a typical situation the husband works and the wife looks after the children and may undertake some part time work.

Example; the husband works and earns \$70,000 per annum. The wife works part time and earns \$10,000. The husband is taxed at 39 cents for the \$10,000 he exceeds \$60,000, the 33 cent threshold. The wife is taxed at 19.5 cents as she is under \$38,000.

If their income is split they will both earn \$40,000. This will tax part of the husband's income in the wife's hands. The bulk of both of their incomes will be taxed at 19.5 cents, instead of the husband at 33 and 39 cents.

As the title of this article suggests, the proposed legislation only relates to those couples with young families. The cost to the Government to allow splitting for all families would be too high. It is looking to apply extra funding to couples to supplement any working for families tax credits. It would only apply to couples with children 18 years or less.

This system would not be compulsory in case the family was disadvantaged in any way. Submissions closed on this discussion document on 30th June 2008. It would more than likely apply from 1st April 2009. However, commentators do not believe the document will proceed through parliament and become law. We will keep you posted.

## NINE DIGIT IRD NUMBERS

The Inland Revenue Department started issuing nine digit IRD numbers earlier this year. There are a couple of things to take note of with the new numbers:

- All current eight digit numbers remain unchanged.
- People with eight digit IRD numbers need to **leave the first box blank** when filling in IRD forms where nine boxes are provided.

## OVERSEAS TRAVEL

Many people take trips overseas where business is mixed with pleasure. Knowing how to apportion the travel costs can sometimes be difficult. In August 1995 the Inland Revenue Department published its view on the apportionment of overseas travel.

As a rough guide, the article says that there are three possibilities:

### **Main purpose is business**

When the holiday element is minor and incidental to the business purpose of the trip, the full claim for the cost of the airfares is allowed. The apportionment for food and accommodation is based on the ratio of the number of days worked to days of holiday.

### **Purpose is mixed holiday and business**

Apportion airfares as well as food and accommodation. The time spent on business might be less than the time spent on holiday.

### **Main purpose is holiday**

No claim for airfares and apportion the food and accommodation to claim for income tax.

GST can only be claimed on internal flights, as overseas travel does not have a GST portion added to it.

## FINISH WITH A JOKE

An elderly man in Benneydale had owned a large farm for several years.

He had a big pond at the back of the farm. It was a nice shape and size for swimming, so he fixed it up with some picnic tables and planted some apple trees.

One evening the old farmer decided to go down to the pond and pick some apples, so he took a bucket with him.

As he approached the pond he heard voices shouting and laughing with glee. As he got closer he saw a bunch of young women skinny dipping in his pond.

He made the women aware of his presence and they all went to the deep end. One of the women shouted to him, "We're not coming out until you leave!"

The old man frowned and said "I didn't come down here to watch you ladies swim naked in my pond."

Holding the bucket up he said "I'm here to feed the alligator."

**Moral: Some old men can still think fast.**

