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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 the details and we will try to accommodate your request.

OFFICE MATTERS

Staff Changes

You may have noticed that we have employed a new receptionist. April Dornan joined our office in April after completing her time at Morrinsville College. April has had part time employment in the past with this position being her first full time job.

So now you may be wondering what happened to Rebecca?

Well, Rebecca has taken a step towards the accounting side of things and is now working in our back office as an accounting technician. Some of you will have regular contact with her in relation to your GST Returns and end of year accounts.

Tax Payments – Internet Banking

These days, most banks offer a facility within their internet banking where you are able to make a tax payment directly to the Inland Revenue. This is an easy and efficient method of paying tax.

However, please be careful when making these payments as we have recently come across quite a few instances where people have paid taxes through the internet banking and the payments have been credited to the wrong period.

Please ensure that you select the correct tax type and period to avoid any confusion.

Directors, Shareholders and Trustees

The changes in these positions can also be overlooked. If a shareholding changes, an update to the Companies Office register is required.

Directors also need to be maintained to ensure that if a Director needs to be contacted, the details are readily available.

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A change of Trustee can be a little more involved. If a trust owns real estate then Land Information New Zealand needs to be informed so the correct Trustees names are shown on the property's title.

Address and Contact Details

We try to keep up to speed with any client address changes, but from time to time need your help. Generally addresses are kept current, but we may have trouble contacting you from other sources.

Email addresses and mobile phone numbers change a little more often. These are the details that allow us to contact you quickly. If you prefer to be contacted by mobile or email, please contact us to ensure the details we have are current.

The recent movement of sharemilkers, traditionally 1st June, usually signals our busiest time of year for database changes.

RATES REBATE

A subsidy is available for certain ratepayers to reduce the financial burden of the quarterly rates demand. Changes started from 1 July 2009 and the maximum rebate has increased from \$530 to \$550. The annual income threshold has also increased from \$21,180 to \$21,910.

To be eligible, the ratepayer needs to earn less than the new maximum, but can have a set amount deducted from this for dependants within the household. An additional income allowance for dependants remains at \$500 per dependant.

You have until 30th June 2010 to apply for the rebate. Please contact your council's customer services to find out more information and/or apply for the rebate.

VEHICLE LOG BOOKS

Yes, the dreaded log book reminder again. These need to be completed for 90 days every three years. The business percentage is then used when you claim GST and Income Tax on the deductible expenses.

We would suggest that these be completed in your business's busiest time of year. For dairy farming clients, this would be July, August and September. The greater the amount of business use during this period, the greater the tax deductibility in future periods.

Those companies who pay Fringe Benefit Tax will not need to complete a log book as the Company's vehicle expenses are already 100% deductible.

ACCIDENT COMPENSATION CORPORATION

Workplace Safety Discounts

In light of the recent announcement that the ACC is cutting funding for physiotherapist care, here is a way small businesses and the self employed can reduce their exposure to ACC by 10%.

If you can show you have good health and safety management practices you can obtain the discount as well as making your work environment safer. The discount is available to agriculture, construction, fishing, forestry, motor trades, road transport and waste industry.

The discount reduces the work related portion of the levy for a three year period upon acceptance. You will need to complete an annual declaration, basically to confirm you still qualify for the reduction.

To be eligible, your business must have an annual wage bill of \$450,000 or less and 10 or fewer full time equivalent employees. You may need to complete a free industry specific training course along with a self assessment booklet.

For more information on this matter you can contact our office, or apply online at www.acc.co.nz.

CoverPlus Extra

If you are self-employed you may qualify for CoverPlus Extra cover. This is distinguished from CoverPlus, the main difference being that CoverPlus Extra is a more complete cover and releases the individual or business from certain obligations.

If you are covered by CoverPlus, you only receive 80% of your taxable income and you will need to prove your business made a loss during the period of injury.

The complication arises if your businesses income was unseasonably high, for example, before the economic downturn and the 2008 dairy farming season. You may have been injured during this period and not been able to prove your business made a loss.

CoverPlus Extra's premiums are slightly higher, but you will

not have to prove your business made a loss during your injury/recovery time and your cover is for 100% of your taxable income

With CoverPlus Extra, you nominate a level of cover (i.e. \$50,000) and as long as this is within range of your previous year's income, this will become your nominated level of cover.

As stated, the premiums are a little higher, however, for certainty of the level of cover you will receive, the scheme is well worth investigating. Contact our office if you would like an approximate cost of cover under CoverPlus Extra.

RECENT TAXATION CHANGES

Provisional Tax

Provisional Tax is now based on 100% of the previous year's Income Tax. Subsequent to 2009, the Provisional Tax was calculated on 105% of the previous year, or 110% on two year's previous.

To complicate matters, the company Income Tax rate fell from 33 cents to 30 cents per dollar of net income. The Provisional Tax rate was then based on 90% of the previous year's Income Tax.

Goods and Services Tax

The threshold for filing 6 monthly GST Returns has also increased. Previously, the level of gross income stood at \$250,000. This has increased to \$500,000.

Also, the level relating to the use of the payments basis, rather than the invoice basis has increased to \$2 million. The payments basis allows you to rely on returning transactions that are included on the bank statement (paid or received) within your GST period. Invoice basis relies on the date of the invoice which needs to be included within each GST return.

The threshold for filing GST returns has also increased from \$40,000 to \$60,000 from 1 April 2009.

INDEPENDENT EARNER TAX CREDIT

From 1 April 2009, the Inland Revenue introduced a new tax credit which is available to middle income earners. The tax credit is \$10 per week or \$520 per year.

To be eligible for the IETC you must meet all of the following conditions:

- You are an individual who is a New Zealand tax resident
- Your annual income is between \$24,000 and \$48,000
- You or your partner are not entitled to any Working For Families Tax Credits and don't receive an overseas equivalent of Working For Families Tax Credits
- You are not receiving an income-tested benefit, New Zealand Superannuation, Veterans Pension or the overseas equivalent of any of the above

If you are a salary/wage earner the easiest way to claim the IETC is to use the new ME tax code or ME SL tax code (if you have a student loan). Simply fill in a new IR330 tax code declaration and pass it onto your employer.

Self-employed people can also receive the IETC. They will need to claim the tax credit within their annual IR3 Income Tax Return with 2010 being the first year you can do this. For more information on this new tax credit please contact our office.

KIWISAVER CHANGES

The National Government has made some changes to the KiwiSaver scheme from 1 April 2009.

Employers were required to contribute 1% towards KiwiSaver in the 2009 year, rising to 2% in the 2010 year. This is now capped at 2%, whereas the previous rules would have allowed this to increase to 4% in future years.

Similarly, the employee would contribute 4% or 8% of their weekly earnings. They now have the option of contributing just 2% of their weekly earnings.

Also, the Employer Tax Credit and the investment subsidy have been removed. The Employer Tax Credit removal becomes a cost to the employer and the subsidy a cost to the employee (investor).

GST & TAX INVOICES

Goods and Services Tax was introduced in October 1986 under the Goods and Services Tax Act 1985. Originally the tax came into force for those with gross income exceeding \$24,000. This has since risen to \$60,000 in the current year. The tax started at 10% and rose to 12.5% on 1 July 1989.

There are certain levels of detail required when a tax invoice is issued for GST purposes. For invoices over \$1,000 the following must be present;

1. Must state the words 'Tax Invoice'.
2. Name of the supplier and GST number.
3. Name and address of the recipient.
4. Date of the issue of the invoice.
5. A description of the goods and/or service.
6. The quantity/volume supplied.
7. The GST attached to the transaction.

For invoices that do not exceed \$1,000, of the above you are not required to show the recipient. You also are not required to show the GST value, just a statement that it includes a charge of GST.

For values under \$50, only a minimal amount of information is required. A tax invoice is not required, however an Eftpos receipt is adequate detail. It will more than likely show the date, supplier and a dollar value.

Second hand goods claims require information to be retained as follows;

1. Name and address of the supplier.
2. Date of the issue of the invoice.
3. A description of the goods supplied.
4. The quantity/volume supplied.
5. The value of the goods purchased.

Even though second hand goods are purchased for cash, a record can still be retained and a claim for GST made. Second hand goods do not include livestock.

You are allowed to get an annual tax invoice and apply the cost over each month of the year. For example, an invoice for the lease of a property. Generally, you only get the annual amount and pay it by monthly instalments, or as the contract states.

BUYING A BUSINESS

With the recent downturn in real estate values and the aftermath of the economic downturn, it may be an opportune time for those with working capital to invest in a business venture.

A more basic business venture is a rental property. The time and effort required to run these can be low if a suitable tenant occupies the property.

Real estate bargains can be obtained if you are willing to hunt for them and interest rates are low at the moment. Banks will more than likely finance a deal if you can introduce capital and the net cashflow can sustain debt repayments.

If you are looking at a more 'hands-on business', you will be looking more at valuations for;

- Plant and equipment
- Furniture & fittings
- Vehicles
- Trading stock
- Goodwill

The goodwill value is the most contentious amount as this relates to the customers, location and the perception of the brand, amongst other factors. Ignoring GST, goodwill is not generally Income Tax deductible. Therefore, the purchaser will want the lowest value possible and the vendor, the highest.

The higher the value of the depreciable assets (the plant and vehicles), the higher the depreciation claimed by the purchaser. This gives rise to future Income Tax benefits.

The due diligence carried out by the purchaser will allow them the opportunity to fairly assess the value of the assets and apply appropriate costs to each sub-group

We would urge you to obtain assistance with this process, as time spent here can help reduce any surprises in the future.

TRAVEL EXPENSES AND ENTERTAINMENT

The deductibility of any cost within a business requires a connection between the expenditure (travel, meals and accommodation) and the assessable income. If you are out of your home town solely on business, flights, accommodation, meals, and taxi fares are all 100% deductible.

If you have a meal with a client with a few drinks, this meeting could turn into entertainment expenditure and become only 50% deductible.

Any travel expense incurred in purchasing an asset, needs to be capitalised against the asset for Income Tax purposes. The GST is still deductible for domestic travel, but the travel expense of acquiring an asset becomes part of that asset's cost.

Larger costs are attributed to overseas travel and this expense can (on most occasions) include some private portion. The Inland Revenue has, in the past, allowed an apportionment of the expenditure. If the predominant reason for the travel is business, 100% of the air fares are claimable, but the accommodation, meals and taxis need to be apportioned between business and personal use.

The taxpayer needs to prove that the purpose of the travel expense claim was business. Collecting brochures highlighting the business meetings and conferences all help to justify the costs. Recording the meetings and planning the business portion of the trip supports the claim.

An organised trip with a group of like minded business people adds more weight to the deductibility issue and you can even provide the Inland Revenue with a declaration of the intention of the taxpayer's purpose behind the travel.

In conclusion, make a fair apportionment if the travel includes both business and personal. Keep any documentation handed out in seminars and presentations to support the purpose behind the travel.

INCOME PROTECTION INSURANCE

In sole trader and partnership entities, this cost has been a deductible item as long as the income (if and when it is received) is taxable income.

If your policy provides for a weekly/fortnightly income, generally the premiums are fully deductible.

If the policy provides that a lump sum is payable, this amount may be considered capital in nature and not income and therefore the premium is non-deductible.

The inclusion of a company or trust in your business structure also creates issues. If the invoice is not in the Company or Trust's name, then the deductibility of GST and the expense for Income Tax becomes debatable.

Where a Company or Trust pays 'key person' cover on

behalf of the shareholder/employee, then the Inland Revenue will more than likely allow the deduction. There have been murmurings in the past that ACC CoverPlus Extra is not deductible under a Company/Trust structure as the invoice is in the name of the individual.

Also, watch out for policies that simply 'top-up' your income after ACC compensation. For instance, you have income protection cover of \$40,000 pa. You have an accident and ACC pays you \$25,000 pa. The insurance company will simply 'top-up' the payment with the \$15,000 over and above the ACC compensation.

FINISH WITH A JOKE

Shark Attack

The Pope was cruising along the beach in the Pope-mobile, when there was a frantic commotion just off shore.

A helpless man wearing a green and gold Aussie rugby jersey was struggling frantically to free himself from the jaws of a five metre shark.

As the pope watched, horrified, a small boat swiftly arrived, with two men wearing black and white All Black jerseys.

Daniel quickly chucked a harpoon into the shark's side. Ethan reached out and pulled the bleeding and semi-conscious Aussie from the water. Then using long clubs, Daniel and Ethan beat the shark to death and hauled it into the boat.

Immediately the Pope shouted with glee and summoned them to the beach. "I give you my blessing for your brave actions" he told them. "I heard that there was some bitter hatred between New Zealand and Australia, but now I have seen with my own eyes that it is not true".

As the Pope drove off, Daniel asked Ethan "Who was that?"

"That was the Pope mate" Ethan replied. "He's in direct contact with God, and has access to all of God's wisdom".

"Well" Daniel said "he may have access to God's wisdom but that fella don't know nothing about shark fishing – is the bait holding up okay or do we need to get another one?"