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**FINANCIAL FEATURE
 FEBRUARY 2010**

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

With Rebecca and Bronwyn moving onto other employment, we have two new staff members who have joined the team this month.

Tasha Stone and Roseanna Scarano are our new accounting technicians and they will be completing your GST Returns and end of year financial statements.

PAYE TAX TABLES

In an effort to save money and the environment, the IRD has decided not to issue printed PAYE deduction booklets to employers anymore.

Instead, they are encouraging people to use the PAYE calculator on their website (www.ird.govt.nz). Current tax tables are also available on the website.

If you do not have access to the internet, we are happy to print out the tables for you. The 2011 tax tables will be available from 1 April 2010. Please contact Katie at our office for assistance with this matter.

PAYROLL GIVING

This is a new scheme that was started on 7 January 2010 and allows employees to “give as they earn” by making donations directly from their pay to approved donee organizations.

Payroll giving is voluntary so employers can choose whether or not to offer the scheme to their employees. Also, payroll giving is only available to those employers who file their monthly schedules electronically using the ir-File system.

Donations are made through the payroll system with the employer deducting any donations from the employee’s pay and then forwarding them onto the donee organization.

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For every dollar an employee donates, they receive a third back as a tax credit in the same pay period and this tax credit is used to reduce the employee’s PAYE.

Please note that donations can only be made to those donee organizations on the IRD approved list. For a full list of eligible organizations, please visit the IRD website at (www.ird.govt.nz).

CHANGES TO RWT

The Resident Withholding Tax (RWT) rates for bank account holders earning interest are changing to align with the personal tax rate changes that were introduced on 1 April 2009. Below is a table of the new RWT rates which take effect from 1 April 2010:

Income Threshold	RWT Rate
\$0 - \$14,000	12.5%
\$14,001 - \$48,000	21%
\$48,001 - \$70,000	33%
\$70,001 and over	38%

If you are currently receiving interest which has RWT deducted at the rate of 19.5% you will be automatically moved to the new 21% rate. However, if you expect your annual taxable income (from all sources) to be less than \$14,000 or more than \$48,000 you may want to change your RWT rate. Any changes can be made through your bank from 1 April 2010.

Please note that if you fail to provide your IRD number and/or elect an RWT rate for any new bank accounts opened from 1 April 2010, then RWT will be deducted at the notification rate of 38%.

CASH SALES

Most businesses from time to time receive compensation for their services in the form of cash. There is no problem with this form of payment until the temptation to 'pocket' the income takes over.

Pocketing the cash results in the Government missing out on their cut of your profit. Although this is tempting, all businesses receive cash from time to time and if there is no cash banked throughout the year, this may raise an alarm with the Inland Revenue if you are audited.

In conclusion, if you are in an industry that receives cash for their services, bank some cash regularly to show that cash sales do occur.

RATES REBATE GUIDELINES

Many councils have subsidy schemes for those rate payers on low incomes.

The maximum rebate is \$550 for those earning up to \$21,910. You may still be eligible over and above the maximum, as you can claim an allowance of \$500 per dependant under your care.

END OF YEAR ADJUSTMENTS

For those of you on a standard balance date, being 31st March each year, you will need to start thinking about the detail you require to complete the annual financial statements for your business entity.

Commonly this includes **Debtors and Creditors**. Debtors are people who you have invoiced for sales, but have yet to pay and creditors are firms that have invoiced you and you have yet to pay.

This commonly occurs where the account rendered is paid on the 20th of the month following invoice. The invoice will have the 31/3/10 date on it, but won't be paid until around 20th April. These invoices need to be included in the 2010 financial year.

Similarly non standard balance dates need also be aware that invoices due or paid after their year end need to be included in the year of the date of the invoice.

Work in progress is another item that needs thought. This includes work completed up to the firm's balance date, but may not be billed out for some months.

An example is a builder who starts work in mid March, but the job is not completed until early May. All the work and materials used in March need to be quantified to provide an accurate assessment of the work that will be billed to the client.

Assessing this value of services in the year ended 31st March 2010 means it will be added to the firm's income. However, this value is reversed in the next financial year and reduces the income in that year.

Trading Stock is another chore that businesses do not look forward to. However, the Inland Revenue requires your business to make an accurate assessment of your stock on hand.

There is a concession that allows small businesses to estimate their stock on hand. On the 1st April 2009 the Government increased the 'low-value' threshold from \$5,000 to \$10,000. This allows you to reasonably estimate your closing stock.

The rules to apply this 'low-value' method are;
Your business turnover is less than \$1.3 million.

Your closing stock can be reasonably estimated at less than \$10,000.

This may suit most builders, plumbers, electricians and other tradespeople.

WAGE RATES & HOLIDAYS

The minimum wage rate for adults (over 18 years) will increase from \$12.50 to \$12.75 per hour from 1st April 2010. The 'new entrants' rate will increase from \$10.00 to \$10.20 per hour.

The adult rate increase will mean those working a 40 hour week will receive a gross pay of \$510. The 'new entrant' 40 hour pay week rate will entitle the employee to \$408.

Remember the 'new entrant' rate applies to 16 and 17 years olds for the first 200 hours, or 3 months of employment. After 3 months employment the 16 and 17 year old workers revert to the full adult wage.

Both Waitangi Day and ANZAC day fall on weekends this year, so the normal Monday to Friday wage workers miss out on two statutory holidays this year.

These holidays are the only two New Zealanders celebrate that are taken on the day they fall. However, if your employee does work the Saturday and Sunday respectively for the holidays mentioned, they are due a day in lieu for those days worked.

The rate of pay for the days worked will be outlined in the employment contract, this is generally paid at time and a half. Those who have not constructed contracts for their staff are at the mercy of the employment tribunal. Where contracts don't exist, decisions in the majority of the cases favour the employee's rights, with a fine for not having a contract in place.

We have emphasized the need for contracts in the past and we again urge employers to contact us to help you construct a contract that suits your businesses needs.

PRODUCE FOR OWN USE

Many businesses have the ability to consume the goods and services they produce or sell. Whether you consume the product yourself, or an associated person consumes it, the Inland Revenue will want the business to return it as income as the business has claimed the expenses to get the product to its finished state.

To properly account for the product consumed, an estimate of the value consumed needs to have income tax and/or GST returned. If you are registered for GST, the consumption of the product needs to be returned in the GST period it was consumed. If the value is not significant, an adjustment can be made when the annual accounts are complete.

Your annual questionnaire will ask you for these details and if you need help assessing the value, include as much detail in the questionnaire as required.

An example is a farmer who kills a beast for themselves, or their staff. We will consider both the owner and staff separately. The owner of the animal needs to assess the value of the beast and return the sales GST and the sale for Income Tax. You cannot claim the killing charges as they are a private expense. This is not related to killing an animal for 'dog meat'.

If you provide products to an employee, the consequences of the consumption increase for any business owner. Not only do you have to account for GST (if registered) and Income Tax, you will also be liable for Fringe Benefit Tax (FBT).

FBT is liable on the supply of goods or services to an employee. Whether a car, a beast or other goods and services. If the employee receives a benefit and PAYE has not been paid on the extra compensation received, FBT may apply.

Some farmers try to claim the killing charges for a beast for GST and Income Tax. This will alert the Inland Revenue to the fact that a sale of a beast has occurred and may result in unpaid taxes. The killing for 'dog meat' does not constitute a sale as such, as this relates to the running of the farm.

PORTFOLIO INVESTMENT ENTITIES (PIE)

Some years ago the Government introduced PIE's that allowed for people to save for their retirement with significant Income Tax breaks for all tax payers, but in particular high income earners.

The income, if taxed at the correct rate, is ignored when calculating your Income Tax. The rate is specified by the investor as a Prescribed Investor Rate (PIR). If you are in a PIE, or considering investing in one, you need to ensure your PIR is correct. If your earnings increase and decrease markedly from year to year, so may your PIR.

All PIE's have a maximum taxable rate of 30%. So those high income earners and trusts can use the 30% PIR and the income is ignored in their Income Tax return.

In this article, we are attempting to ensure that your PIE tax is returned correctly. If you have a PIR lower than in your tax return, then all income needs to be included in your tax return.

You need to be in contact with your PIE investment manager to take advantage of the maximum taxable benefits. Contact our office if you need any assistance concerning this issue.

ASSOCIATED PERSONS – DEVELOPMENT PROPERTIES

From the 1st April 2010 a new associated persons framework was introduced by the Government. It is called the 'tripartite test' and widens the reach for the Inland Revenue when dealing with taxable income.

The legislation allows for the 'test' to be used from the 6th October 2009 when dealing with issues relating to land. This captures any development completed after that date.

The rules state that any property held by a property dealer, developer or builder could be caught under the new rules. This broadly means that if you are active in one of the three activities mentioned in this paragraph and you have rental properties, the sale of the property could be taxable.

There are also issues with GST. Even though a property is deemed residential, as a tainted entity the seller may also need to account for GST.

For instance, you are a builder and own a commercial rental in partnership with another entity. Under the new rules, the capital gains may be taxable and your business partner is now tainted as a property developer also. If, while owning the property with you (a builder, trader or developer), your business partner sells one of their properties, they could also be caught under the new rules.

Under the civil union and de facto rules, your partner, (although not legally married) is tainted also as a developer. The 'test' not only touches individuals, but reaches through company and trust structures. If you knew of the relationship between your entity and the associated development entity, you run the risk of your capital profit being taxable.

The new rules do not touch plumbers or electricians with rental properties, only builders, dealers and developers. The rules for association are quite complex and if you feel as though an investment may be tainted, contact our office.

EMPLOYEE ALLOWANCES

Claiming the expenses of an employee has become less of an issue than it has in the past. Rules have recently been released by the Inland Revenue that give an outline of what you can or can't claim.

Relocation expenses of an employee are claimable in certain circumstances. You must be taking up a new position and your existing home is not within a reasonable travelling distance. Reasonable distance is approximately 80 km or 1 hours travel.

An employer can advance funds to the employee for transport costs as long as a square up is completed for any excess. The Inland Revenue does not allow estimates.

LATE PAYMENTS AND PENALTIES

It is difficult in good times to ensure taxes are kept up to date and after a recession problems get magnified. If your business is struggling with tax commitments an instalment arrangement may help you through.

Inland Revenue will allow you to have an instalment arrangement if all of your tax returns are filed and up to date. Interest will still apply to overdue balances, but as long as the arrangement is kept current no penalties will be charged.

The interest rate currently charged by the Inland Revenue is 8.91%. In 2008 the use of money interest rate was 14.24%. This dropped in 2009 to 9.73% when the Reserve Bank cut interest rates due to the recession.

TAX RATE CHANGES

Back in 2008 the Government cut the company tax rate from 33% to 30%. Although the formation of companies before this was steady, more and more businesses decided to trade through a corporate structure.

The top personal tax rate looks like it will reduce over the coming year(s) as the Prime Minister hinted will happen in the budget in May 2010. We may see the top marginal tax rate become aligned with the trust rate at 33%. This almost certainly looks like it will be funded by a jump in GST to 15% from 12.5%.

Although the Government is cracking down on property developers, they stopped short in imposing any capital gain or stamp duty type of tax as they have in Australia.

Our next newsletter will be in August after the budget and we will discuss any further changes in that edition.

OVERSEAS BUSINESS TRAVEL

Taking a business trip overseas usually results in some of the time spent in holiday mode. The main objective of the trip may be business, but some apportionment is required.

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.

FINISH WITH A JOKE

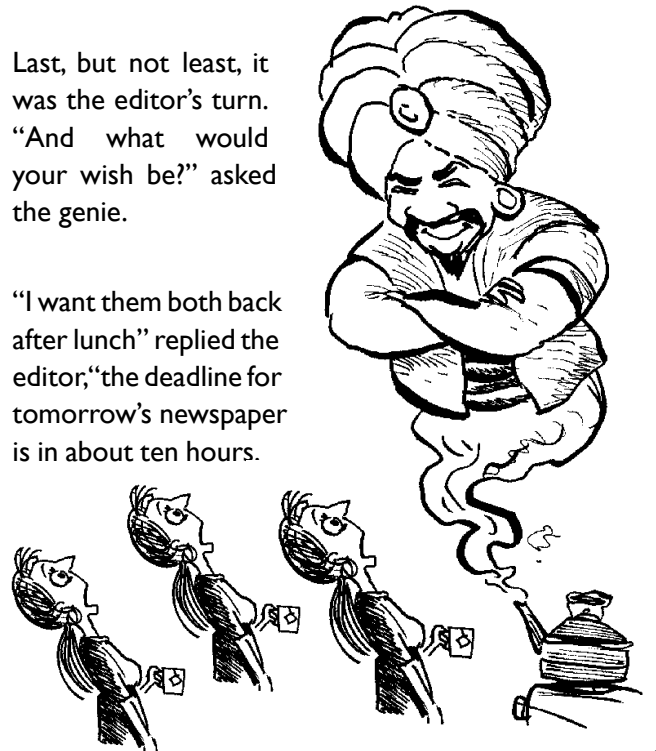
Three men: an editor, a photographer, and a journalist are covering a political convention in Miami. They decide to walk up and down the beach during their lunch hour. Halfway up the beach, they stumble upon a lamp. As they rub the lamp a genie appears and says "Normally I would grant you three wishes, but since there are three of you, I will grant you each one wish."

The photographer went first. "I would like to spend the rest of my life living in a huge house in Monaco with no money worries." The genie grants him his wish and sends him off to Monaco.

The journalist went next. "I would like to spend the rest of my life living on a huge yacht and cruising the Mediterranean with no money worries." The genie grants him his wish and sends him off to the Mediterranean.

Last, but not least, it was the editor's turn. "And what would your wish be?" asked the genie.

"I want them both back after lunch" replied the editor, "the deadline for tomorrow's newspaper is in about ten hours."



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