



NEWSLETTER DECEMBER 2011

They say 'time flies' and when we have years like 2011 with a lot of disasters and difficult times, maybe that is not a bad thing. We can all look forward to better times as holidays and summer arrives, there is no drought yet, and there are some good signs indicating that our NZ economy may be starting to improve. This is in contrast to difficulties in many other countries where the recession seems to be continuing to bite and destabilise.

Businesses at all levels are learning to develop and concentrate on key strengths, and ensure their survival and growth in difficult markets. We are seeing a lot more emphasis on emarketing and communication which brings contact with customers quickly, often and at comparatively low cost. These developments are everywhere in our lives now. A common example is firms emailing invoices etc, (see our caution about that later). The new way to sell seems to be to bombard the client with information and keep your product and specials in front of them at every opportunity. You let impulse and convenience work for you.

Best wishes to you all for the festive season, we hope you all have safe and happy holidays and look forward to working alongside you in 2012.

Merry Christmas

Holiday Office Closure:

The office will be closed from 1.00pm on Thursday 22 December 2011 and will reopen at 8.30am on Monday 16 January 2012. Arrangements will be made with individual clients who require any regular services during this time.

October/November GST Returns:

With our Christmas closedown all GST returns completed by our firm will need to be done before we close on 22 December. Please make a special effort to bring your papers in early and answer any queries as soon as possible.

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www.robertsonfulton.co.nz Has Arrived!

Our new website is up and running, we welcome you all to visit it. There is lots of information and we would appreciate your feedback. You will be able to download copies of client questionnaires, newsletters, check important dates and find out more about what we can offer. You may also be interested in learning more about who you deal with here by looking up the staff profiles. Please email feedback to sue@robertsonfulton.co.nz.



Note:
The information contained in this newsletter is of a general nature only and readers are cautioned not to act or rely on it without first consulting a senior representative of this firm for specific advice relative to individual circumstances.

Staff News:

- Afzer left us in August after 3 years with the firm to further his career in the corporate accounting sector.
- Marc She joined us in August. Marc has a Diploma in Business Studies, has previously worked in Chartered Accounting in Hamilton, and has spent time in China in a family business before returning to New Zealand to assist with the set up of a new business for a client. He is married to Ting and has a son Matthew.

KiwiSaver Changes on the Way:

- The Member Tax Credit (MTC) has been halved. The government will contribute 50c for each \$1 contributed by individual KiwiSaver members, up to a maximum of \$521.43 per year from 1 July 2011.
- All employer contributions to employee KiwiSaver accounts will be subject to employer superannuation contribution tax (ESCT) from 1 April 2012. The ESCT will be applied at a rate equivalent to an employee's marginal tax rate. With the employee's agreement you can treat your employer contribution as salary or wages and deduct PAYE from the total.
- From 1 April 2013 the minimum employee contribution rate and the compulsory employer contribution rate will both rise from 2% to 3% for all KiwiSaver members.



Provisional Tax Payments 15/01/12

Tax Payment Notices will be sent out mid December for payment by 15 January 2012. **DO NOT FORGET THEM!** If you have any query regarding the amount you are asked to pay please contact us before Christmas so we can resolve this.

The Paper Trail (or lack of it):

With many payments made online and invoices and contracts emailed it is becoming more difficult to maintain a complete set of source documents for your accounts. Income Tax and GST Acts rules state that you must keep business records for 7 years and the onus is on the taxpayer to provide evidence payments were made and are legitimately deductible. This is very hard some time down the track unless you have very good filing systems both paper and electronic. Even the reasons for transfers to and from bank accounts fade in your memories so make sure you use the reference fields on screens to input the details. These will then print on the bank statements. A full set of bank statements is required and it can be costly to get the bank to look up and

print back statements. So if you are not having paper copies sent to you by the bank please make sure you print each full monthly statement and keep these in a good filing system. Similarly all emailed business invoices should be printed and filed or at least saved to an electronic file that can be saved onto a memory stick safely. It is your responsibility to have the documentation.

Employment Contracts:

For Employees – The law requires that you hold a signed employment contract for each of your employees from 1 July 2011. It is timely to ensure that they are up to date and include the increase to 4 weeks annual leave, 90 day probationary periods and no age requirements for retirement.

Shareholders of Look Through Companies (LTC)

Where the shareholder is employed by an LTC company an employment contract is required. Deductible wages for this shareholder employee are limited to the amount stated in the contract. The agreement needs to provide for wage increases. Bonuses can be paid regardless of the contract, but must be paid within 63 days of balance date to be deductible in the previous financial year.

90 Day Trial Period – This legislation was extended on 1 April 2011 to cover all employers. To be able to use this rule an employer must include the fact that the position is subject to a '90 day trial period' in writing in the employment agreement and state all of the following:

- that the agreement is for a specific period not exceeding 90 days starting at the beginning of the employment, and
- that during the period the employer may dismiss the employee, and
- if the employee is dismissed they are not entitled to bring a personal grievance or other legal proceedings in respect of the dismissal.

If an employee has previously been employed by the employer they cannot use the trial period provision.

GST Processing By IRD- How to Get It Right:

All paper-based returns are scanned at IRD and sometimes figures are read incorrectly if they are not clear. When completing any IRD returns please:

- Use a blue or black pen, **not** red, green or a vivid marker if completing manually
- Use blue or black font if completing online
- Either write \$0.00 or leave a space blank if the amount is zero, don't write 'Nil'
- Always complete the cents column, with zeros if necessary, eg, \$2,925 should be written as \$2,925.00, otherwise it may be taken as \$29.25.

Company Shareholdings, Beware of the Affect of Changes:

Do not make any changes to your company shareholdings without discussing your thoughts with us first. There are tax rules that limit the availability of losses to carry forward between years and limit the use and offset of Imputation Credits where there have been shareholding changes. Associated entities, e.g. companies and trusts, can also be affected by changes to shareholding. Make sure you know the full implications of what could happen before you make changes.

Student Loans:

Changes to the Student Loan Scheme came into effect from 1 January 2011, some key changes are:

- A lifetime limit of 7 Equivalent Full-Time Student (EFTS) years eligible for a loan starting from 1 January 2010.
- This can increase to 8 EFTS for post-graduate study or 10 EFTS for doctorate study
- In the previous 5 years of study you will need to have passed at least half of your EFTS to be eligible for another Student Loan.
- If you lose access to a Student Loan you can regain it by studying without a Student Loan until you have passed at least half of the EFTS of your total study.
- Part time students will no longer be entitled to borrow the course-related costs component of the Student Loan.
- The current 3 year repayment holiday for borrowers who go overseas will be shortened to 1 year from 1 April 2012. Borrowers need to apply for this repayment holiday.
- From 1 April 2012 borrowers cannot offset losses in arriving at their income for repayment purposes.
- Student Loans of serious defaulters will be able to be recalled in full.
- Full time students earning above the pay-period threshold (\$367 a week for the 2012-13 tax year) may be eligible for an exemption from repayment deductions. If the student expects to earn below the annual repayment threshold (\$19,084) they can apply for a repayment deduction exemption certificate. You need to keep a copy of these in order to cease student loan deductions.

Holiday Homes and Tax:

If a person is a sole-trader (self-employed) or in a partnership and is registered for GST, the casual rental of a holiday home is commercial and therefore subject to GST. Output tax will be payable on the sale or change of use of the holiday home. The reason why the holiday home rental is subject to GST is that it is not the tenants' principal place of residence and therefore not an exempt supply of

accommodation. Rental of a holiday home could push a GST unregistered business over the \$60,000 threshold for registration. Please contact us as soon as possible if you own a holiday home in the same name(s) as your business activity.

Livestock Valuation Elections:

The current ability of farmers to switch between livestock valuation schemes is being reviewed. Inland Revenue has suggested that once a farmer has elected to use the Herd Scheme, the election is irrevocable and that any election would survive transfers between associated persons/entities so that the use of other ownership entities would not allow a change of valuation method. The election timeframes may also be altered to reduce advantages that can be gained from the existing options. Submissions to IRD on their proposals have closed and we are awaiting the next consultation.

ACC Invoices – Make Sure You Are Paying The Correct Amount:



Many clients fax or scan and email their ACC invoices for us to check the accuracy and that the cover is the most appropriate and cost effective for their situation. Very often we are able to highlight options or correct

inaccuracies and accordingly we urge all clients to consider running the invoices past us. Contact Sue if you have any ACC concerns.

Wondering Why Your Donations Rebate Has Not Yet Arrived?

From this financial year Inland Revenue will not issue refunds for Donations Rebates until the taxpayer's income tax return has been processed. This is because taxpayers can now claim donations, childcare and housekeeper payments limited only to the value of their taxable income, which needs to be determined before any payment can be made. Yes, you can give away \$20,000, expecting a rebate/refund of \$6,666. But if you only earn \$10,000 your rebate/refund will only be \$3,333.

If you are expecting to claim a rebate, you should ensure that donations you make are to approved donee organisations. To check an organisation's donee status go to <http://www.ird.govt.nz/donee-organisations/donee-organisations-index.html>

GST on Land Sales/Purchases:

New legislation requires that where both the buyer and seller in a land transaction are GST registered, the sale is zero-rated. That is, the property changes

hands at the GST exclusive value. That way IRD does not have to collect or refund the GST and is less likely to miss out on collecting GST when a sale occurs and a mortgagee has claim to all the proceeds of sale.

The requirements for zero rating are:

- Both parties must be GST registered
- The property must be for use at least in part in a taxable activity
- The property must not principally be a residence
- The timing of zero rating and requirements is at settlement date
- The purchaser must notify the vendor in writing of their GST registered position at settlement
- The vendor must obtain the notification from the purchaser to allow zero rating.

This new process means you must be very careful what price you are agreeing to sell/pay for the land. It would be worthwhile talking through your position with us prior to buying/selling to ensure you get it right.

Vehicle Logbooks:

If you are self-employed please make sure that you are keeping a vehicle logbook to record business km's travelled for 3 months every 3 years, or more often if your pattern of use changes. If you think you may be due to update your logbook, start another or contact us to check.

Christmas Functions & Gifts:

An organised Christmas or any function held for your employees and/or clients and business associates either at your place of business or anywhere else is classed as an entertainment expense. The food, drink and any other expenses like music, hireage etc are only 50% deductible for Income Tax and GST purposes. It is not liable for FBT.

Gifts to clients and associates, even if food or drink or restaurant vouchers (where you are not having dinner with them), are fully deductible and can be charged as Advertising and Promotional Expenses.

Gifts to staff (eg food, wine or gift vouchers), at any time of the year are subject to Fringe Benefit Tax rules and are not part of the Entertainment Tax Regime.

FBT Impacts:

If you pay FBT quarterly, or are not registered with IRD for FBT at all, and provide gifts and/or other benefits to employees, the general exemption is \$300 per employee per quarter, with a maximum employer exemption of \$22,500 for all employees for the current quarter and the three preceding quarters. For annual FBT filers the exemption is \$1,200 per employee with a maximum employer exemption for all employees of \$22,500 per year.

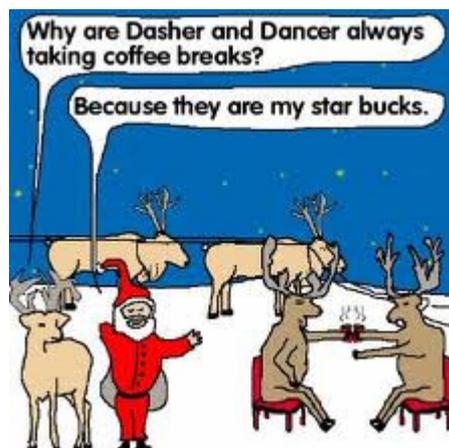
If the benefits provided exceed these levels, FBT is payable on the full value of the benefits provided in the period. The exemption is not deducted first. The exemptions apply to all employees including shareholder employees. The gifts in the FBT regime will generally be fully deductible for Income Tax purposes and for GST, provided a tax invoice is held.

Abolition of Gift Duty:

With gift duty being abolished, you may be considering forgiving existing debts either to family or trusts, or giving more of your assets away. There are many implications of gifting or forgiving debts beyond gift duty and we strongly suggest that you discuss your thoughts with us or your lawyers before you do anything. The reasons for gifting or forgiving should be weighed up against the results which may affect Residential Care Subsidies, your income tax payable, your equity position in respect of your Look Through Company, or your ability to withdraw funds from your trust as a loan repayment. It can be a complicated area requiring input from your accountant and lawyer. Be prudent and get advice first.

Paid Parental Leave (PPL):

The weekly maximum entitlement has increased from \$441.62 to \$458.82 before tax from 1 July 2011. This rate applies to qualifying employees and self-employed persons entitled to receive the maximum rate. PPL is available for 14 weeks and is paid by Inland Revenue. The leave can be transferred to a spouse or partner if they too qualify for PPL. For more information for either the employer or employee go to the Department of Labour website or phone 0800 20 90 20.



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