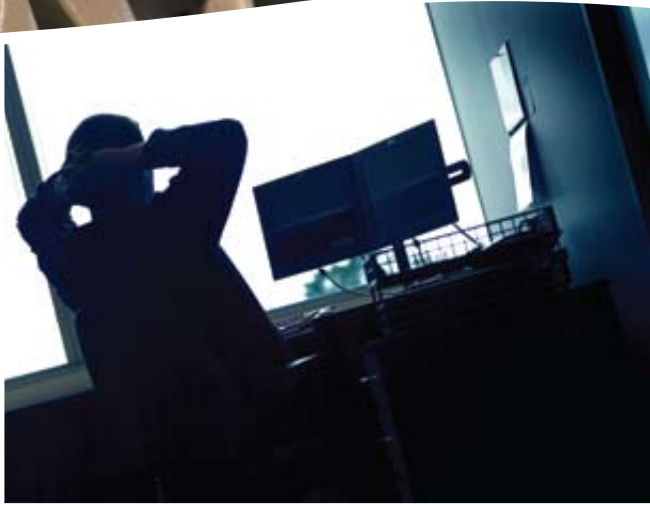


taking care of bu\$ine\$\$



DECEMBER 09

Welcome to our Summer Newsletter for 2009.

If you're like us you're looking forward to the Christmas period for a chance to put your feet up and relax after a very challenging year. It's a time to spend some time with friends and family and an opportunity to reflect on the past year, both high's and low's.

We have some important and valuable articles in this edition. We review the current environment regarding interest rates, and provide some reminders about tax refunds and PIE investor tax rates.

We highlight a number of recent and potential tax changes, particularly those with a focus on land. Finally, we have included an update on the reimbursement of vehicle costs to employees.

Christmas hours

We wish to advise that our office will close for the Christmas holiday period at noon on Tuesday, 22 December 2009 and reopen at 8.30am on Wednesday, 13 January 2010.

We take this opportunity to wish you all the best for a happy holiday season.

Interest Rates 01

Are you using the correct PIE Tax Rate? 02

Property Tax 03

taxrefunds.co.nz
– Have you heard of this? 04

UPDATE: Reimbursing Allowances
Paid to Employees 05



vazey child

Chartered Accountants & Business Advisers

01 Interest Rates

In our last newsletter we advised that interest rates were getting close to the expected bottom and since then the Reserve Bank of NZ has left the official cash rate (O.C.R.) at 2.5% and has indicated it is likely to stay there for a while.

If you are a borrower and had not fixed your loans at around 6% at least six months ago, it is now probably too late to do so. The current fixed mortgage rates are currently over 7%. Floating rates have fallen below 6% as competition between banks has led to discounted floating rates, so floating is the way to stay at the moment.

The market consensus seems to be that the economy is starting to improve and that things will get better and interest rates will rise. The writer is sceptical of this outlook as unemployment around the world is still very high, so consumers are just unable to spend to boost the economy.

Lending institutions are also becoming more selective as to who they will lend to. Until this situation improves it is doubtful if the economy can start booming again, consequently inflation is not likely to shoot up and there will be no reason for the Reserve Bank to put the O.C.R. too much higher.

The current high exchange rate is also helping to keep inflation down by making imports much cheaper, and it is also holding back the economy from recovering because the exporters are finding it tough.

If you are an investor the interest yields for good quality bonds still are quite low. There have been several new issues of bonds over the last six months, but most of those have maturity dates out 6 – 7 years. That is too far out to lock in low interest rates as conditions could change completely by then. However, if you are an investor, it is always good to have bonds maturing out for 4 – 5 years with something maturing every year. If interest rates in the market then go up, the bond maturing in the next 12 months can be reinvested at a higher rate. Alternatively if interest rates are falling, you have bonds maturing out 4 -5 years that still have a reasonable interest rate attached to them.

The majority of investors fixed interest portfolios should be invested in Senior Bonds with good Standard & Poor ratings. A return of capital is still more important than the interest rate return.

Some perpetual bonds like Rabobank are looking quite good buying at the moment despite the interest rate being currently very low, because the market value of the bond is also quite low. If we are correct that interest rates are near the bottom, then in the future there should be a capital gain on the bonds as well as an increasing interest rate. Perpetual bonds should be limited to no more than 20% of a portfolio.

02 Are you using the correct PIE Tax Rate?



If your income is less than \$38,000 (or the PIE income when added to your income does not also exceed \$60,000) for either the 2008 or 2009 tax years, you are entitled to use a rate of 19.5%. If you elect the higher rate of 30%, you cannot get the overpaid tax back.

Occasionally clients are selecting a 19.5% rate when it should be 30%. These people have to include their PIE income in their tax returns and then pay the rest of the tax. If you pay higher tax rates of 33% or 38% (for 2009), you are paying more than the 30% maximum required in the PIE!

03 Property Tax

ASSOCIATED PERSONS RULES

The long anticipated changes to the associated persons rules for land transactions was finally passed into law on 6 October 2009. Land acquired from that day will be subject to the new associated persons rules. As previously advised, these new rules are extremely wide and you should contact us prior to acquiring any property where you may be associated with any businesses that deal, develop or divide land, or undertake building activities.

The new rules will also have an impact on the distribution of capital gains by companies. If you are considering a restructure of your company's activities that may involve the sale of assets, it may be beneficial to complete this prior to 31 March 2010.

CHANGES TO TAXING PROPERTIES?

In addition to the changes to the associated persons regime discussed above, the Tax Working Group has recently been releasing discussion documents regarding the way land and rental properties are taxed. This has been attracting considerable media attention lately and seems to be gaining traction, especially given New Zealander's love of property as an investment and utilisation of negative gearing.

Many suggestions have been made and a proposal from the Working Group suggested that a land tax, similar to rates, of 1% of the land value (excluding buildings and other improvements) would be levied annually, i.e. \$1,000 for every \$100,000 worth of land. Another proposal raised by the Working Group suggested that income and expenses earned and incurred from rental properties not be taxable and instead a deemed rental return based on the net equity in the property and would be returned as taxable income.

Based on Bill English's recent comments it appears that we can expect some changes to the way in which property is taxed to some extent, with the exception being the introduction of a capital gains tax for property. He has also signalled that any additional tax earned from property would be used to reduce taxes elsewhere, such as lowering individual tax rates.

04 taxrefunds.co.nz —Have you heard of this?

"If you earned salary or wages in New Zealand in the past five years, there's a good chance you could be due a refund". Have you heard this advertising on television or come across a stand in a shopping mall trying to entice you to see if you're entitled to a tax refund?

Many of our clients have taken this opportunity to find out, however the moment you enter your IRD number into their computer system, they will become your new registered tax agent. You will automatically be delinked from our agency list with the Inland Revenue.

As we would have filed your previous taxation returns or be in the process of filing your 2009 return, there is no advantage to you in checking this early. The IRD system that those firms use (the same as we use), only shows income from salary and wages and doesn't take into account income from other sources.

When you are delinked from our agency list we have to relink you in order to access your records with the IRD. There is a cost associated with this. We request that you please contact us first if you want an indication of your tax refund or need to file prior year tax returns.



7:201.26	Fixed An
7:201.61	Passport
7:201.62	Man de

05 UPDATE: Reimbursing Allowances Paid to Employees

Tax law provides for employers to reimburse employees for any work-related costs incurred on the employer's behalf. Any qualifying reimbursing allowance paid is tax deductible to the employer and tax free to the employee.

VEHICLES

When reimbursing your employee for use of their private vehicle for work-related purposes, you can reimburse on either:

- Actual costs incurred by your employee. Costs other than fuel will require an apportionment based on usage (excludes interest & depreciation); or
- The prevailing Inland Revenue Department mileage rate; or
- Other published rates (e.g. the AA rates); or
- Using a reasonable estimate of the expenditure likely to be incurred.

The IRD mileage rate is currently 70 cents per kilometre irrespective of what type of car is driven. The rate is reviewed periodically by IRD and takes into account the cost of fuel, repairs and depreciation.

When reimbursing your employee for travel costs, they must be additional to costs normally incurred in travelling between their home and place of work. Home to work is not a work related expense unless the vehicle is required for the use and benefit of the employer e.g. to carry work tools or stock.

If you pay your employee more than what they incurred as a cost on your behalf, then that excess is treated as monetary remuneration and is subject to PAYE.

SHAREHOLDER-EMPLOYEE

If you are a shareholder-employee and you use your own private vehicle for work-related purposes, you have the same options as above available to you.

If you qualify you are able to be treated as an 'ordinary employee' and have no maximum limit for mileage reimbursement.

In order to qualify as an 'ordinary employee' one of the following conditions must be met:

- You must receive a regular amount of salary or wage at least monthly throughout the year, or
- You must receive a regular salary or wage that makes up at least 2/3 of your annual gross income as an employee of the company.

If neither of these conditions is met you will only be able to claim reimbursement for up to 5,000km per annum.

OUR ADVICE

If you reimburse costs incurred by employees based on their actual expenditure, there is little likelihood that those reimbursements will be treated as monetary remuneration.

All reimbursement allowances should be checked thoroughly to ensure that they are not at some point deemed to be benefiting the employee, and therefore treated as monetary remuneration and subject to PAYE.

More info: Philip Child, Colin Vazey, Paul Dickey, Trish Goodwin, Craig Blomfield, Peter Shaw.

vazey child

Chartered Accountants & Business Advisors

Services: Accountancy, Business Recovery, Commercial Finance, Corporate Finance, Investment Advice, Financial Planning, Personal and Corporate Tax, Services for growing businesses, Business Planning, Valuation, Management Accounting.

3 London Street | PO Box 911, Hamilton
Tel: 07 838 2169 | Fax: 07 838 3322
admin@vazeychild.co.nz
www.vazeychild.co.nz

Disclaimer: The information contained in this newsletter is of a general nature and should be used as a guide only. We recommend to clients that they consult a senior representative of the firm before acting upon any information contained herein.