

taking care of bu\$ine\$\$



MARCH 11

Welcome to the Autumn edition of our newsletter for 2011.

We hope that everyone is experiencing a better start to the new year and extend our condolences to those suffering in Canterbury as a result of the recent earthquake. It certainly makes you more aware of your own survival plans should your business incur major interruption like those currently being affected.

2011 is full of tax changes that will affect most businesses. This newsletter is devoted to informing you of these which include changes to the depreciation rules, GST on land transactions and to the calculation of income for working for family entitlements.

We also discuss the potential abolition of gift duty and the benefits of ACC CoverPlus Extra.

By the time you read this newsletter you should have received or will be about to receive our annual business checklists. These are an important source of information to us and the more information you can provide the better. Incomplete checklists can cause delays in finalising your accounts and can result in greater fees.

If you wish to discuss any of these changes further, please do not hesitate to give us a call.

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01 Depreciation & Tax changes

BUILDING DEPRECIATION CHANGES

Depreciation deductions will no longer be allowed for buildings with an estimated useful life of 50 years or more, such as rental houses and commercial offices. At the same time, new rules ensure the fit-out of commercial and industrial buildings will continue to be depreciable.

Those rules will change for all such buildings from the 2011 – 2012 income year.

REDUCTION IN COMPANY TAX RATE

The company tax rate will reduce from 30% to 28% from the 2011/2012 income year. For most businesses this will be effective from 1 April 2011.

MINIMUM WAGE INCREASE

The minimum wage will increase from \$12.75 to \$13.00 per hour and the training and new entrants' wage will increase from \$10.20 to \$10.40 an hour.

A new entrant is an employee who is 16 or 17 years old except if they have:

- Completed 3 months or 200 hours of employment, whichever is shorter; or
- Been supervising or training other employees; or who are trainees.

02 GST Changes

Significant GST changes are coming into effect for supplies made on or after 1 April 2011.

In particular, **land transactions** between registered persons will be zero-rated, as long as the purchaser:

- Provides a written statement that the land is to be used in a taxable activity;
- Is GST registered; and
- The land is not be used as a principal place of residence by the recipient or any person associated with them.

The statement must be provided by the settlement date, not the GST time of supply date, but apply to transactions for which the GST time of supply date occurs on or after 1 April 2011.

Transitional rules apply for transactions entered into before 1 April 2011 but where the time of supply is on or after that date. In this situation the supplier has the option of using the current or the new rules.

The supplier will be entitled to rely on the purchaser's written statement.

For GST registered persons **acquiring goods and services** from 1 April, you will now be required to claim GST to the extent to which the goods and services will be used to make taxable supplies. For example, if you expect business usage of a new car to be 85%, then you simply claim 85% of the GST on the cost of the car and any running expenses. The legislation requires a fair and reasonable estimate to be made of the business and private portions. This is a fundamental change to the old all or nothing 'principal purpose' test.

If the actual use of the goods and services differs from that first estimated on acquisition, further adjustments may be necessary to reflect the actual business and private use.

03 Working for Families

WORKING FOR FAMILIES - INCOME NET NOW MUCH WIDER

From 1 April 2011 you will no longer be able to use investment losses (ie. from rental properties) to reduce your income for working for families tax credits.

The definition of income will also include an additional nine sources of income. We have highlighted the primary income types here for your reference:

1. Attributable trustee income
2. Attributable fringe benefits
3. PIE income (other than registered superannuation schemes such as Kiwisaver and retirement benefit schemes)
4. Passive income earned by children (including interest, dividends and rent). Amounts over \$500 per child will be included as family income
5. Other payments received from any sources that are used for your family's day-to-day living expenses (but only if the total amount exceeds \$5,000). An example of this might include board received.

Please be aware that there are other income sources that may need to be included also. You will need to provide this information when applying for WFFTC with the IRD and you will need to confirm this when we prepare your 2012 taxation returns.



126,422,43

106,40

04 Abolition of Gift Duty

The Government intends to abolish gift duty, saying the decision would be welcomed by taxpayers generally as the rules were resulting in a high level of compliance costs and were no longer raising any significant revenue.

There has been considerable work done by officials across government to assess the concerns raised regarding income tax, creditor protection and social assistance. This work has revealed that the protection that gift duty offers in the areas of income tax, creditors and social assistance has only ever been "incidental and very limited." The limited protection that gift duty offers does not outweigh the significant compliance costs, estimated at approximately \$70 million per year that gift duty imposes on the private sector. A broad range of other existing legislation will provide adequate protection to mitigate the identified risks following the abolition of gift duty.

This will mean that a normal family trust which may own a house, bach, some investments etc will be asset protected much quicker. These changes are likely to mean that you will no longer be required to prepare reduction of debt deeds and gifting documentation. We will have to wait to see if there are any conditions applied.

The abolition of gift duty was included in legislation introduced in November 2010 and will be effective from 1 October 2011. Following this we will be able to report in more detail.

Gift duty has been under the government's consideration for quite some time. The principal original purpose of gift duty was to protect the estate duty base. Although estate duty was repealed in New Zealand in 1992, it was decided that gift duty would be retained temporarily until concerns regarding income tax avoidance and social assistance could be addressed. Since then, gift duty has also come to be viewed as providing some protection to creditors.



05 Income Worldwide

New Zealand residents have to declare all income they receive from anywhere in the world.

"Income" now has a very strange meaning. For example, if you hold shares in a United States company which does not generate any dividends, you have income. This is because your income is calculated based on the value of those shares.

Overseas life insurance policies and superannuation funds can also be classed as a source of income, even though you might not receive any money from them. Be sure to tell us if you have one of these. If a policy is taken out in New Zealand with an overseas insurance company, there's no tax problem.

The IRD has been making agreements with a large number of overseas countries to swap information, so don't rely on not being caught.

Some people think they need to declare income only if they bring money back to New Zealand. This is not correct, even if they have paid tax overseas. New Zealand residents are taxed on their worldwide income. Usually there is a credit for some or all of the foreign tax paid. There can be special tax rules in regard to declaring overseas income, for people coming to live here from overseas. They last for four years. If you think you qualify, contact us.

06 ACC Coverplus Extra

WHAT DO FARMS, REAL ESTATE AGENTS AND CONTRACTORS HAVE IN COMMON?

Nothing. Except their earnings are often at the mercy of seasonal conditions, currency changes or market fluctuations. If your earnings vary from year to year, you should seriously consider ACC CoverPlus Extra.

WHY BOTHER? I'M COVERED BY ACC, RIGHT?

Right. But if you find yourself off work because of an injury, is your current level of ACC lost earning cover enough to realistically take care of your financial commitments? Depending on your situation, you may well find ACC CoverPlus Extra is a far better choice for managing the risks of being self-employed or a non-PAYE shareholder.

HERE'S WHY ACC COVERPLUS EXTRA COULD BE BETTER FOR YOU:

YOUR EXISTING COVER

If you're injured and have to take time off work, you can receive up to 80% of the previous year's income (provided you can show proof of earnings) if you have ACC CoverPlus or ACC WorkPlaceCover. So if your income stays the same year-in, year-out, or if last year's income was good, this level of cover should be sufficient. But what happens if:

- Your income fluctuates and last year's earnings were poor?
- You're just starting out in your own business and have no income history?
- Your personal income is not a true indication of your true earnings capacity because you're splitting the income with a partner or spouse or you have taken advantage of options to reduce your tax?

ACC COVERPLUS EXTRA

ACC CoverPlus Extra works differently. If you are injured and have to take time off work, you are guaranteed to a pre-agreed level of income regardless of how much you earned in the previous year. As this amount is pre-agreed, your claim can be actioned quickly. And unlike ACC CoverPlus and ACC WorkPlace Cover, (where the weekly payment is reduced if your business continues to generate income) ACC CoverPlus Extra payments remained fixed at the pre-agreed level.

BIG CHANGES TO COVERPLUS EXTRA

1. When a company pays a CoverPlus Extra premium, it will be tax deductible in the same way as for shareholders-employees. In the past this has not been deductible to the company. The Earner premium portion remains a personal cost.
2. Shareholder-employees will be able to use their own occupation for levy purposes as opposed to the occupation of the company.

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