

Newsletter Spring 2011

The Budget

No need to spend much time on this as it was basically a non event for business. A tinker here and a tinker there.

Kiwi Saver was given a haircut and probably the biggest budget change for business was the increase in employer contributions to 3% from 1 April 2012.

Despite the cut backs to Kiwi Saver you should continue to put in the \$1,042 per annum.

Livestock Farmers

Ill Winds Ahead for Valuation of Livestock

The ability of farmers to move back and forth between the herd scheme and national standard cost has been a real tax benefit for many farmers. Unfortunately the IRD have finally (after more than 20 years) figured it out and the Government has announced the ability to move from one scheme to the other, is to be reviewed.

Therefore, it may pay in your 2011 accounts to make sure you are on the scheme that is best for you long term in case the ability to change is axed completely.

Selling Land

As we noted in our last newsletter most land sales after 1 April 2011 are supposed to be zero rated for GST. One of the requirements to be zero rated is that, if the property contains a house, the purchaser has to declare that they are not going to live in the house as a residence. Of course, in virtually every sale of agricultural land the purchaser will be living in the house. Therefore, in theory the sale can't be zero rated and in that case, the purchaser can't (in theory) claim back GST on the farm land.

It is all due to a complete balls up in writing the legislation. Until the legislation is fixed, the safest option is to have two contracts, one for the house and curtilage (GST exempt) and one for the balance of the land (zero rated).

Be much easier if the bureaucrats got it right first time.

Xero

We have now achieved Xero Gold status, the first firm in the top of the South Island to do so.



Other than the fact we are acquiring considerable knowledge of Xero, the benefit to you of us achieving Gold Status, is that monthly Xero fees are reduced.

Insurance Lessons from the Christchurch Earthquake

We think there is a way to go in this regard, but some of the lessons that are emerging are:

- for commercial property owners where the tenant is responsible for paying the premium, check they do pay. Safer to pay yourself and on-charge;
- some tenants are refusing to pay for natural disaster buy down cover on the grounds that if the building is untenable the lease is terminated, so it must be a landlord expense;
- 6 months loss of rent cover is not enough if a major event happens;
- loss of profits policies need to be very carefully scrutinised;
- check the security rating of your insurer - cheapest may not be best;
- update insurance coverage regularly;
- do you have a disaster recovery plan and adequate data protection;
- update building valuations regularly.

Building Fit Out

A reminder that you can no longer depreciate (most) buildings after 1 April 2011. Commercial building owners can still depreciate a wide range of building fit out. If you have purchased a commercial building within the last few years and have not had the fit out valued, talk to us about whether it is worth getting this done.

GST Apportionment Rules

We covered the changes in our April newsletter. They are truly a case of tax simplification gone mad. The rules relating to changes required if the % of business use alters are:

If the asset was acquired before 1 April 2011 you continue adjustments under the old rules as follows.

If cost is:

- * \$5,000 or less, no adjustment after 1 April 2011
- * more than \$5,000 but not more than \$10,000, no adjustment after 1 April 2013
- * more than \$10,000, no adjustment after 1 April 2016.

Once these dates have passed, no further adjustments for change in use can be made, even though an asset may still be held after these dates.

Bad, but it gets worse. If the asset was purchased after 1 April 2011, you have to do an annual adjustment whenever the use changes by either 10% or \$1,000, depending on asset cost as follows:

Cost	No. of adjustments
\$1 - \$5,000	0
\$5,001 to \$10,000	2
\$10,001 to \$500,000	5
\$500,000 +	10
Land	unlimited

The formula for working out the adjustment to GST claimed is a beauty and we won't bother trying to explain it here. The adjustment on sale is even worse.

The morals of the above are:

- make sure every asset is either 100% business use or 100% private if your business does not trade as a company;
- trade as a company;
- if you understand the above let us know and we will offer you a job!!!

Emissions Trading Scheme

A reminder if you have 50ha or less of pre 1990 forest you must apply for an exemption by **30 September 2011** if you do not want to be part of the ETS by default. If you need help contact Peter Forrest.

Withholding Tax & Farmers

We know this an absolute pain, but if:

- a) you are involved in horticulture / viticulture and use any contractor to do basically labour only work, or
- b) you are involved in any sort of farming and use a contractor to do any work on the land (unless the contractor trades through a company)

then you must deduct 15% withholding tax **unless** the contractor has a valid Certificate of Exemption.

The IRD are currently doing a number of reviews of grape growers to ensure they have been deducting withholding tax where required.

The penalties for failing to deduct withholding tax are severe and are routinely applied.

If you have any concerns please contact us.

Refund of Excise Duty

For vehicles (or machinery) which run on petrol, LPG or CNG and which are not used on public roads a refund of excise duty is available. Current rates of excise are;

Petrol	56 cents per litre
LPG	12 cents per litre
CNG	3.65 cents per litre

Claim forms are available from NZ Transport Authority.

Penny v Hooper

The Supreme Court has just released its decision in this so called tax avoidance case.

Unfortunately the Court has ruled in favour of the IRD on the grounds shareholder salaries were artificially low. This will have an impact on all companies and will require even more documentation in future to justify the level of salary provided.

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