

Newsletter November 2010

Qualifying Companies / LAQC's

In the budget the government announced that the tax law in relation to above companies would be modified to restrict the ability to claim losses.

The first draft of the proposed new legislation goes further and proposes abolishing QC/LAQC's completely.

Instead we will have a new "beast" called a "Look Through Company" - LTC.

A LTC will be similar to a QC/LAQC except:

- a) the ability to claim losses will be limited to "capital at risk" - for most people this will mean little change;
- b) profits will also have to pass through to shareholders;
- c) only natural persons and trusts will be able to be shareholders;
- d) there is some mention of LTC losses only being able to be offset against other LTC income - that would be nasty.

At this stage our advice is do nothing until final legislation is passed.

We anticipate further changes to the legislation as abolishing QC/LAQC's will create a number of legal / bank security problems which the government doesn't appear to have thought through.

However, whatever regime we end up, with it seems fairly clear that:

- i) points (a) and (b) above will apply;
- ii) you will be given 6 months after the passing of legislation to elect a new structure. Whether or not changing to a new structure will incur any tax cost is not absolutely clear. Initial thoughts were that there will not be, but now there are doubts.

Overall the whole exercise seems largely pointless and will simply impose more costs on taxpayers.

Trust Deed Changes Required

Previously, in order to be able to be treated as Beneficiary income, profit has to either be paid to a beneficiary or allocated to them by minute within 6 months of year end. This meant that if your Trust had a 31 March balance date the accounts had, in effect, to be completed to at least a draft stage by 30 September.

This requirement has now gone and you now have up to 12 months after balance date in which to pay/allocate income to beneficiaries.

The only problem is that many Trust Deeds follow the old tax law requirement of 6 months. If your Trust Deed does this you need to get your solicitor to amend the Deed to allow up to 12 months.

Please also ask your solicitor to send us a copy of the amendment.

Tax Returns

Please note we cannot file your tax return with the Inland Revenue Department until we receive the signed copy back from you. If you are due for a refund please sign and return ASAP.

Fee Payment Options

Visit our website (www.winkerr.co.nz) for our payment options which now include, eftpos, Visa and feesmart.

Gift Duty

The government has announced they intend to repeal gift duty from 1 October 2011. Amazingly it doesn't look as though they are going to do anything nasty in its place.

Motor Vehicles FBT

A reminder that FBT does not apply to "work related vehicles". A work related vehicle is a vehicle which is not designed principally for the carriage of passengers. Clearly then most utility type vehicles are not work related vehicles unless the rear seats have been removed / bolted down.

Even if the vehicle meets the above requirements to avoid being liable for FBT you must also do the following:

- have the firm name permanently affixed to the vehicle in a prominent manner;
- instruct your employee (yourself if you are a shareholder employee) not to use the vehicle privately without your specific written permission;
- provide proof of checking to ensure the vehicle is not being used privately!

The IRD take a lot of convincing that a vehicle is never used privately.

Therefore you may be better, to avoid a fight with the IRD, to allow private use on, say weekends/holidays, in which case you basically pay 2/7ths of the full FBT.

Note - FBT doesn't apply to vehicles over 3 tonnes in weight.

Emissions Trading Scheme

Another thing which surprises us is how many forest owners have not registered under ETS.

If your forest is a "post 1990" forest the ETS, in our view, offers you a substantial benefit in that it gives you 2 options for deriving income from your forests.

If you want to know more, contact Peter Forrest or your forestry advisor.

Owners of pre 1990 forests unfortunately only receive a one off allocation of units.

Therefore for owners of pre 1990 forests totalling less than 50ha the disadvantages may outweigh the advantages. In which case you need to apply for an exemption before 30 September 2011.

Owners of pre 1990 forest in excess of 50ha must join the ETS.

Depreciation on Buildings / Fit Out

As from the start of the 2012 tax year (1 April 2011 for 31 March balance dates) owners of residential properties will not be able to depreciate either the building or the fit out.

Chattels will still be able to be depreciated.

Below is a list of items that may be chattels and beside them the IRD view on whether they can be depreciated separately.

Plumbing and piping	No
Electrical Wiring	No
Internal Walls	No
Doors (Internal and external doors)	No
Garage Doors	No
(when the garage is part of the residential rental buildings)	
Fitted furniture	No
(wardrobes and cupboards built into the wall)	
Kitchen Cupboards	No
Bathroom fittings and furniture	No
Wardrobes and cupboards not built into the wall	Yes
Carpet	Yes
Linoleum	No
Tiles (wall and floor)	No
Curtains	Yes
Blinds	Yes
Water heaters and hot-water cylinders	Yes
Heating / Air conditioning systems	Maybe

As you can see IRD have been very generous!!!!

For owners of **Commercial Property** the situation is slightly different, as follows:

- buildings will not be able to be depreciated;
- fit out for buildings acquired or costs incurred after the start of the 2012 year will not be able to depreciated, unless the fit out is clearly a separate asset independent of the building;
- fit out on buildings owned before the start of the 2012 year can still be depreciated on one of the following bases:
 - a) each asset has been separately identified on the asset schedule;
 - b) where (a) has not been done you can depreciate 15% of the building value at 3% DV on the lower of 2010 book value or cost. The 15% is a proxy for estimated fit out in an average building.

Clearly if you are looking at buying a commercial property there is a significant incentive to do so before the start of your 2012 year.

Discounts and Gross Margins - A Reminder

In tough times the temptation is to offer discounts to achieve sales.

However discounting can have a severe effect on Gross profit and thus, overall profitability.

Consider the following 2 examples of a 20% discount:

1. Mark up 50%
2. Mark up 25%

	50% markup	25% markup
Sales Revenue	75.00	62.50
Cost of Sales	50.00	50.00
Gross Profit Pre Discount	25.00	12.50
20% Discount	(15.00)	(12.50)
Adjusted Gross Profit	<u>\$10.00</u>	<u>\$Nil</u>
Reduction in Gross Profit in % terms	60%	100%

Employer Superannuation Contribution Rates

From 1 October 2010 the rates and thresholds to employer superannuation contribution tax (ESCT) changed. If you're paying ESCT based on your employee's salary or wages plus gross employer contributions, you'll need to use the new rates and threshold amounts to determine how much tax to withhold on employer superannuation contributions. These will apply from the first pay period that ends on or after 1 October 2010.

Income Range	ESCT rate
\$0-\$16,800	10.5%
\$16,801 - \$57,600	17.5%
\$25,601 - \$84,000	30%
\$84,001 and over	33%

The flat ESCT rate remains at 33%.

More sales from existing customers

- ☉ Keep in touch. We've said this before. Don't let customers slip away because they think you are not interested in them. Use emails, but get your customers to agree to receive your emails. Many marketing firms send out ezines (email magazines). Customers are most likely to be happy to get your emails - and to read them - if there's a benefit for them, such as good tips. Be regular with your emails or you'll soon stop sending them.
- ☉ Sell more to your existing customers by being better at getting those ad-on (also called companion) sales. Get the value of the average sale up. Be careful how you do this. A waitress who asks, "I can't tempt anyone to a dessert?" is inviting a "no" answer because it is negative. Restaurants are perhaps the worst businesses for throwing away potential sales. Never ask a question, when you are selling, which could invite a "no" answer. The first sale pays for the business overheads. The Second and following sales have all the profit in them. You must get as many of them as you can. Train your staff. Find out what each team member is achieving and tell them, regularly, how they are going. As they improve, praise them. One retailer client raised his sales by a massive 20 per cent within one year by doing this.
- ☉ Sell more frequently to your existing customers. Get them into your shop more often. When you have a sale, let your good customers have the privilege of getting first look before allowing everyone in.
- ☉ Get referrals from your existing customers. It's okay to ask for referrals and using emails makes it easy - see first bullet point.
- ☉ Measure all these and manage them. Let your staff know "how we're doing" regularly".

ACC CoverPlus Extra

We don't want to sound like a broken record but we are amazed at how many clients have still not changed to CoverPlus Extra.

For a summary of the benefits see our August 2010 and July 2009 Newsletters or visit our website www.winkerr.co.nz.

Investment Losses

In certain circumstances losses on investments in finance companies etc may be deductible for tax purposes. This will particularly be the case where a person is in the business of investing. A recent Court case held that a person with only 6 investments was in the business of investing, which would seem to indicate the Courts will take a wide view of what, "in the business of investment", means.

To be able to claim any loss you must be able to show that:

- a) it is very unlikely you will recover any/all funds (e.g. a receivers report will show this);
- b) you have written off all/part of the investment off. This could be done in a number of ways:
 - i) if you record your investments in your financial statements you show the loss as a bad debt;
 - ii) if your investments are made through a financial advisor they usually record the market value of the investment;
 - iii) by writing 'written off' on the investment and the date you did this and why;
 - iv) by selling the investment for whatever you can get for it. Obviously if you do this and there is some future recovery of the loss you miss out so take advice before selling.

The important point is *IF YOU HAVE SUFFERED A LOSS* let us know.

Death and the IRD

A businessman on his deathbed called his friend and said,
"Bill, I want you to promise me that when I die you will have my remains cremated."

"And what," his friend asked,
"do you want me to do with your ashes?"

The businessman said,
"Just put them in an envelope and mail them to the IRD.
Write on the envelope,
"Now, you have everything".

UK Pensions

As a general rule all pensions (not just those from the UK) are taxable in NZ, when received.

However certain overseas pensions can also be taxable in NZ under what are known as the Foreign Investment Fund rules (FIF).

Overseas pensions which may be subject to the FIF rules are those which:

- a) are not employment related; or
- b) a pension which enables you to withdraw a lump sum (even if the pension is employment related).

UK pensions now allow lump sum withdrawals. Therefore the pension will be subject to tax under the FIF rules on any increase in value since 6 April 2006.

We understand the IRD are now doing a review of UK pensions received by NZ tax residents. If you receive a UK pension which is not being taxed in NZ please contact us to discuss your options.

NB If you qualify for a 4 year tax exemption as a new immigrant you do not need to include any pension income in that 4 year period. In that case you should look at transferring your pension to NZ before the 4 year exemption expires.

Retailers Association and Credit Card Commissions

Thanks to the client who pointed out that members of NZ Retailers Association can get a reduction of credit card commission charges.

For those retailers who are not members it might be worth investigating.

Their website is www.retail.org.nz

Christmas Wishes

Winstanley Kerridge Ltd thank you for the opportunity to provide your accounting requirements through 2010. The Directors and Staff wish you a Merry Christmas and all the best for 2011.

The office will be closed from 1.00 p.m. on Wednesday 22 December and re-open 8.00 a.m. on Monday 10 January 2011.

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