Your accounting update from BWR Winter '10

outside the square

Client Profile

Motoring Industry Proves Addictive

After 40 years in the motoring industry Dennis Sweetman of Hawke's Bay Peugeot & Suzuki is still passionate about good quality cars. The industry has evolved considerably over these decades; particularly in recent times as motorists have moved to smaller vehicles as well as a major increase in the sale of diesel vehicles. While the increasing price of fuel, and more recently the recession, has brought this on, Dennis says that we're just following what overseas markets have been favouring for a long time.

"People are realising that they can confidently and safely drive more compact cars with smaller engines and fortunately we're well placed to provide that. Suzuki is a world leader in small car technology and Peugeot are diesel specialists."

The challenge is keeping stock fresh and turning over, and making sure that the dealership is able to source the cars that are in demand at the time. To keep their finger on the pulse, Dennis and his team of 10 look at their figures on a daily basis.

On the topic of figures Dennis says, "When you are so close to the numbers it is really useful to have a fresh pair of eyes – that is what BWR provide and the fact that they do it so efficiently gives us a lot of confidence. John Springford and Regan Loach promote ways the business can be more efficient". Dennis and his office manager Janet Jackson find BWR are always helpful and prompt.

While selling cars is at the forefront of the business, the after sales department plays a major role in keeping customers' vehicles in top condition and ensuring the dealership maintains high levels of repeat business.

Hawke's Bay Peugeot & Suzuki have been valued clients of BWR for 18 years. Their dealership is on the corner of Nelson Street North and Queen Street West in Hastings.

Left to right : Regan Loach (BWR), Dennis Sweetman and John Springford (BWR).

Carbon Farming and Forestry in the Emissions Trading Scheme

It's difficult being a climate change advocate in these uncertain times. Much like former US vice president and well known climate change advocate Al Gore, the Emissions Trading Scheme (ETS) has seen its fair share of unwanted attention lately.

The beginning of July marked the date of entry into the scheme for the energy sector, which will now be forced to buy carbon credits to offset emissions. Awareness is growing, and the general public are coming to the realisation that the majority of this additional cost will be passed onto consumers.

So if consumers are ultimately buying, then who's selling all these emission credits? Demand will be in part met by the forestry sector, which raises the question of "have we been wrong all along and does money really grow on trees?"

What's on offer for those already invested in forestry?

The Government's ETS forestry allocation plan was scheduled to be finalised by the end of June, however indications are that the release date is now likely to be late July. The plan proposes to give pre-1990 forest owners 12 months to complete the necessary documentation to entitle them to compensation.

Pre-1990 forest owners fall into two categories:

- Owners of more than 50 hectares(ha) in 1989/90
- Owners of less than 50 hectares(ha) in 1989/90

Owners of more than 50 hectares in 1989/90

Owners of more than 50ha are all but permanently locked into the ETS as the cost for deforesting is too high. The compensation for keeping land in forestry indefinitely will in most cases be a one-off allocation of 60 carbon credits per ha, which at an estimated market value of $20 per credit equates to compensation of $1,200 per ha.

To convert land back to pasture forest owners must surrender credits for carbon lost through deforestation. For example: A 28 year old woodlot of 8ha harvested and deforested will lose around 800 tonnes of CO^2 or 800 units. The cost of deforestation equates to 800 units x 8ha x $20 per unit, or $128,000 ($16,000/ha).

Owners of less than 50 hectares in 1989/90

Owners of less than 50ha have a reprieve. They have the right to remove all of their pre-1990 land from the ETS. Some parcels of land are so inaccessible and unproductive that the decision to take the $1,200/ha on offer may appear attractive, but any decision needs serious consideration. ETS registration of that forest land will be recorded on the property title, and that $16,000/ha contingent liability will exist for all future owners. It's impossible to know now what complementary agricultural or horticultural activity may in the future be well suited to what is currently unproductive land.

What should you do next?

You need to map your pre-1990 forest area and complete the appropriate application.

To help clarify the process we are arranging for Bryan McKinlay (MAF Senior Programmes Advisor for the East Coast region) to visit from Gisborne at the end of August to speak to our clients on the ETS, and the practicalities for pre-1990 forest owners. We will send out your invitations once we've confirmed a date.

What about post-1989 forest owners and those considering new plantings?

The University of Canterbury, in conjunction with MAF, recently toured the country presenting a carbon forestry workshop showing that there is money in carbon forestry. The University's Forestry Department has undertaken extensive modelling of a radiata pine clearwood regime on a 26-32 year harvest rotation, and the results are surprising.

Using a rate of return of 8% (net of inflation) forest cash flows have been modelled and discounted back to today's values. The models use a measure called Land Expectation Value (LEV - $/ha), which measures how much you can afford to pay for the land while still achieving your 8% return.

The results are as follows (with sheep and beef farming as a comparison):

- Sheep and beef farm generating a farm surplus of $38,896, $55 per ha, or $8.65 per su
  ~ LEV = $1,303/ha
- Forest planted post 2008, 28 year harvest rotation (optimal)
  ~ LEV = $500/ha
- Forest planted post 2008, carbon sold annually @ $20 per unit, 30 year harvest rotation (optimal)
  ~ LEV $4,800/ha

The results show the overwhelming benefit of early positive cash flow generated by the annual sale of carbon credits. You can afford to pay significantly more for land used to harvest both trees and carbon than you can for trees alone.

There are a lot of assumptions in these figures, one being that the price of carbon won't change, however the modelling indicates growth in the value of the price of carbon isn't a significant hindrance to the projected returns. The big risk is volatile movement in the carbon market.

What is BWR doing to clarify the situation?

BWR is in the process of developing our own models to test the robustness of the University of Canterbury models, and to help us fully understand the risks in various scenarios. We proceed with caution, but on the face of initial evidence joining the ETS and planting trees on those unproductive sites has significant potential.
BWR plans to run a subsequent seminar in September in conjunction with one of the region's local forestry experts who have already taken the plunge with a number of clients. The seminar will investigate the various risks associated with joining the ETS as a post-1990 forest owner, and will quantify the potential returns on offer. If some of the big players have already jumped in boots and all, then maybe there is real money to be made in growing trees for carbon!

A closer look at Budget 2010 and the changes to be implemented

The May 2010 budget contained some significant changes for a mid-term budget. Even without the prospect of an election later in the year, the Government has offered tax cuts to businesses and individuals alongside some tax increases.

Here is a brief summary of the tax related changes:

- Personal tax rates will reduce from 1 October 2010.
- The rate of GST increases from 12.5% to 15% on 1 October 2010.
- The tax rate for companies will reduce from 30% to 28% for the 2011/2012 income year.
- RWT rates will be revised from 1 October 2010 to reflect the change in tax rates.
- The maximum rate for Portfolio Investment Entities (PIE) reduces from 30% to 28% from 1 October 2010.
- Depreciation deductions for buildings with an estimated life of longer than 50 years will cease from the start of the 2011/2012 income year. A review of the rules around commercial building fitouts is also underway.
- The 20% depreciation rate loading for new assets ceased as of 20 May 2010. New assets purchased up until this date can still have the loading applied.
- The rules applying to Loss Attributing Qualifying Companies and Qualifying Companies will change from 1 April 2011. This is likely to have a considerable impact for a significant number of tax payers who use these entities, especially in the rental property industry.
- The Working for Families Tax Credit (Family Assistance) system will be changed so rental and investment losses are excluded when calculating Family Assistance entitlements. The Government also plans to change the rules surrounding trust income for Family Assistance recipients. More details are expected prior to 1 April 2011, but it is expected fewer families will qualify for Family Assistance.

We plan to cover most of these changes in depth as they are about to come into force. In this issue we will focus on GST and personal income tax cuts.

How to calculate 15% GST

From 1 October 2010 GST increases from 12.5% to 15%. It has been 21 years since the last increase when the rate changed from 10% to 12.5%.

To calculate the amount of GST from your gross price you will now take 3/23rd of the amount rather than 1/9th.

GST changes

How will it affect businesses?

While the intention is for the increased GST to be paid by the consumer, businesses as the collectors of the tax will bear the brunt of the costs to administer the change in the rate.

The increase will affect each business differently

Businesses that use the invoice basis should expect less impact than those on the payments basis, provided your systems are working correctly. Any invoices issued after 1 October will need GST added at the new rate.

The timing of your returns will affect the impact of the GST increase. Monthly GST filers should have fewer issues than two or six-monthly filers. Taxpayers with a June balance date that file two or six-monthly GST returns may encounter more challenges as the change in rate will occur part way through their GST taxable period.

Land transactions are affected

From 1 October 2010 when the new GST rate comes into force, all land transactions between registered parties will be zero-rated. Previously, only going concern transactions between registered parties were zero-rated.

There are also special considerations that will apply to some businesses or transactions including:

- Importers of goods
- Goods bought or sold on hire purchase or lay-by
- Rental/hire agreements
- Progress payments
- Subscriptions
- Businesses deregistering for GST

Contact your BWR accountant who can work with you to ensure you are aware of exactly how the GST rate increase will affect your business.

Look out for our special GST update in early September when we will give you specific details on if and how you need to complete Inland Revenue's one off transitional GST return to ensure you manage the change in GST rates with the least amount of hassle.

Steps all businesses should take before the GST increase takes effect:

- Check your computer/invoicing system can accommodate the new rate.
- Ensure records created before the change will not be affected when the new rate starts.
- Be sure invoices, credit notes and payment advices are all prepared with the correct GST rate.
- Consider the impact of the GST increase on your business's cash flow.
- Review contracts with suppliers and customers – especially in cases where prices include GST.

Review your pricing and consider the impact on your customers. If your business is unable to pass on the GST increase, your profit after 1 October 2010 will be reduced by 2.2%.

Alternatively, your business could use the GST increase as an opportunity to review your pricing structures and increase profitability.

FREE SOFTWARE CHECK-UP

Not all accounting software packages currently used are capable of managing the forthcoming GST rate change.

Contact Matt Bron or Heidi Marillier on 06 873 8037 for a free check-up.

Personal Tax Rate changes

In conjunction with the increase in GST rates from 1 October 2010, the income tax rates for individuals will reduce. A comparison of the new rates to the current rates is as follows:

Income	Current Rates	New Rates
$0 - $14,000	12.5%	10.5%
$14,001 - $48,000	21.0%	17.5%
$48,001 - $70,000	33.0%	30.0%
Over $70,000	38.0%	33.0%

This tax decrease is designed to compensate for the increase in GST. For taxpayers who save or use their tax cuts to repay debt, the overall amount of tax they pay after 1 October should be less than before.
After the change, the top individual rate will equal the tax rate for trusts, removing some of the incentive to shift income into trusts.

Tax on Savings and Investments

Your bank and/or financial advisor should automatically adjust the rate your RWT is deducted at. If your income has changed significantly (up or down) since the previous year, you may need to adjust your deduction rate. Contact your accountant if you are not sure.

Impact on Payroll

The change in individual tax rates will make more work for businesses as the PAYE rates for all employees will change. The rates for FBT and secondary tax will also change at this date.

If your business is using a computerised payroll system, you should expect an update from your software provider before 1 October 2010. For employers using manual payroll systems, you will need to obtain revised PAYE deduction tables from Inland Revenue before this date. Alternatively, you can use the online calculators provided on the Inland Revenue website – **www.ird.govt.nz** .

Self-Employed Taxpayers

Self-employed taxpayers will receive the benefit of the tax cuts at the end of the 2011 income year when their annual income is calculated and their return is filed with Inland Revenue.

To reflect the lower personal tax rates applying from 1 October 2010, the standard provisional tax uplift will reduce from 105% to 95% for provisional tax payments due after 1 October for the 2011 and 2012 income years.

For taxpayers who estimate their provisional tax, the new rates can also be used to calculate provisional tax estimates for 2011 and 2012 also.

FREE PAYROLL DEMONSTRATION

BWR IT Services can make life easier for you by showing you the range of computerised wage and PAYE systems available.

Contact Heidi Marillier on 06 873 8037 to arrange a demonstration.

Ways BWR Can Support Growing Businesses

As businesses grow or streamline, managers find themselves deciding who can do what in the most cost effective manner. Sometimes there is not quite a full time role for someone or the business needs more flexibility. This is where outsourcing some basic administration tasks to people who are skilled at doing the task efficiently is a good way to manage that growth or transition time.

In this newsletter we are highlighting GST and Payroll as two ways BWR can support your business.

1. **GST**. A fairly straightforward task for most, but one that BWR knows like the back of our hand. It can also get tricky, including registration queries, filing and adjusting GST returns, IRD audit assistance and one-offs involving GST - eg sale or purchase of property.
2. **Payroll**. Like GST, administering your payroll can be easy but it can also be time-consuming and divert your attention from the core activities of your business. BWR's confidential payroll service includes customised payslips, administration of PAYE, statutory sick pay, annual leave etc, IR-filing to the IRD, administration of your employer and employee Kiwi Saver obligations, payroll giving, summaries and analyses of staff costs and administration of incentive schemes, bonuses and termination payments and employment agreements.

Both GST and Payroll administration are growing increasingly complex, especially this year with the increase of GST to 15% and the decrease in income tax. Now is a good time to consider outsourcing to BWR. Please contact us to discuss these options.

Subscribe to BWR e-News

If you haven't already signed up to receive our electronic email newsletter and you would like to, log on to our website **www.bwr.co.nz** and follow the e-News link to request your free subscription.

Key Dates – July 2010 - October 2010

2010		
20-Jul	PAYE/Employer deductions	June 2010
	FBT	Quarter ended 30 June 2010
28-Jul	GST	Periods ending 30 June 2010
	Provisional Tax	February, June & October balance dates
	Provisional Tax	June & December balance dates (6 mthly GST payers)
20-Aug	PAYE/Employer deductions	July 2010
28-Aug	GST	Periods ending 31 July 2010
	Provisional Tax	March, July & November balance dates
	Provisional Tax	January & July balance dates (6 mthly GST payers)
20-Sep	PAYE/Employer deductions	August 2010
28-Sep	GST	Periods ending 31 August 2010
	Provisional Tax	April, August & December balance dates
	Provisional Tax	February & August balance dates (6 mthly GST payers)
01-Oct	GST	GST Rate increases to 15%
	Income Tax	New Income Tax rates apply including PAYE & RWT
20-Oct	PAYE/Employer deductions	September 2010
	FBT	Quarter ended 30 September 2010
28-Oct	GST	Periods ending 30 September 2010
	Provisional Tax	January, May & September balance dates
	Provisional Tax	March & September balance dates (6 mthly GST payers)

REQUEST A COPY OF THIS NEWSLETTER FOR A FRIEND

We have had many people ask for additional copies of our newsletter to pass on to friends or colleagues. If you would like an extra copy or to subscribe then please contact us on **06 873 8037** or email us at **info@bwr.co.nz**. All previous editions are also available on our website **www.bwr.co.nz** , click on the Newsletter link.

Disclaimer:

Please note this client newsletter is not intended to be advice and therefore you should not act solely on the information contained within. We recommend you obtain our formal advice before acting in any areas presented within.

BWR
Brown Webb Richardson

Brown Webb Richardson Ltd
111 Avenue Road East / PO Box 146 Hastings
Telephone 06 873 8037 Facsimile 06 876 5211
Email info@bwr.co.nz Web www.bwr.co.nz

CHARTERED ACCOUNTANTS