



Your accounting update from BWR Summer '11

# outside the square

Client Profile

## Websters Lime builds multi-generational partnership



*Websters' quarry as it is today.*



*Quarry pioneer Bruce Webster hard at work.*

When Bruce Webster, his brother Maurice and their uncle purchased a bankrupt lime company on Waimarama Road 65 years ago, knowing nothing about lime and with no markets to speak of, they might not have foreseen that the business would prosper for at least another 2 generations to come. Today the quarry is on Middle Road and is headed by Bruce's son, Robert, who is supported by his two sons, Nick and Matthew, along with nine other staff.

Robert Webster, Managing Director, says "being family owned and operated means our clients are always dealing directly with someone who can make a decision". It also engenders a strong sense of accountability as well as pride in what the family has. Handing the business down has come naturally but not without some planning – for example, the purchase of a neighbouring property has ensured the company has access to another 70 years of mining.

The team at BWR has supported Websters from the outset, starting with Gordon Black, who passed the account to John Springford who has recently trained Associate, Regan Loach, in the intricacies of the business' accounts. The fact that BWR have matched the relationship through their own generations of accountants has been invaluable to Websters. "With our sons Nick and Matthew being a similar age to

Regan, we are now making the most of modern technology and practices. BWR have always been good accountants, they are quick to answer our questions and point us in the right direction" says Robert.

One of the keys to the Websters' success has been finding new uses for their products through product development. Back in 1946 when the family bought the business, the company only produced burnt and hydrated lime. It wasn't until 12 years ago that it expanded into agricultural and fine ground value-added lime meaning the company's product range can now be found not only on farms but also in waste water treatment plants, roading, glue and even toothpaste.

John Springford and Regan Loach both admire how through hard work and good management the company has boomed. They are grateful for the chance to have been involved as the business has grown and required specialist support services including share valuations, advice around acquisitions, information to support management decisions, tax planning and the implementation of their IT system.

The future looks long and bright for Websters Hydrated Lime Company. Visit them on the web at [www.whlc.co.nz](http://www.whlc.co.nz)

## Choose the right type of labour from the start

For many agricultural and horticultural businesses the spring and summer seasons coincide with busier periods that often require the use of more labour. There are many ways these labour demands can be satisfied including working more hours yourself, using contractors and using part-time employees and/or casual employees.

### **Contractors can be an easy option but still have requirements**

Using contractors appeals to many businesses as some of the legislative requirements imposed under employment law may not apply – for example holiday and sick pay, KiwiSaver, PAYE and ACC to name a few.

There are still certain things you must be aware of when employing contractors. Most agricultural, horticultural or viticulture contracts for the supply of labour are subject to Tax on Scheduled payments which must be deducted and paid to Inland Revenue. This is done monthly, the same way as PAYE is deducted and paid for regular employees. A contractor can apply for a Certificate of Exemption from Withholding Tax but unless you have sighted a valid copy, you will be safest to deduct tax from any payment made to the contractor.

Using a contractor may also mean you have less control over who works on your property as any other workers used will be employees of the contractor not you.

### **The important difference between casual and part time staff**

If you are employing casual or part time staff, make sure you are aware of the distinction as both need to have their own employment agreement. For both, you are also responsible for deducting PAYE from wages that must be paid to Inland Revenue monthly. As an employer you will also be liable for ACC employer levies calculated on the gross wages paid during the year. Depending on the duration of employment, you may also have KiwiSaver and Student Loan obligations to consider.

To prevent employment disputes down the track,

casual staff should only be used for “on call” or “when required” assignments when there is no expectation of continuing employment. For non full time but reoccurring assignments you are likely to need a permanent part time agreement.

Part time employees become entitled to annual holiday, sick leave and bereavement leave that all add to the cost of the employment arrangement.

### **Keeping adequate records important for all types of labour**

Finally, don't forget the paperwork. For all things business and especially when paying contractors or employees you must retain adequate records which Inland Revenue can request to inspect.

The team at BWR can provide a comprehensive employment and payroll service for your business to help make sure you have all your bases covered when the need to use extra labour arises.



## Removing gift duty saves \$70m of compliance costs

From 1 October individuals can gift away as much as they wish at any one time to their family & respective Family Trust without the imposition of gift duty. This is the result of the Taxation (Tax Administration and Remedial Matters) Bill that was passed into legislation in August.

Revenue Minister Mr Dunne said that he was particularly pleased at the abolition of gift duty, describing it as a tax that imposed compliance costs and was “well past its use-by date”.

“Gift duty has continued to impose \$70 million of compliance costs on New Zealanders each year, while no longer serving its intended purpose. It is a relic of the estate duty era, long since passed, and it has been overtaken by other developments rendering it obsolete,” Mr Dunne said.

### Tight watch on rest home subsidies

Rest home subsidy applications are under heavier and heavier scrutinisation. The Ministry of Social Development (MSD) is using existing legislation to investigate and claw back assets divested/gifted to family trusts to bring individuals under the minimum asset value eligibility threshold.

- Firstly, any gift of more than \$6,000 per year in the last five years leading up to a rest home subsidy application will be clawed back.
- Secondly, if you have gifted more than \$27,000 in any year prior to the last five, MSD can claw back the excess. Importantly, if you gifted \$200,000 fifteen years prior to applying for a subsidy and gift nothing further, you could expect \$173,000 to be clawed back.
- Thirdly, in most cases (unlike gift duty) the gifting limit prior to the last five years is \$27,000 per couple per year, not per individual. That’s \$13,500 each.

### Responsibility for debt owed by a family trust

Where an individual is owed a debt by a family trust, that individual still has control of the debt. In most cases they can call up that debt to meet personal

financial needs. If that debt is fully gifted to the trust, 100% of control shifts to the Trustees. It is important to be aware of this if you are one of the Trustees as a family feud can turn a healthy functional trust into your worst nightmare. The Trustees’ sole purpose is to look after the trust for the benefit of the beneficiaries, and if conflict arises you may find yourself with limited access to what used to be your assets.

On the whole the abolition of gift duty is a positive step forward, however every situation is unique, and any decision involving family and personal assets should be contemplated with due care.

BWR always recommend seeking the advice of a professional. If you have any questions regarding the details in the legislation change and what it could mean for you then please contact us.



## What is entertainment tax?

With the festive season fast approaching, it is a good time to look at the rules around business entertainment expenses. Basically entertainment expenditure is limited to a 50% deduction if it falls within the following types of expenditure:

1. Corporate Boxes
2. Holiday Accommodation
3. Pleasure Craft
4. Food & Beverages consumed at any of the above or in other specific circumstances e.g. Business lunches (e.g. at restaurants and cafes), food and drink provided at a reception (e.g. conference facilities, races etc) or celebration held on the business premises.

The limitations are designed to recognise the fact that entertainment expenditure usually includes a significant amount of private benefit. The expenditure needs to be business related in the first instance to qualify for any deduction (e.g. lunch with staff or clients is okay, lunch with your family is private).

### **Are any entertainment expenses fully deductible?**

There are a number of exemptions from these rules that can make your expenditure fully deductible, provided business is the main purpose and the entertainment aspect is merely incidental. Examples of such include :

- The cost of light refreshments e.g. Morning/ afternoon teas provided to employees.
- Food and drink consumed while travelling on business (unless taking a client or business associate to lunch/dinner – the 50% limit applies).
- Business related conference expenditure.
- Employee meals while at work on the employer's premises. Overtime meal allowances paid to employees are also fully deductible.

- Sponsorship expenditure promoting a business, goods or services to the public.
- Incidental promotion costs at trade fairs or functions open to the public.
- Samples provided to advertise business, goods or services to the public.
- Entertainment subject to Income Tax (PAYE) or FBT (e.g. gift vouchers given to employees as part of an incentive scheme should be treated as fringe benefits and are therefore fully deductible to the employer).
- Business entertainment consumed overseas.

### **Expenses can be a mixture of fully and partially deductible**

There are situations when entertainment expenditure can be shared between fully deductible expenditure and limited entertainment expenditure. For instance, a company owns a holiday home that is available to its employees and is also rented out at various times of the year. The company may claim a full deduction for the times the house is rented out but is limited to 50% for the remaining part of the year.

### **Fringe benefit rules can apply to Christmas gifts**

Christmas gifts provided to employees are fully deductible but subject to the fringe benefit rules as unclassified goods or services except where the value of the gift is less than \$1,200 per employee per year – no FBT is payable.

Entertainment tax policies can be confusing with areas that also involve income tax and FBT rules, please talk to BWR if you are unsure or would like more details.

## StudyLink - the go to website for student loan and allowance eligibility

Students intending to study in the first semester of 2012 should be thinking about what they need to organise now before the semester begins. The Studylink website [www.studylink.govt.nz](http://www.studylink.govt.nz) is a good place to get information regarding things like student loans, study and accommodation allowances.

Study allowances in many cases will be based on the combined income of the student's parents. For

people in business, providing current information for this is not always straight forward. In some cases we provide a certificate verifying the combined earnings from the previous year that is used in the application to Studylink.

Contact your accountant at BWR if you have children intending to study and you are not sure of your entitlements or obligations.

## Companies and Trusts used to avoid tax under increased scrutiny

The use of companies and trusts has been prevalent in business for decades in New Zealand for a number of commercial reasons including the flexibility for business owners to allocate income earned from their businesses to reduce their overall tax bill. Recently, Inland Revenue scored a Supreme Court victory against Christchurch orthopaedic surgeons Ian Penny and Craig Hooper that has given the Inland Revenue renewed focus when reviewing arrangements that shift or defer income between tax payers.

While Penny and Hooper were at the top end of the spectrum, it does reinforce the need for business tax arrangements to be based on some realistic commercial purpose other than taxation benefits.

We will keep our clients up-to-date with further developments and discuss any implications this is likely to have with specific clients on a case-by-case basis.

## Offshore investment income information more accessible to IRD

NZ tax residents with overseas investments are coming in for increased scrutiny from Inland Revenue. Enhanced relations with overseas agencies through tax information exchange agreements has provided Inland Revenue with significantly more information to assess if New Zealanders are declaring all their income (generally NZ Tax Residents need to return all their world wide income in their NZ Income Return).

IRD recently noted they have obtained over three million pieces of overseas income information for NZ tax payers. This will be reviewed and cross checked against NZ tax information to ensure it has been taxed in NZ where necessary.

If you receive overseas income it is important to include details of it with your annual information so we can determine if it should be included in your income return.



L to R: Gemma Paaymans, Mark Coombe, John Springford.



L to R: Brooke Ballantyne, Stephen Dine

## CHB A&P Society Centennial Show

BWR were delighted to secure a spot at this year's CHB A&P Society Centennial Show as it gave them a chance to catch up with many of their clients and friends from this region, and meet a few new ones. The tent was a hive of activity, especially on Saturday with Cathie Hamilton of Cathie's Cuisine on hand to tempt hungry show-goers with her delicious array of

hand-prepared food. All visitors had a chance to go in the draw to win a weekend escape to Black Barn and we're delighted to announce that the winner was Debbie Dooney of Waipukurau.

## Protecting your assets

A trust is still a useful way of protecting the assets that you have accumulated over time.

BWR are able to:

- Offer specialist advice on their formation and structure
- Help you ensure that all statutory and Trustees' requirements are met
- Attend to the reporting and taxation requirements for trusts

- Update and maintain your trust's resolutions
- Provide a Professional Corporate Trustee service using the Hawke's Bay Trustee Company Ltd
- Give guidance on gifting and the associated considerations

At BWR we have extensive experience with all elements of trusts. For further information or any help in forming your own trust please feel free to contact us anytime.

## Easy solution to finding more time to work on your business

Administering your payroll can be time-consuming and divert you from the core activities of your business. Payroll & employment legislation is growing increasingly complex and is continually changing.

We can relieve you of this burden by providing an up-to-date, comprehensive and confidential payroll service for an affordable cost, including:

- 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 analysis of staff costs
- Administration of incentive schemes, bonuses and termination payments
- Advice on your obligations regarding Contractors and Employment agreements (including full-time, part-time and casual)

**Please feel free to discuss these options with us.**

## FREE SOFTWARE CHECK-UP

Are you using an old version of accounting software that is in need of updating? Many providers have moved to annual licensing agreements and no longer support their old versions.

**Contact Matt Bron or Heidi Marillier on 06 873 8037 for a free chat to discuss your options.**

2011		
20-Dec	PAYE/Employer deductions	November 2011
2012		
15-Jan	GST	Periods ending 30 November 2011
	Provisional Tax	March, July & November balance dates
	Provisional Tax	May & November balance dates (6 mthly GST payers)
20-Jan	PAYE/Employer deductions	December 2011
	FBT	Quarter ended 31 December 2011
28-Jan	GST	Periods ending 31 December 2011
	Provisional Tax	April, August & December balance dates
	Provisional Tax	June & December balance dates (6 mthly GST payers)
7-Feb	Terminal Tax	March to Sept 2011 balance dates (No IRD extension of time)
20-Feb	PAYE/Employer deductions	January 2012
28-Feb	GST	Periods ending 31 January 2012
	Provisional Tax	January, May & September balance dates
	Provisional Tax	January & July balance dates (6 mthly GST payers)
20-Mar	PAYE/Employer deductions	February 2012
28-Mar	GST	Periods ending 28 February 2012
	Provisional Tax	February, June & October balance dates
	Provisional Tax	February & August balance dates (6 mthly GST payers)
7-Apr	Terminal Tax	March to Sept 2011 balance dates (with IRD extension of time)
	FBT	Income year filers (Shareholder employees - March to Sept)

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