



Your accounting update from BWR Summer '11

outside the square

Client Profile

Making a difference in Cambodia



Of the children in the picture with Jane, five of them have AIDS, but as you can see they are still normal kids who like to pull faces for the camera!

When owners of the Rainbow Health Company, Dr Hugh and Jane Muller wanted to give something back to the world they never imagined what it would lead to.

Eighteen months after completing a 15 week mission volunteering at a Cambodian orphanage the couple is now at the forefront of the Cambodia Charitable Trust, set up to help release Cambodian people from the trap of extreme poverty.

Jane Muller says the aim of their initial visit to Cambodia was to have an interesting experience and feel like they were helping to make a difference in the world.

“Early on in that trip we saw the helplessness of these people and just knew there was more we could do to support them,” says Jane.

She says one of the main drivers to improving life for the Cambodian people is education, and on returning to New Zealand they looked for an organisation working in this area. The Cambodia Charitable Trust fitted the bill with its focus on breaking the poverty cycle and its human rights approach to:

- Raising Educational Standards,
- Strengthening Economic Community Development,

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Hugh with a couple of children on his lap, sitting with Jane and Darlene, the head of the organisation for which we worked in 2009.



Hugh on the bike - he was biking into the nearby village to help out with some work initiatives in a wood workshop and two of the orphans were on their way home from school so they hitched a ride.

- Improving Social Accountability and upholding Human Rights, and
- Improving Health.

The Trust's head office is in Tauranga and Jane now runs the Hawke's Bay hub, with several other centres staffed by volunteers around the country. Jane says 100 per cent of the money donated to the Trust goes to Cambodia and volunteers fund their own trips to the region.

She says the Trust undertakes a range of activities from supporting lawyers to help locals with their issues, to helping to protect young women and girls from being sold into the sex trade industry.

"There are so many areas that need our support but our focus remains on educating the locals so they can help themselves."

Jane says the Trust supports eight schools and Trust members make regular trips to Cambodia to ensure the aid and support is getting to those who need it most.

"Teachers are very poorly paid over there so we pay some at the schools we sponsor US\$2 a day to ensure they don't charge the children to learn, or they don't leave to find another job."

"We also support young women financially so they can stay at school another year. This not only gives them more education, it also allows their pelvis to grow bigger so when they do leave and have babies they can have easier births."

Jane has just returned from her second trip to Cambodia and says while it's a very difficult place to visit she has learned a whole new set of life skills.

"I have to admit on one hand it is so hard to leave Cambodia and all the wonderful people there, but on the other I am desperate to come home."

"It really makes you appreciate the easy life we have in clean, green New Zealand."

Hugh and Jane Muller and the Rainbow Health Company have been clients of BWR for more than 20 years with BWR providing accountancy advice and support on a business and personal level.

Last year the Mullers did a presentation to the team at BWR about their work with the Cambodia Charitable Trust, including photos of the area the Mullers visited when in Cambodia. It left a lasting impression on the BWR team.

If you're interested in supporting the Cambodia Charitable Trust you can contact them through their website www.cambodiatruster.org.nz or email Jane Muller at hewnchain@gmail.com.

Does your holiday home pay its way?

In the summer season Hawke's Bay in particular becomes an attractive destination for tourists, especially with the array of events hosted in the region ranging from outdoor concerts and sports to cultural and Art Deco celebrations.

With an increase in visitors putting pressure on accommodation there is more incentive for property owners to rent out their holiday and even family homes. In most cases, any rental income received for this is taxable to the home owners – often without them being aware of it.

While the rules regarding rents are not new, with a flurry of home owners expected to vacate their homes temporarily for paying visitors during the 2011 Rugby World Cup, Inland Revenue has been active in ensuring people understand their tax obligations.

Tax obligations when renting out your holiday home

Generally any rental income received is assessable for tax purposes in the year it is earned. The exception is for income that merely represents a reimbursement of costs – e.g. power. However for the majority of other cases you can expect to include the income in your income return.



Like any other business or rental income, deductions can be made for costs related to earning the income but these can vary according to the specific circumstances and length of time the property is available for rent. Having the property available to rent (and marketing that fact) allows for more deductions to be claimed than just for the time rent is received.

Example

A holiday house at Waimarama is used by its owner and her friends and family for most of the year. However, the house is rented out to a third party for two weeks during the Christmas/New Year period for \$3,000. In this case, the owner may deduct expenses (e.g. interest charges, depreciation costs, insurance, and rates) for the proportion of the year that the holiday house was actually rented out (i.e. for two weeks out of 52 weeks). Other variable expenses incurred when the property is occupied should be spread on an appropriate basis. If the property is available for but not actually rented during other times of the year then further costs may also be deductible, if it is actively and regularly marketed as being available to rent.

If you would like to find out more about your obligations when renting property or how you can maximise the benefits of doing so, contact the team at BWR.

Goodbye LAQC, Hello LTC

Legislation passed in December 2010 has seen the removal of Loss Attributing Qualifying Companies (LAQCs) and the introduction of Look Through Companies (LTCs).

Why the change?

As part of the May 2010 budget the Government announced it would be addressing the inequalities that existed in the LAQC regime allowing taxpayers to offset losses from LAQCs against income in the top tax bracket at 38% while only paying tax on LAQC income at the corporate rate of 30%. The Government was also concerned about taxpayers claiming tax losses that were greater than their actual economic loss. The changes in legislation aim to fix these perceived problems. Typically LAQCs have been used for investments and businesses that make losses in early years and profits in later years, such as rental properties and forestry enterprises.

What is a Look Through Company (LTC)?

A LTC is taxed like a partnership rather than a company. Profits and losses flow through to the shareholders and are taxed in their hands rather than the company's. It is still a company under company law and retains its corporate obligations and benefits such as limited liability.

Losses that exceed the amount of a shareholder's investment in the company are not deductible.

The shareholder's investment is calculated by adding together their share of the company's equity and loans made to or guaranteed for the company. Losses that are not deductible are carried forward to offset against future income from the LTC.

To be a LTC a company must:

- Have five or fewer owners
- Be a NZ tax resident
- Have a single class of shares

- Have all shareholders sign the election to become a LTC
- Not have an ordinary company as a shareholder.

For tax purposes LTC shareholders are deemed to hold property directly, in proportion to their shareholding. Therefore a sale of shares is treated as a sale of the underlying asset and is liable for the associated tax consequences such as depreciation recoveries.

If the company exits the LTC regime there is a deemed disposal and acquisition of the company property at market value. The shareholders will be liable for tax on any income arising from the transaction. A company must exit the LTC regime if it fails to meet any of the eligibility criteria or if any shareholder writes to the Inland Revenue Department revoking the election.

When an existing company enters the LTC regime the shareholders must pay tax on the "untaxed reserves following a notional wind up". This is similar to the existing Qualifying Company Election Tax.

What will happen to your LAQC?

For tax years starting on or after 1 April 2011 LAQCs will no longer be able to attribute losses to their shareholders. For standard and late balance dates (March to September) this is the 2011/2012 tax year, and for early balance dates (October to February) the 2012/2013 tax year.

If you don't do anything the company will continue as a Qualifying Company (QC). You will continue to have all the other benefits of the QC regime such as tax free capital dividends but will not be able to attribute losses. You will also have to continue to adhere to the existing QC rules.

The Government is currently reviewing the tax rules for closely held company dividends. It is expected that following this review Qualifying Companies will be phased out altogether.

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What choices do you have?

You can choose to be taxed as a LTC, an ordinary company or transition to a partnership or sole trader.

There are special transitional rules that allow you to move to these other entities without a tax cost.

LTC

- You have six months from the start of the transitional year (for March balance dates this will be 30 September 2011) to file an election to be a LTC. This will then take effect from the first day of that income year.
- There will not be any tax payable to get into the regime.
- The company will still exist. Any property will remain in the same entity and everything will remain the same from a company law perspective.

Ordinary Company

- In order to revert to an ordinary company you will need to revoke your QC election. This can be done at any stage during the transition year and will be effective from the first day of that year.
- There may be a reduction in the imputation credit account if there have been changes in shareholders while the company was a QC.

- The company will still exist. Any property will remain in the same entity and everything will remain the same from a company law perspective.

Partnership

- You have six months from the start of the transitional year to advise the IRD that you are restructuring your business into a partnership. This will then take effect from the first day of that income year for tax purposes.
- There will be no tax consequences involved in restructuring.
- The partners of the partnership must be the same as the shareholders of the company, in the same proportions.
- The company must be liquidated by the end of the tax year.
- Any property owned by the company will need to be legally transferred into the names of the partners. There will be a cost to do this.

Sole Trader

- This is the same as restructuring to a partnership but is only available to companies who only have 1 shareholder.

What should you do?

There is no one answer to this. Each company's situation is different and there are a number of issues that need to be considered including:

- Are we likely to make significant losses in future years (particularly given the inability to claim depreciation on buildings)?
- Do we have other income to offset the losses against?
- Do we meet the eligibility criteria to be a LTC?

- Is there potential for the shareholders' relationship to break down in the future?
- Do we need limited liability?
- What assets are owned by the company?

BWR can help you

We have obtained a list of all client LAQCs and we will be contacting affected clients prior to 31 March 2011 in order to discuss their options. Although we have until six months after balance date to make any elections, it is better to be well prepared and take immediate action.

Management Consulting

At BWR we want to see your business achieve the success it is capable of. Management consulting is a service we offer to a number of businesses to help them reach their full potential.

Our experienced team of accountants at BWR:

- Can identify key performance indicators in your business, through which you will see the positive changes occurring with the help of our professional consultants
- Are able to check your business is as competitive, focused, and profitable as it can be
- Offer flexible strategies designed to address the issues affecting your business
- Have the know-how and experience to offer advice to help you run your business more effectively
- Are practiced in acting as a sounding board for management, bringing to the relationship years of experience in business growth

Start the New Year the way you intend to continue and call BWR today on 06 873 8037 to book your business in for an evaluation.

Trusts

A trust is still the most useful way of protecting your assets and planning the transition of assets to future generations.

BWR's expert trust team can:

Offer specialist advice on trust formation and structure

- Help you ensure 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

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

Payroll Services

Administering your payroll can be time-consuming and divert you from the core activities of your business.

Payroll and employment legislation is also 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, public holidays, etc
- IR-Filing to the IRD
- Administration of your employer and employee Kiwi Saver obligations
- Payroll giving
- Summaries and analyses of staff costs
- Administration of incentive schemes, bonuses and termination payments
- Employment agreements

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 on 06 873 8037 to arrange a demonstration.

Employing Non-New Zealand Citizens

As the summer and autumn harvests heat up, the pressure goes on most agricultural and horticultural businesses to secure their workforce, often using overseas employees to get crops off the land and to the market. The Immigration Act 2009 imposes new regulations on employers to ensure the workers they use are legally entitled to work in New Zealand. Previously, many employers had relied on the provision of an IR330 (tax deduction certificate) by an employee as sufficient evidence of their eligibility to work. From November 2010, employers need to show they have exercised “due diligence” when checking applicant eligibility. This includes sighting and retaining copies of documentary evidence that

a person is permitted to work in New Zealand.

The Department of Labour can provide assistance with this including a free online information service called “VisaView” that can be used to confirm work entitlements. To use the service you must first register, providing your business name and ACC number. The Immigration Department provides guides and checklists to help you meet your obligations as an employer.

Contact the team at BWR on 06 873 8037 if you need help understanding and administering the new rules or visit www.bwr.co.nz for a link to the Department of Immigration website.

Public Holidays

A significant proportion of New Zealand’s annual public holidays fall during the summer and autumn seasons so it pays to ensure you are aware of your obligations as an employer.

Christmas and New Year holidays have special arrangements when they fall on a weekend that requires them to be observed on the next business day. Other public holidays (Waitangi, ANZAC, Easter, Queen’s Birthday, Labour Day and regional anniversary days) are celebrated on the day or date they fall.

For both types of holiday, the rules on what an employee is entitled to (e.g. day in lieu, time and a half and a day in lieu, etc) will vary depending on the nature of your business, your employment contracts, the rosters in place at your business and the individual employees’ regular work patterns.

In some businesses different employees may have different entitlements. For example – shift staff on call on Waitangi Day this year (Sunday 6 February

2011) will be entitled to an alternative day, whereas administration staff who don’t normally work weekends would not.

Visit www.bwr.co.nz for links to Department of Labour fact sheets that help clarify the rules around public holidays or contact the team at BWR to ensure you get your employees’ public holiday entitlements correct the first time.



2011		
20-Feb	PAYE/Employer deductions	January 2011
28-Feb	GST	Periods ending 31 January 2011
	Provisional Tax	January, May & September balance dates
	Provisional Tax	January & July balance dates (6 mthly GST payers)
20-Mar	PAYE/Employer deductions	February 2011
28-Mar	GST	Periods ending 28 February 2011
	Provisional Tax	February, June & October balance dates
	Provisional Tax	February & August balance dates (6 mthly GST payers)
7-Apr	Terminal Tax	March to September balance dates (with IRD extension of time)
	FBT	Income year filers (Shareholder employees - March to Sept)
20-Apr	PAYE/Employer deductions	March 2011
7-May	GST	Periods ending 31 March 2011
	Provisional Tax	March, July & November balance dates
	Provisional Tax	March & September balance dates (6 mthly GST payers)
20-May	PAYE/Employer deductions	April 2011
28-May	GST	Periods ending 30 April 2011
	Provisional Tax	April, August & December balance dates
	Provisional Tax	April & October balance dates (6 mthly GST payers)
31-May	FBT	Quarter ended March 2011
	FBT	Annual filers (Ordinary Employees)

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