



Your accounting update from BWR Winter '11

# outside the square

## Client Profile

### BWR frees up business owner to work with Kiwi

It's fair to say Cherrie Lincoln from the Mahora Salon is not your stereotypical hairdresser.

While during work hours she loves helping people look their best, in her spare time you're likely to find her tramping through the Kaweka Ranges tracking down kiwi.

That's because for the last decade Cherrie and her husband Graeme have been working with the Department of Conservation and ECOED on its "Save Our Kiwi Hawke's Bay" project.

Predation of kiwi chicks by stoats and dogs has reduced the number of kiwi in Hawke's Bay to less than 1000. Without active management kiwi will become extinct locally within 10 years.

The ECOED initiative has included the development of a 40 hectare pest free area at Lake Opouahi Scenic Reserve inland from Tutira, known as the "Pan Pac Kiwi Creche".

Chicks are taken from the wild at 10 days old and reared at the crèche until they are a kilo and big enough to beat up stoats. They are then returned to the wild with a transmitter on their leg to monitor their progress.

Cherrie says she and Graeme do a variety of voluntary work for the programme, including regularly setting and checking 60 pest traps on the Kaweka Road, catching kiwi in the wild and adjusting and replacing their transmitters as they outgrow them, rescuing kiwi chicks and working with the chicks at the crèche.

"I love getting out in the bush with no one around – it's such a contrast to chatting to people throughout the week at the salon," says Cherrie.

Cherrie says one of the highlights of the work she does is showing school groups through the "Pan Pac Kiwi Creche".



*Cherrie Lincoln checking a transmitter on a kiwi in the Kaweka Forest Park*

"Many New Zealanders have never touched a kiwi so to be able to teach these children more about this fantastic little bird and let them see one close up is just great."

To date "Save Our Kiwi Hawke's Bay" has rescued and re-released more than a hundred kiwi chicks back into the wild in the region.

"I know that most New Zealanders are proud to call themselves a "kiwi"; one of my main motivators for doing this work is to secure the kiwi's future in Hawke's Bay."

Cherrie admits she's spending more and more time working with kiwi and is grateful for the support of her BWR accountant Robyn Laughton.

"The fact Robyn and the BWR team do such a great job with the salon's books means I can spend more time in the bush doing what I love and saving kiwi."

If you'd like to find out more check out ECOED's website, [www.ecoed.org.nz](http://www.ecoed.org.nz).

## 2011 Budget

On the back of a budget deficit just shy of \$17 billion dollars for 2011, Finance Minister Bill English's budget outlined the Government's priority focused on encouraging saving to try and swing the deficit to a surplus by 2015.

The tax changes for 2011 are relatively minor in comparison to those announced in the 2010 budget.

### Kiwi Saver

The most significant change occurs in the KiwiSaver rules – again. Here is a summary of the changes and the likely effect they will have on business.

From 1 July 2011, the annual Government contribution (Member Tax Credit) paid to KiwiSaver members will halve from one dollar per dollar contributed (to a maximum of \$1,042 per annum) to 50 cents per one dollar (to a maximum of \$521 per annum). The one thousand dollar kick start for first signing up to a KiwiSaver scheme is to stay in place.

The tax free status of employer contributions to KiwiSaver members ceases from 1 April 2012. The change will be effected by removing the Employer Superannuation Contribution Tax (ESCT) exemption for KiwiSaver contributions. Contributions will then be taxed using a progressive income scale based on the income tax rates and thresholds. Like PAYE from gross wages, the tax is usually deducted from the contribution the employee receives to their KiwiSaver/Superannuation account so will not directly increase the wage and salary cost for employers. However, the change is likely to add some complexity to most employers' monthly wage processes, so it is likely the overall compliance cost of paying wages will increase.

Finally, from 1 July 2013 both the minimum employee and compulsory employer contribution (CEC) rates will increase from two per cent to three per cent. This will directly increase the amount employers have to contribute on top of employees' wages.



*For example - for an employee participating in the KiwiSaver scheme earning \$45,000 per annum, the contribution paid by their employer will increase from \$900 to \$1,350 per annum. Both the ESCT and CEC contributions will continue to be paid through the monthly IR345 Employer Deductions form.*

There have been no changes proposed to the contribution holiday rules so if an employee elects to stop contributing to KiwiSaver, IRD will notify their employer to stop deducting the contributions from the employee's wages or salary. In these cases, the employer is no longer required to make the compulsory employer contributions either.

## 2011 Budget Continued

### Working for Families Tax Credits

Over the four years from 1 April 2012, the threshold at which Working for Families Tax Credits (WFF) will start to abate will reduce from \$36,827 back to \$35,000. Over the same period the rate of abatement will increase from 20 cents to 25 cents for every dollar earned over the threshold.

This, along with the changes to the definition of family income applying from 1 April 2011, will mean fewer people will receive WFF credits each year. Government calculations show a two child family earning over \$60,000 per annum will receive less Family Assistance than before.

### Student Loans

Continuing with the theme of reviewing access to the country's social benefits, the rules around interest free loans for student borrowers will be revised over the coming months. Borrowing restrictions for those with overdue student loan obligations, student loan borrowers older than 55 years and part time students are being considered.

For borrowers wishing to go overseas, the optional three year repayment holiday will reduce to one year. The repayment holiday will also not be granted automatically but will need to be specifically applied for. Loans for overseas-based borrowers will continue to attract interest.

### Farming

For farmers, the government intends to review the rules allowing tax payers to switch between livestock valuation schemes. Public consultation on the issues and proposed changes to the current rules will be published later this year.

Similar consultation is planned in relation to mixed use assets owned by businesses but also used privately, in particular high value assets such as yachts and holiday homes.

## A word on tax changes

Several of the changes announced in the 2010 budget took effect from the start of the 2011/2012 income tax year.

### Qualifying and Loss Attributing Qualifying Companies (LAQC)

1 April 2011 signalled the start of the new rules relating to Qualifying Companies. For those companies registered as loss attributing companies (LAQCs), tax losses will no longer be able to be attributed back to shareholders.

An LAQC can elect to become a look-through company (LTC) up until 30 September 2011 (or earlier for early balance date companies). The flip side of this new type of company is any profits earned in the company will be assessed to the shareholders in much the same way as a partnership.

An LAQC also has the opportunity to switch to a sole trader or partnership structure without any tax cost (e.g. depreciation recovered) within six months of the start of the 2012 income tax year.

Any LAQC not making one of the above elections will revert to a normal qualifying company.

### Depreciation on Buildings

Rules preventing the deduction of depreciation on buildings with a useful life of more than 50 years also started from the beginning of the 2012 income tax year.

For businesses with significant depreciation claims in the past, this may mean an increase in the amount of provisional tax payable in this current year (first instalment is due 28 August 2011 for a March balance date).

Commercial building owners may still depreciate up to 15% of the overall cost of a building as fit-out (claimed at the rate of 2% per annum). This deduction does not apply to dwellings or residential buildings.

### Company Tax Rate

One of the positive changes from the 2010 Budget was that Company tax rate reduced from 30% to 28% from the beginning of the 2011/2012 tax year. For most businesses this started 1 April 2011. If your company pays provisional tax, the 2012 instalments will reflect this lower tax rate. 28 August 2011 will be the first instalment of 2012 tax due for a March balance date company.

## Hawkes Bay A&P Society Farmer of the Year



*Peter Andrew of Gisborne, Farmer of the Year judge introduces Tom and Anna Clouston at the field day held at Tangmere, Central Hawke's Bay in May 2011.*

BWR has had a long association with the Hawke's Bay A & P Society including as a sponsor of the annual Farmer of the Year Awards Dinner. This year the dinner was held in April 2011 at the Hawke's Bay Showground in Hastings in the A & P Society's remodelled Event Centre (formerly the Exhibition Hall).

The Farmer of the Year started in 1970 to help "promote high standards of agriculture and pastoral farming management and production". These objectives are more valid than ever in the challenging environment facing farmers today. Contestants undergo a review of their properties and management procedures with in the field judging occurring during March and early April.

The 2011 event was won by Tom and Anna Clouston of Tangmere, Flemington in Central Hawke's Bay, their first attempt at entering the competition. Tom and Anna hosted a field day at their property on 5 May 2011 to highlight why the judges selected them as winners for the 2011 competition.

The awards dinner was presided over by Hastings City councillor Henare O'Keefe with guest speakers 2008 World and Olympic cycling champion Sarah Ulmer and 2010 Commonwealth Games medallist Nikki Hamblin. Both Sarah and Nikki are also sports ambassadors for Beef and Lamb New Zealand.



*Sarah Ulmer and Nikki Hamblin "On the Couch" with Cr Henare O'Keefe at the Awards Dinner, April 2011.*

## Deferring Farming Income

In years when commodity prices have been high, we often get calls near the end of the tax year asking what items can be bought that will give a deduction in that tax year therefore reducing the amount of tax payable. Fencing supplies, fertiliser and other consumable farm supplies are the common items some farmers may stock pile to help manage any potential tax problems. Provided not more than \$58,000 of consumable products are on hand at balance date, this practice works fine as in most cases the products will be used in the near future. Farmers can take advantage of current prices if there are price increases expected in the future. More than \$58,000 and the goods should be recorded as prepaid expenditure and added back as income, negating the tax deferral and adding to the annual compliance cost of the business.

Another way of deferring income is using the Inland Revenue Income equalisation scheme. The income equalisation scheme allows farmers, fishers and foresters who are eligible taxpayers to even out fluctuations in income by spreading their gross income from year to year.

### What is income equalisation? How does it work?

Income is paid to the Inland Revenue and earns interest at 3% per annum on amounts left on deposit for more than 12 months. The interest received accumulates as part of the deposit for tax purposes. Deposits can be held for a maximum period of five years.

Deposits are tax deductible in the year for which they are made and refunds (including interest) are assessable in the year in which they are received. In normal circumstances an amount may not be withdrawn unless it has been on deposit for at least 12 months.

Just after 31 March each year Inland Revenue sends a statement to all taxpayers who have income equalisation deposits, showing their current balance and any interest credited to the account.

Deposits can be made as late as 31 March in the year following your balance date, e.g. for the year ended 31 March 2011, your deposit must be received by Inland Revenue by 31 March 2012. By timing the payment of your deposit and in the right circumstances, it is possible to receive three years

deferral of tax while only having your money on deposit at IRD for just over one year.

For example, if in March 2011 a farmer deposited \$50,000 into the equalisation scheme, that deposit would qualify for an income deduction in the June 2010 year. If the deposit is left with IRD until July 2012 then requested back, the refund will be not be taxable until the June 2013 tax year. So 2010 income is deferred for three years until 2013 while the deposit would be held at IRD for just over 15 months. This does take some planning but can assist tax management or lessen use of money interest issues when there are unexpected or volatile levels of income to account for.

### What is the adverse event income equalisation scheme?

The adverse event income equalisation scheme allows farmers who experience adverse events to carry income from forced livestock sales over to the next income year.

An adverse event is an event which materially affects the business of the taxpayer.

These are:

- fire, flood, drought or other natural event or
- sickness or disease among livestock

Adverse events are usually self assessed meaning the tax payer will make a declaration of the event having occurred. In many instances, Inland Revenue will announce a regional or national event such as a flood, storm or drought will qualify as an adverse event for the equalisation scheme.

Limits do apply to the amount of income that can be deposited to the adverse events scheme. Deposits are made in a similar fashion to normal income equalisation deposits by paying the income to Inland Revenue. However, the adverse events scheme allows for refunds of deposits to be requested immediately so the farmer gains a 12 month deferral of income with only around a one month deposit of funds.

**Talk to the team at BWR if you would like to know more about using the income equalisation or adverse events schemes.**

## Reception and Administration a vital part of BWR



*BWR reception team L to R Back Pam White, Margaret Gibson, Sandra Ousley; Front Cathy Simpson and Debbie Milne.*

Like most businesses our reception team is generally the first point of contact for most clients. This makes the “front office” role a very important and integral part of the total client service we strive to offer at BWR. More often than not, the reception team are both the first and last contact clients have with the firm each year – from the time clients deliver their work, to the “finished product” they receive at the end.

At the heart of BWR’s reception team are Cathie Simpson and Debbie Milne. They’re supported by Sandra Ousley, Margaret Gibson and Pam White, who provide relief during breaks and lunch hours.

As well as welcoming and assisting clients in person or on the phone, Cathie and Debbie handle most of the day-to-day running and client enquiries for the Heretaunga Building Society which operates from BWR and is overseen by BWR director George Speedy. Pam looks after client borrowing requirements as well as preparing the monthly financial reports.

Cathie is also in charge of BWR’s client trust account ensuring the safe transfer and distribution of client

monies, as well as over-seeing client banking and mail leaving the office.

Sandra and Margaret are BWR’s expert word processing operators and also provide cover for the reception team. Their role includes producing most of the firm’s correspondence, as well as the quality control and final binding of the financial statements produced for our clients.

### 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.

## Trusts

Trusts have been in existence for centuries and are an effective way to set assets or wealth aside for future generations. They do require some administration, can be complicated and often people are unsure of why they have a Family Trust. Anyone with significant assets may be able to benefit from using a Trust.

Some of the reasons for setting up a trust are asset protection, business continuation, relationship property protection and privacy and tax advantages.

### BWR is able to:

- Offer specialist advice on trust 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

**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 on 873 8037.**

## GST Services

When you're running a successful business there is never enough time in the day to do everything you know you need to do. Continuing changes to the tax legislation do make it difficult to keep on top of your obligations as a business owner.

The experienced team at BWR know what they are talking about when it comes to tax and can take the worry out of meeting your GST responsibilities.

### We can help you with:

- Registration queries
- Preparation of GST returns
- Filing and adjusting GST returns
- IRD audit assistance
- One-off specialist event GST obligations. e.g. sale or purchase of a property

**Contact your accountant at BWR on 873 8037 to find out how this will benefit your business.**



## 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-Jul	PAYE/Employer deductions	June 2011
28-Jul	GST	Periods ending June 2011
	Provisional Tax	February, June & October balance dates
	Provisional Tax	June & December balance dates (6 mthly GST payers)
20-Aug	PAYE/Employer deductions	July 2011
28-Aug	GST	Periods ending 31 July 2011
	Provisional Tax	March, July & November balance dates
	Provisional Tax	January & July balance dates (6 mthly GST payers)
20-Sep	PAYE/Employer deductions	August 2011
28-Sep	GST	Periods ending 31 August 2011
	Provisional Tax	April, August & December balance dates
	Provisional Tax	February & August balance dates (6 mthly GST payers)
20-Oct	PAYE/Employer deductions	September 2011
28-Oct	GST	Periods ending 30 September 2011
	Provisional Tax	January, May & September balance dates
	Provisional Tax	March & September balance dates (6 mthly GST payers)
20-Nov	PAYE/Employer deductions	October 2011
28-Nov	GST	Periods ending 31 October 2011
	Provisional Tax	February, June & October balance dates
	Provisional Tax	April & October balance dates (6 mthly GST payers)

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