Your accounting update from BWR April '08

outside the square

Client Profile

International outlook for Ross Taylor

At age 5, Ross Taylor started playing cricket in Masterton. By 16, he was representing New Zealand in the under-19 team. Now 23, he is regarded as New Zealand's brightest batting prospect in years.

The 2003 New Zealand Cricket Academy Graduate made his debut for the Stags in January 2003 and quickly made his mark on the domestic scene. His flying start to the 2005-2006 season, with three quick fire centuries, led to his One Day International call up to the Black Caps in March 2006. In only his 3rd One Day International for New Zealand Ross scored an amazing 128 not out against Sri Lanka. Since his debut, Ross Taylor's free flowing batting style has made him a regular in the New Zealand One Day International team and it only looks like bigger and better things are to come.

With Ross Taylor's increased success he found the financial complexity of his situation changed. This lead Ross to have a conversation with former Central Districts team mate and BWR chartered accountant, Campbell Furlong. Campbell and the team at BWR were able to understand the complexities of Ross' career as an international cricketer. As a professional cricketer, Ross is self-employed and contracts with a number of different teams, whether they are New Zealand, Central Districts, English County cricket or the Indian Premier league. "I have complex ACC needs as a professional sportsman so BWR take care of all this and my other financial requirements throughout the year. Having BWR looking after my financial needs means my finances are the least of my worries and I am able to fully focus on scoring runs for New Zealand."

Employer KiwiSaver contributions kick in

Most employers will have become familiar with collecting the KiwiSaver contribution from their enrolled employees over the last year. If you are one of these employers then you should be aware that KiwiSaver is moving into its second stage.

From April 1 all employers with staff registered as KiwiSavers will be required to contribute a minimum of 1% of the employee's gross earnings to their savings plan. The contribution is based on the employee's gross wages or salary each month and is paid with PAYE to the Inland Revenue.

The employer contribution is scheduled to rise 1% per year until 2011 when it will equal the employee minimum contribution of 4%. Employers will be required to contribute to all KiwiSaver employees who are over 18 and have not yet reached the age of eligibility for NZ Superannuation (or have not been a contributing member for five years).

To help offset this contribution, employers will receive a tax credit of up to $20 per week per contributing employee.

Here is an example:

Regan employs Matt who is a KiwiSaver member - Matt receives a gross salary of $1,000 a week. Regan's 1% contribution to Matt's KiwiSaver scheme is $10 a week. For the month of April, Regan pays weekly wages four times, so his contribution to Matt's KiwiSaver scheme totals $40. Regan will be able to claim an employer tax credit of $40 to offset this (i.e. four weeks at $10 per week). If Matt's salary were to increase this tax credit would be capped at $20 per week.

What employers need to know?

- For the first year, the $20 per week tax credit will match a 1% contribution on a salary of up to $104,000 per annum. For salaries over that or once the contribution rates increase to 2%, 3%, 4%, the extra cost is borne by the employer.
- Paying an advance on wages (including holiday pay in advance) can generate some issues regarding your employer tax credit.
- From April 2008, the employer IR345 payment form will include additional fields to account for the employer's share of KiwiSaver contributions and tax credits claimed.

Please contact BWR if you are not sure of your obligations as an employer or if you would like more information.

Policy Review

Companies tax rate drops but there are pitfalls

The company structure has become more attractive for many businesses with the reduction of the company tax rate from 33% to 30% that took effect on April 1 2008.

The rationale behind the change is to encourage businesses to retain more of their profits that in turn should lead to more reinvestment and hopefully greater gains in productivity.

Despite the obvious tax advantage, there can be pitfalls that need to be considered:

1. For **existing businesses** thinking of changing to a company structure the major ones are:

- An extra 9 or 3 cents in the dollar will need to be paid when income is streamed down, by way of salary or dividend, to shareholders if their marginal tax rates are 39% or 33% respectively.
- The transfer of assets into a company from a sole trader or partnership may give rise to depreciation recoveries and/or FBT implications. Make sure you discuss your situation fully with your accountant at BWR before you contemplate any action.

2. For **pre-existing companies** there are several issues to consider also:

- Shareholder salaries may need to be adjusted to take advantage of the lower company rate. In some cases shareholders may need to be able to sustain a reduction in drawings to avoid any Fringe Benefit Tax implications.
- Imputation tax credits accumulated pre-April 2008 can be attached at 33% to dividends paid until 31 March 2010. Companies will need to maintain clear records that identify these previous credits from credits accumulated post April 2008. The decision to pay dividends to clear pre-2008 credits during this transitional period will need to consider the effect of having additional income assessed by the shareholders now vs. the effect of losing the extra 3% credit in the future.

3. As for **individuals and trusts** (which are often the shareholding vehicle) this will not become clear until after the elections and therefore it may be worth waiting to see what tax cuts are announced before restructuring.

With the current individual and trust tax rates, it is likely a top up of RWT will be required when a company declares dividends in the future. This may place more timing restrictions on the dividend payment process and will certainly mean some careful forward planning is needed.

If you would like to know more about how the new rules will benefit or affect your business, please contact your BWR director to discuss this further.

Policy Review

Fines for late GST returns

If you are in the habit of filing your GST returns after the due date, the cost has just increased.

From April 1 2008, late returns including nil returns will be penalised with a $50 fine if you file on the Payments basis. A $250 fine applies to Accrual basis filers.

Inland Revenue will introduce the penalties with a warning system – your first late return will generate a warning letter. Any subsequent late returns will have a penalty applied.

To avoid a fine and stay on top of your GST returns, BWR offer a wide range of GST and regular reporting services. We are more than happy to prepare and file your business' GST returns.

Policy Review

Budget Lookout

It's election year again which means the 2008 budget should be an exciting affair. With the Government continually unearthing surpluses the pressure will be on for some kind of tax reform for individuals. As in the past we will bring you a report of the budget and its effects in our winter newsletter due in June. We will also send out an email bulletin summarising the facts right after the budget is released. If you would like to receive this and other updates on a regular basis and have not already requested to be included on our news and updates list, please send an email to subscribe@bwr.co.nz with 'Budget update' in the subject line.

How can we help you?

Payroll Services

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

We can relieve you of this burden by providing a comprehensive and confidential payroll service, 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
- Summaries and analyses of staff costs
- Administration of incentive schemes, bonuses and termination payments
- Employment agreements

How can we help you?

Selling a Business

Selling your business can be a difficult, often disheartening time. In this state the tasks involved in selling a business can seem particularly arduous. Here at Brown Webb Richardson we are able to relieve that stress for you.

The services we provide in relation to organising the selling of a business include:

- Obtaining comparative results
- Establishing a realistic sale price
- Advising on how you should take the business to the market
- Negotiating with potential purchasers
- Drafting a contract

Our friendly and professional staff are able to assist in such a way that a maximum return for your business can be achieved.

How can we help you?

Budgeting

A good budget is a necessity in any good business plan. It is one of the best business tools to enable financial targets to be set and performance to be measured.

At BWR we understand this and we can provide a budgeting service that will allow your business to:

- Establish a cashflow forecast to enable your business to set goals for the future
- See where funds may be freed up to invest in further development of your business
- Help ensure that relevant funds are on hand for tax compliance and bill payment
- Improve funding opportunities from financing companies

There are many types of budgets and we can help you design the right budget for your needs and requirements. Let us show you how a budget and a cashflow forecast can prepare your business for the future.

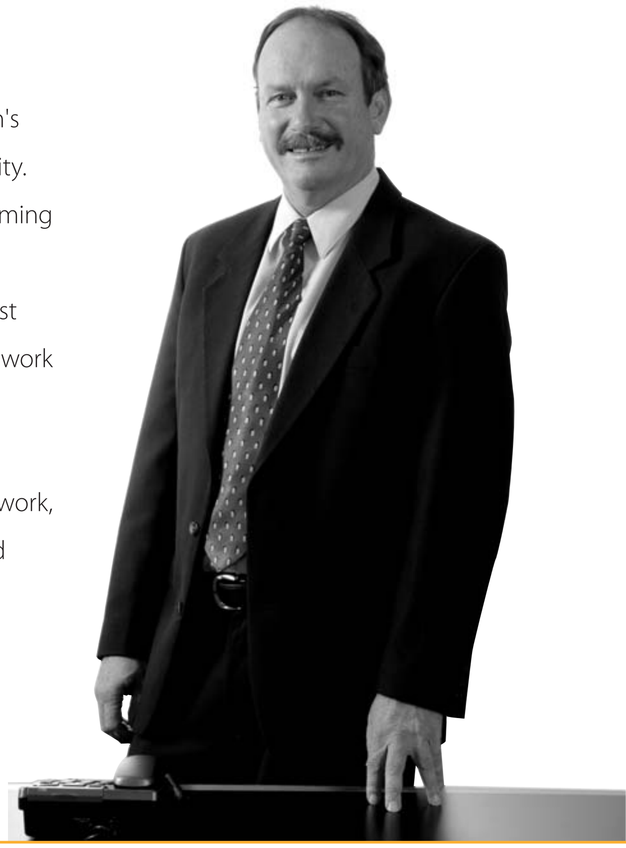
Team Member Profile

Stephen Dine

Hawke's Bay born and bred, Stephen attended St John's College in Hastings before heading to Massey University. Stephen returned to work for Richardson Epplett; becoming a partner in 1989.

Currently chairman of BWR, Stephen is involved in most aspects of the practice, and relishes the opportunity to work with a team of true professionals.

Stephen has an interest in the horticultural industry; particularly pip fruit and grape production. Outside of work, Stephen is keen on house renovation, playing golf and refereeing rugby.



Sponsorship

PGG Wrightson Hawke's Bay Farmer of the Year Award

BWR, proud sponsors of the Hawke's Bay Farmer of the Year Award, would like to congratulate all the entrants, finalists and the winner of the PGG Wrightson Hawke's Bay Farmer of the Year, Adrian and Kim Arnold of Tutira. For these farming businesses to achieve their results in the present market and the climatic conditions is a huge credit to them and we wish them all the best in the roll out of their respective business plans.

Business Compliance

Year End Housekeeping

For most business' March 31 is the financial year-end and the time when owners start to assemble their "tax" information to bring to their accountant.

If the past year has seen significant changes in your business – for better or for worse, attending to your annual year end records may need to come earlier than usual if you wish to avoid any unpleasant tax surprises.

Some things you may need to consider before you bring in your records follow:

- Motor vehicle logbooks. Make sure your vehicle logbook has not expired - if you are self-employed, a logbook must be kept for a 3-month period every 3 years. Please check that your work-related vehicles still meet the criteria that avoid fringe benefit tax, no one likes to pay fringe benefit tax un-necessarily.
- Make sure you have kept accurate records from your annual stock-take. Having the actual figures on hand now is more preferable than trying to re-construct the balance at a later date.
- If you have paid business interest to a family member or other non-financial institution, Resident withholding tax on interest may be payable. RWT (deducted at 19.5%, 33%, or 39% on election) for March 2008 is due by 20 April 2008.
- Holiday Pay accrued up to balance date can be deducted in the financial year just finished if it is paid out within 63 days of balance date. (NB. From 1 April 2007 the Holidays Act prohibits employers from "cashing up" employees annual leave entitlements.)

The IRD can impose penalties for not keeping sufficient records, it is much better to fulfil your end of year record keeping requirements at the time rather than trying to re-construct them at a later date.

If you would like to know if your record keeping is sufficient for your year-end information or even day-to-day transactions, ask one of the team at BWR.

BWR in the field

Hands-on systems training

Having a business accounting software solution is one thing, knowing how to use it is another. That is why BWR's client services team includes two specialist software support people Heidi Marillier and Matt Bron. Recently Heidi and Donna Aroa spent some time on the shop floor with Freedom Furniture as they upgraded their accounting software.

Pictured from left to right are Wendy Tapscott (Freedom Furniture), Donna Aroa (BWR), Heidi Marillier (BWR) and Karen Podmore (Freedom Furniture).

What does this really mean?

What is a Loss Attributing Qualifying Company?

A Loss Attributing Qualifying Company (LAQC) and paying less tax are often heard in the same sentence. That is because a LAQC is a Qualifying Company that has elected to pass its tax losses on to its shareholders so that they can offset the losses against their own income in order to pay less personal tax overall.

This happens in the year the losses are incurred.

How a LAQC can benefit a business:

- Shareholders can offset the losses of an LAQC against any other income they may have. The following example shows how an LAQC can reduce shareholders overall taxable income and create a tax refund.

Income from wages/salaries	45,000
Less share of LAQC loss	-3,000
Taxable income	42,000
Tax due	8,730
Less PAYE from wages/salaries	-9,720
Tax refund due	-990

Being able to attribute the losses to the shareholders enables the shareholders to use the losses and possibly generate a small amount of cash flow from tax refunds.

The situations where a LAQC can be used:

- For businesses that need the legal protection of a company but are unlikely to be profitable in the early years of operating.
- For rental properties that often have high debt levels during the early years of operating.
- To allow multiple owners (up to five) to share the business risk.

The disadvantages (are surprisingly few):

- The shareholders must agree to be personally liable for any income tax that is not paid by the company.
- Any tax that the company owes must be paid and up-to-date prior to the LAQC status commencing.
- Any company losses must be passed on to shareholders and not carried forward into subsequent years.

To find out more information, we recommend that you contact your Director at BWR.

Sponsorship

Congratulations to Vernon King, 2008 winner of the People section of the Art Hawke's Bay Weekend. BWR was proud to sponsor this event held at Vidals Restaurant during Harvest Hawke's Bay at the start of February.

Key Dates – 1 April - 30 June 2008

2008		
5 April	Large employers	PAYE/employer deductions for March 2008
7 April	2007 Terminal Tax	Provisional Tax - April and August balance dates
20 April	PAYE/employer deductions	March 2008; FBT – March 2008
28 April	GST	periods ending 31 March 2008; Provisional Tax – November balance dates
5 May	Large employers	PAYE/employer deductions for April 2008
7 May	GST	periods ending 31 March 2008; Provisional Tax – May and September balance dates
20 May	PAYE/employer deductions	April 2008
28 May	GST	periods ending 30 April 2008; Provisional Tax – December balance dates
5 June	Large employers	PAYE/employer deductions for May 2008
7 June	Provisional Tax	June balance dates
20 June	PAYE/employer deductions	May 2008
28 June	GST	periods ending 31 May 2008; Provisional Tax – January balance dates

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