



Your accounting update from BWR December '07

outside the square

Client Profile

Redcurrent Success Story

Cutting out the middleman to supply unique, quality gifts and homeware products to New Zealanders has been a recipe for success for BWR client Redcurrent. The business began in 1999 when Rebecca McHardy went on an overseas buying trip with her mother, Audrey, who had a retail shop in Havelock North.

They came back with far too much product for one shop, so decided to open a store in Auckland.

Since then, Redcurrent has expanded to include nine retail shops spread out over Ponsonby, Auckland, Hamilton, Havelock North, Wellington, Christchurch and Dunedin, with a warehouse in Havelock North.

The main point of difference for Redcurrent is that more than 50 percent of their products are bought directly from the producer and cannot be bought anywhere else in New Zealand other than from Redcurrent.

Up to 80 staff are employed, including eight managers who all actively contribute to the decisions of the company, 20 full-time staff and up to 70 part-timers.

Rebecca, who lives in Christchurch and is mother to three children under the age of seven, keeps in close contact with BWR's Roger Sinclair.

The self-confessed risk-taker appreciates the more conservative way of thinking Roger provides as the company's accountant.

More information about Redcurrent can be found on the company's web page, www.redcurrentathome.co.nz.

Roger has been the family accountant for many years and the company accountant since the beginning. He is regularly used as a sounding board by Rebecca when planning and making decisions on areas such as the business structure and other financial matters.



Keeping up with Tax Changes

We recently mentioned the IRD had started to align taxpayers' income tax balance dates and GST taxable periods if they were not already matched. The change is to allow the introduction of new rules that require GST and provisional tax payments to be made at the same time from the beginning of the 2008/09 income tax year.

GST Taxable Periods

The length of your GST period will also determine the number of provisional tax payments. A taxpayer who files either monthly or two monthly GST returns will still pay three provisional instalments. A six monthly GST filer will now only be required to make two provisional tax payments per year. Taxpayers using the ratio option will need to make six provisional instalments during the year.

GST and Provisional Tax Due Dates

| BALANCE DATE | | | | | | | |
|--------------|------------|-------------|------------|------------|------------|------------|------------|
| 31 OCTOBER | | 31 DECEMBER | | 31 MARCH | | 30 JUNE | |
| Was | New date | Was | New date | Was | New date | Was | New date |
| 07/02/2008 | 28/03/2008 | 07/04/2008 | 28/05/2008 | 07/07/2008 | 28/08/2008 | 07/10/2008 | 28/11/2008 |
| 07/06/2008 | 28/07/2008 | 07/08/2008 | 28/09/2008 | 07/11/2008 | 15/01/2009 | 07/02/2008 | 28/03/2009 |
| 07/10/2008 | 28/11/2008 | 07/12/2008 | 28/01/2009 | 07/03/2009 | 07/05/2009 | 07/06/2008 | 28/07/2009 |

If you have a different balance date to those listed or file your GST six monthly, please refer to the schedules on our web site or contact the team at BWR.

Provisional Tax Payment

GST returns are being altered to include a section to record provisional tax payments. The return will not include any indication of how much provisional tax is due. As an ongoing commitment to our clients, BWR will still send out tax notices at new due dates (see the 'How we can help you' section of this newsletter). To help prevent processing errors at the IRD we recommend you do not include the amount of provisional tax on the GST103 form, and return your provisional tax cheques to BWR in the normal fashion.

Payment Due Dates to Change

The due date of your provisional instalments will now match your GST payment due dates. For a March balance date who files two monthly GST returns, the first provisional instalment will be due on 28 August 2008 (previously 7 July) - a deferral of about seven weeks. The next instalments are due at approximately four monthly intervals - 15 January 2009 and 7 May 2009.

The changes will take effect for October 2007 taxpayers first who will be required to make the first combined GST/provisional tax payment on 28 February 2008.

A table showing the applicable payment dates for several different balance dates follows. Please note, this will only apply to monthly and two monthly GST filers and non GST registered provisional tax payers.

New Provisional Tax Option

The new rules also include an additional method that can be used to calculate your provisional tax based on your GST returns called the Ratio Option. This option is designed to help match your provisional tax payments more closely to your sales during the year.

We have reviewed the information available for this new option. Due to increased administrative requirements and possible difficulties of obtaining overpaid tax, we would recommend clients speak to their BWR Director before electing this option.

Low Down on Seasonal Spending

With the festive season fast approaching, it is a good time to look at the rules governing business entertainment expenditure and how the team at BWR can help.

Put simply, entertainment expenditure is limited to a 50% deduction if it falls within the following types:

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, food and drink provided at a reception 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.

There are a number of exemptions from these rules that can make your expenditure fully deductible, provided the entertainment aspect is merely incidental, rather than the main attraction.

Examples of such include:

- The cost of light refreshments eg: morning/ afternoon teas provided to employees.
- Food and drink consumed while travelling on business (unless taking a client or business associate to lunch/dinner - then 50% limit applies).
- Business-related conference expenditure (for conferences longer than four hours)
- 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. Eg. 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

There are situations when an apportionment can be made between fully deductible expenditure and limited entertainment expenditure. For instance, a company owns a holiday home that is available for use by its employees that 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% of the remaining part of the year.

Christmas gifts provided to employees are fully deductible but subject to the fringe benefit rules as unclassified goods or services. There is an exemption for minor benefits if the value of the gift is less than \$200 per employee per quarter – no FBT is payable up to a maximum of \$15,000 expenditure per year.

Entertainment tax can be quite confusing with areas that border the income tax and FBT rules. Please contact BWR if you are unsure or would like more details.

Taxing Casual Labour



Summer months are generally a busy period for most businesses be they retail, service/hospitality providers or agriculturalists/horticulturalists. As a way of coping with the temporary demand for labour, many businesses employ casual staff during their busy season who can be released later when the heat is off.

While casual staff may only work in your business for a short time, most of the rules applying to permanent employees still apply. Most importantly:

- All casual staff should have an employment contract no matter how temporary their expected length of service.
- As the employer, you must also complete and keep tax details of your casual staff on IR330 forms, while their gross wages and tax deductions need to be included on your monthly employer schedules.

Some industries do lend themselves to variations on the casual labour theme. Self-employed contractors are especially common in the construction, contracting and agricultural/horticultural industries.

If using a contractor, it is a good idea to use a service agreement.

Not only should this explicitly detail the nature of the contract i.e. employee vs. independent contractor, it should also outline each parties' obligations to each other.

Benefits of using contractors instead of employees include removal of holiday and sick leave obligations as well as reducing the business' ACC obligations. However, the tax rules regarding contractors are no less stringent. Technically, any business using a contractor should also obtain an IR330 from them. The IR330 lists the industries in which contractors must have withholding tax deducted from their income and applies whether the contractor is registered for GST or not.

Contractors can apply for a certificate of exemption from IRD. In this case, you should sight and copy the certificate before making payments that would normally require withholding tax deductions.

There are exemptions from the need to deduct withholding tax in most industries for contractors trading as companies.

However, this exemption was removed for companies providing pruning, thinning, picking and packing services in the agricultural and horticultural industries.

Please contact BWR if you would like to know more about any employment or contract matters. We can also help with certificate of exemption applications and company setups.

CASUAL LABOUR TIPS

Taxing Casual Agricultural Workers

Agricultural contractors are subject to withholding tax. Farmers who employ these workers must ensure withholding tax is deducted from any payments made to them.

Casual agricultural workers have been removed from the Withholding Payments Regulations and made subject to PAYE.

Casual agricultural workers are people who are engaged in casual seasonal agricultural work:

- on a day-to-day basis
- for up to three months

Threshold For Paying Untaxed Wages To Children Increased

The threshold for paying wages to schoolchildren before you deduct PAYE has increased. You can now pay \$45 per week (\$2340 per annum) without having to deduct PAYE or include the details on your employer monthly schedules.

Taxing School Children Who Earn More Than \$45 Per Week

Schoolchildren who earn more than \$45 a week, or expect to earn more than \$2,340 a year from all employers need to complete a *Tax code declaration (IR330)*. You need to deduct PAYE or withholding tax from the payments you make to them and keep wage records.

\$351 Rebate For School Children

Children are entitled to a rebate of \$351 each year if their income is over \$2,340 and they have had PAYE or withholding tax deductions made. If they use the M tax code on their IR330 you can reduce the PAYE you deduct by \$6.75 each week. This way they receive their rebate throughout the year. Schoolchildren under the age of 18 should not use the ML tax code.

Tax Code Declarations For Students

If you employ university, polytechnic or any other type of student, they must complete a *Tax code declaration (IR330)* and you must deduct PAYE or withholding tax from payments made to them.

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
- KiwiSaver obligations
- Summaries and analysis of staff costs
- Administration of incentive schemes, bonuses and termination payments
- Employment agreements

GST

The team at BWR are leaders in their knowledge of legislation. We are able to offer accurate, timely assistance in a number of areas. These include:

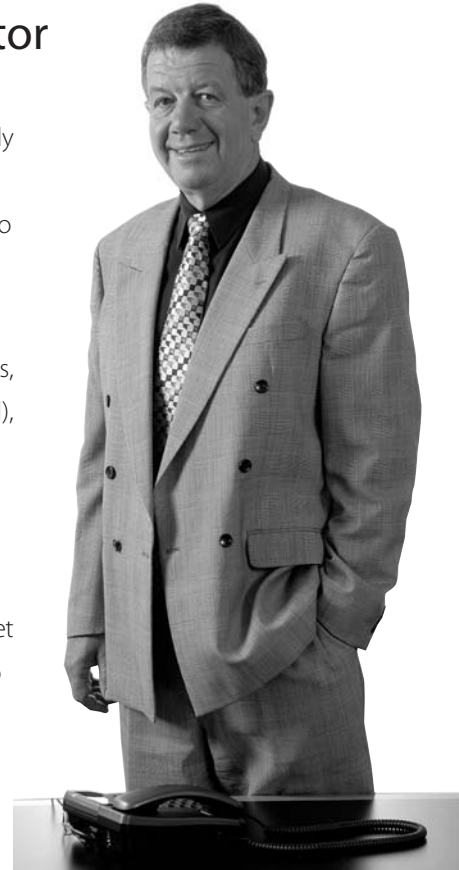
- Registration queries
- Preparation of GST returns
- Filing and adjusting GST returns
- IRD audit assistance
- Specialist events involving GST - eg sale or purchase of property

Trevor Webb - Specialist Service Director

Over 30 years of dedicated service to the accounting profession has positioned Trevor well for his new role at BWR. From 2008 Trevor will solely focus on carrying out work and providing advice on high end financial and taxation scenarios for both BWR clients and other professionals who require specialist support for their clients.

Trevor is excited to be dedicating his time to such projects, which will include arbitrations, acquisitions, due diligence, expert witness/opinions, valuations, retirement strategies, taxation audits (including international), business health checks, restructuring and succession planning. "I have been offering this expertise within BWR for sometime now. My official move into this role will better enable me to extend this service to other professionals such as Bank Managers and Lawyers who are increasingly recognizing the importance of calling on an expert to analyse and interpret financial information before possibly putting their people at risk due to an uninformed decision which could have been avoided."

Trevor's approach to the projects is already acclaimed to add value, be professional and on target.



Business is booming

BWR is proud to be associated with TVNZ's "Business is Booming" – a magazine show that screens on TV ONE at 8am on Saturday mornings.

The show looks at the challenges facing small businesses in the New Zealand economy ranging from initial setup to expansion into other countries. Using practical answers, demonstrations and real life experiences the show aims to highlight how entrepreneurs can grow and make a success of their business.

Debbie Jeffares of BWR said "the challenges the businesses who are profiled on this show are facing, are the same challenges that we support many of our clients through."

The show offers a competition to provide chartered accountancy services to those who enter through the show's web page. As the only regional sponsor for Hawke's Bay/East Coast, BWR will be the firm providing the services to the lucky winner. Look out for our logo on the show.

Provisional Tax Notices

BWR has always provided our clients with tax notices and collected payments before forwarding to the Inland Revenue. We find this provides additional reminders to our busy clients and also enables us to keep our records in line with IRD. This is of great assistance when sorting out provisional tax problems. Despite the change to combine provisional tax payments with GST returns, we

will continue to offer this service as a matter of course to our clients so you can still expect to receive a provisional notice from us prior to the due date. Please return your provisional tax cheques to BWR in the normal fashion rather than including the payment with your GST103 form.

What a 'PIE' really means

Some would say it is a buttery mouth-watering snack that is filled with tasty gravy and small portions of meat.

In an investment sense, it is considerably different. A PIE is a Portfolio Investment Entity, which put simply is a special tax investment type that a managed fund can apply to become. The main aim of choosing a PIE is to take advantage of new rules taxing fund managers and other indirect investment vehicles.

Previously, fund managers who invested on behalf of taxpayers were subject to a different set of rules (including capital gains on NZ share transactions) than individual taxpayers who directly invested themselves.

Under the new rules, which were introduced in October, a PIE and individual investor are taxed in similar ways.

A PIE will deduct tax on behalf of each investor at the Prescribed Investor Rate (PIR). This rate will be 33% if your income for the past two years was greater than \$38,000,

although from 1 April 2008 this rate will reduce to 30%. If your income for either of the previous two years is less than \$38,000, you can elect a PIR of 19.5%. Corporate or Trust investors may elect a PIR of 0%.

The tax deducted from PIE income is treated as a final tax so the income does not get included in the individual's annual income return. PIE income is also left out when calculating working for families, student allowance, student loan and child support allowances.

Most KiwiSaver and Fund Management schemes have already registered or will register as PIE's. If you have joined or are thinking of joining one of these schemes you will be asked to provide your individual Prescribed Investor Rate.

If you are unsure of your PIR or would like to know more about how these entities work, please contact the team at BWR.

Christmas shutdown not technology meltdown

It is all too easy to get distracted by the Christmas rush and forget to do some key things before you shutdown your computer before the holidays.

Here a couple of key tips to help you out:

- Back-up your files including your key business folders, email folders, My documents and any photos etc you might have stored on your computer.
- Take your back-up file off site so that should anything unfortunate happen to your office your key information will be safe.
- Run your GST reports early. If you are at the beach the last thing you will want to do is head back just because GST is next due on 15 January.
- If you want to access your files while you are off-site consider how you will do this - save key files to disk or memory key? Take a double copy of your back-up file? Host your files on BWR's secure website? For more information please contact Matt or Heidi on 06 873 8073.
- If you do not already know how to access your emails from another computer while you are away then we suggest you contact your internet service provider for the options available to you.
- When you turn off your computer don't forget to turn off your monitor as well - every energy saving counts.
- If business growth plans or process improvements come to light over the break then consider investing in or upgrading your software in the new year to help realise your dreams.

| 2007 | | |
|-------------|--------------------------|--|
| 20 December | PAYE/employer deductions | November 2007 |
| 2008 | | |
| 05 January | Large employers | PAYE/employer deductions for December 2007 |
| 15 January | Provisional tax | January, May and September balance dates |
| 15 January | GST | Periods ending 31 November 2007 |
| 20 January | PAYE/employer deductions | December 2007; FBT – December 2007 |
| 28 January | GST | Periods ending 30 December 2007 |
| 05 February | Large employers | PAYE/employer deductions for January 2007 |
| 07 February | Provisional tax | February, June balance dates |
| 20 February | PAYE/employer deductions | January 2007 |
| 28 February | GST | Periods ending 31 January 2007, Provisional tax October balance dates |
| 05 March | Large employers | PAYE/employer deductions for February 2007 |
| 07 March | Provisional tax | March, April and August balance dates |
| 20 March | PAYE/employer deductions | February 2007 |
| 28 March | GST | Periods ending 29 February 2008, Provisional tax |
| | | November balance dates |

BWR offices will be closed from 4.00pm Friday 21 December, reopening 8.30am Monday 7 January 2008.

The team at BWR wish you a safe and happy festive season