



Your accounting update from BWR June '07

# outside the square

## Client Profile

## Congratulations to our PPCS Hawke's Bay Farmer of the Year.

BWR have been proud supporters of the PPCS Hawke's Bay Farmer of the Year award for a number of years. The 2007 awards are especially memorable for the firm with long-time clients Mark and Hazel Toulmin winning the title. Previous clients of the firm to win the competition include Gordon Yule, Neil Kittow, Sam Robinson and David Ritchie.

The Toulmins own and run an intensive sheep trading and beef grazing operation on Springbush at Elsthorpe, basing their stock trading operation on a model developed in conjunction with local farming identity, Ivan Grieves. In addition, Mark manages the neighbouring Aramutu property.

Competition judge, John McFadzean attributes Mark and Hazel's success to hard work, uncompromising standards, brilliant stockmanship, exceptional time management and top financial performance.

Forming a close working relationship with BWR's Roger Sinclair over the years has also been pivotal in achieving success. "We always talk a lot to sound out ideas and discuss where we might be heading," Mark says.

Mark suggests backing yourself and looking at things differently whether your focus is traditional farming, trading or any type of business. The Toulmins are confident with their business model so they are not afraid to spend money to ensure their property has the infrastructure to support it.

Hard work is also a must to reap solid benefits. "Nothing comes easy - if you want something you've got to work for it," Mark says.



PPCS Hawke's Bay Farmer of the year competition winners Mark and Hazel Toulmin with BWR Director, Roger Sinclair at the awards dinner.

**"Forming a close working relationship with BWR's Roger Sinclair over the years has also been pivotal in achieving success."**

## Shedding Light on KiwiSaver

Employers can expect significant changes to payroll activities following the announcement of further enhancements to the KiwiSaver scheme in this year's government Budget. A summary of the KiwiSaver legislation to date follows.



### From 1 July 2007:

- Employers must enrol any new employee into the KiwiSaver scheme. New employees have eight weeks to "opt out" of the scheme.
- Existing employees can "opt in".
- Temporary workers (working less than 29 days), casual employees (working on an intermittent and irregular basis) and under 18 employees are not automatically enrolled, but they can "opt in" also. Sub-contractors are also excluded.
- Self-employed and shareholder employees can apply to a provider to "opt in". Their contributions are paid directly to their provider.
- Employees choose to contribute 4% or 8% of their gross wages.

- The employer pays employees' contributions to IRD through the PAYE system.

All employee, self-employed and shareholder employee contributions qualify for a \$20 per week tax credit paid into their scheme. Depending on your provider, your scheme may also receive a \$1000 kick-start and \$40 annual fee rebate from the Government.

### From 1 April 2008:

- It is proposed that employers will also contribute 1% of an employee's gross (rising to 4% by 1 April 2011).
- A government subsidy of up to \$20 per week per contributing employee is available to employers.

#### HERE ARE SOME EXAMPLES:

Mr A Farmer and Mrs B Farmer are shareholders of their own farming company. A and B take drawings from the farm bank account in lieu of wages. At the end of each year, A and B receive an untaxed shareholder salary based on the company's profit. For the year to 30 June 2008 they only expect a joint salary of \$25,000. A and B would like to take advantage of the new KiwiSaver

benefits but because they are not taxed through the PAYE system, they must approach a KiwiSaver (or complying scheme) provider themselves and apply. A chooses a KiwiSaver provider while B picks a different provider who offers a non-approved complying scheme. Once accepted, A and B decide to contribute \$100 per week each to their schemes starting from 1 July 2007.

KIWISAVER FOR SHAREHOLDERS	A Farmer	B Farmer
A SUMMARY Of A's & B's SAVINGS	(Approved KiwiSaver Scheme)	(Non-approved scheme)
<b>Year 1 – 30 June 2008</b>		
Government funded kick start grant	1,000.00	0.00
Contributions by A & B	5,200.00	5,200.00
Government tax credit (up to \$20/week)	1,040.00	1,040.00
<b>Total savings for year</b>	<b>7,240.00</b>	<b>6,240.00</b>
Fee subsidy (maximum \$40/annum)	40.00	0.00
<b>Year 2 – 30 June 2009</b>		
Contributions by A & B	5,200.00	5,200.00
Government tax credit (up to \$20/week)	1,040.00	1,040.00
<b>Total savings for year</b>	<b>6,240.00</b>	<b>6,240.00</b>
Fee subsidy (maximum \$40/annum)	40.00	0.00

A and B have one fulltime employee, C Shepherd, who earns \$550 per week. C started working for A and B before 1 July 2007 but has decided to opt into the KiwiSaver scheme by contributing the minimum 4% of his gross wages.

From 1 July 2007, A and B will be required to pay 4% of C's gross wages to IRD as a KiwiSaver deduction. This additional deduction will be paid to IRD along with the PAYE deducted from C's wages.

### KIWISAVER FOR FULL TIME EMPLOYEES

Gross weekly wages		550.00
PAYE	111.13	
Employee KiwiSaver deductions	22.00	
Total deductions (paid to IRD on 20th of month)		133.13
Net Wages		416.87

From 1 April 2008, it is proposed A and B will be required to contribute the equivalent of 1% of C's gross wages to his KiwiSaver account. This contribution is also paid with the monthly PAYE.

A and B will receive the government subsidy of up to \$20 per week offset against the amount they need to pay. Their PAYE/KiwiSaver payments will be as follows:

PAYE and Employee KiwiSaver contributions		133.13
Employer KiwiSaver contribution - 1% Gross	5.50	
Less: Government Subsidy (maximum \$20/week)	5.50	
Total PAYE and KiwiSaver contributions		0.00
		133.13

The proportion an employer contributes to each employee's KiwiSaver account is scheduled to increase by 1% each year until 1 April 2011. From this time onwards, both the employer and employee will be

contributing 4% each. Allowing for no other changes, after 1 April 2011, the monthly PAYE/KiwiSaver amount paid on behalf of C would be as follows:

PAYE and Employee KiwiSaver contributions		133.13
Proposed Employer KiwiSaver contribution - 4% Gross	22.00	
Less: Government Subsidy (maximum \$20/week)	20.00	2.00
Total PAYE and KiwiSaver contributions		135.13

### KIWISAVER FOR CASUAL EMPLOYEES AND CONTRACTORS

A and B also employ a shed hand to help with the shearing and dagging each year. D Shedhand only comes in two or three times a year so is classed as a casual employee.

Casual agricultural employees who work for less than three months, temporary employees who work for less than 29 days and employees under 18 years old are exempt from automatic enrolment into the KiwiSaver system. These employees can voluntarily opt in to a scheme, in which case they would advise their employer of their chosen scheme and their rate of contribution. Deductions are then made in the same way as for normal employees.

Finally, A and B also employ a fencing contractor, E Fencer, who is paid withholding payments. Because the contractor is self-employed, A and B do not make any KiwiSaver deductions or contributions on behalf of E. E's withholding tax will be deducted and paid to the IRD as normal.

They are many issues that apply to both employers and employees regarding KiwiSaver. If you would like to understand more about how KiwiSaver will affect your business or employees, please contact your BWR Director or visit the KiwiSaver website: [www.kiwisaver.govt.nz](http://www.kiwisaver.govt.nz)

What this really means?

## What a Reverse Equity Mortgage really means

Reverse Equity or Home Equity Release Mortgages are a financial product offered by lenders that allow retired homeowners to borrow money without having to make repayments.

Borrowers can continue to own and live in their own home. The loans will generally allow the borrower to draw between twenty and 40 percent of the home's value that can be paid as a lump sum, regular stream of payments or both.

Instead of making repayments, interest is accumulated to the loan balance that grows and is only repaid when the house is sold or the owner dies. The difference between the value of the house and the loan is paid to the borrower or distributed to their estate.

The products are designed to help people supplement their retirement incomes and maintain their lifestyles. With the rapid increase in property values over the past few years, Reverse Equity Mortgages have become very popular. The loans come in a number of variations including Line of Credit Loans, Fixed Term Loans, Reverse Annuity Loans and On-Lent Funds.

As with most things, Reverse Mortgages do not come without cost. Due to their nature the loans usually attract high fees and interest rates.

As an example of how equity release loans accumulate, if \$10,000 is borrowed at an interest rate of 8.5%, ignoring the effect of any fees, the accumulated balance of the loan

after one, five, ten and 20 years is as follows.

Year 1	\$10,866.06
Year 5	\$15,148.20
Year 10	\$22,946.81
Year 20	\$52,655.60

If you or any of your family members are considering a Reverse Equity type loan you should seek independent professional advice before borrowing any funds. We would urge you to contact one of our finance specialists at BWR to help identify the options for you and your family to ensure you are fully informed before committing to an agreement.

BWR in the field

## Appreciating what it takes to be the best

Roger and his team have spent many an hour working on the Toulmin's file helping to ensure it is the best business it can be. They were only too happy to celebrate the success of Mark & Hazel by attending the Hawke's Bay Farmer of the Year field day at their Elsthorpe property.

Pictured from left to right is Guy Coates, Roger Sinclair (BWR Director) and Todd Heynes.



## Company tax rate heads downward

Business stakeholders are being encouraged to seek advice as to how their operations may be affected when the company tax rate reduces from 33% to 30% from the 2008/2009 income tax year.

BWR Associate, Debbie Jeffares gives an insight to the reasons behind the changes and how they might affect your business.

### Why is the company tax rate being changed?

The reduction is designed to encourage companies to retain more of their profits to reinvest in development and growth in the business instead of paying the profits to the business owners.

Depending on their circumstances, we expect this change will encourage sole trader and

partnership-type small businesses that want to grow to become incorporated.

However, people should be aware that shareholder salaries and dividends declared by the company will continue to be taxed at the recipient's marginal tax rate, which have not changed.

### When can companies expect to notice a reduction in their tax?

For existing companies, the reduction in tax rate should have an effect on 2009 provisional tax payments.

### What other issues do companies face with the change in tax rates?

The rate that companies attach imputed credits to dividends will also change inline with the tax rate.

This may mean existing companies will need to declare dividends to clear imputation balances that have accumulated under the 33% tax rate.

The Government has proposed a transitional period until 31 March 2010 to enable these credits to be passed on to the shareholders at the old rates.

### What other advice would you give to an existing company owner or someone thinking of incorporating their business?

Operating your business as a company is not necessarily suitable for all businesses. Also, the impact of these changes will uniquely affect each client. We would definitely recommend clients speak to their BWR Director about their specific circumstances.

### Late filing penalties looming on GST returns

From 1 April 2008, GST-registered taxpayers will be liable for a late filing penalty on overdue GST returns as well as late payment penalties. The penalty process will apply in the same way as the penalties for late Employer Monthly Schedules. In the first incidence of a late return, a warning letter will be issued. For any subsequent late returns within 12 months, the late filing penalty will be applied. The penalties are set at \$250 for an invoice-based filer and \$50 for payments-based filers and will apply to GST payments, GST refunds and nil returns

### Generosity rewarded

Legislation limiting the maximum claim of donations and school fees to \$1890 (resulting in a maximum refund of \$630) has been amended. For the 2008/2009 income year taxpayers will be able to claim donations up to the amount of their taxable income. The exclusion preventing close companies (five or fewer shareholders) from deducting charitable donations has been removed also.

To qualify for the rebate your donations must be greater than \$5 and made to an approved charitable organisation, board of trustees or state school general fund.

It appears there is no change to the Housekeeper and Childcare rebate.

### Research & Development Tax Credits

New Zealand businesses that conduct their own R&D or engage commercial specialists on their behalf will be entitled to a tax credit of 15% of the qualifying expenditure from the 2008/2009 Income year. There are fairly detailed criteria as to the type of expenditure and industry that qualify for the credit. If your business is involved with experimental and investigative activities that you feel may qualify as Research & Development expenditure, please contact your BWR Director.

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

## Valuation

An independent valuation provides you with answers to the questions you often need to ask about the value of a business or property. Am I getting the best price for the sale of my business? Is the asking price too much?

We are trained and experienced in business valuations and are able to provide you with simple guidelines and formulae for evaluating the worth of a business. We are also able to appear in court and in arbitration as expert witnesses in relation to business valuations.

## Succession Planning

In ensuring the long-term success of your business, it is critical to establish a well-designed succession plan. Coordination of the transition of your business to your successors can be an arduous process. However, with our years of experience we can address the complex issues of business continuation, taking the stress off your shoulders.

Technology Tips

## BWR Secure Website

BWR are able to offer clients a secure client login section on our website for no cost. Entry is granted by password only and can be accessed from an internet connection anywhere in the world.

The site can be used for:

- Transferring large or sensitive files to or from BWR without using email that can take longer and is less secure.
- A secure offsite backup facility for your most recent backups without having to leave your premises.
- Storing files you may need to access if you are away from your office and are unable to take your computer with you.

## KiwiSaver updates

Make sure your payroll software is updated to handle your KiwiSaver obligations from 1 July 2007.

## Concepts Cash Manager

How many farmers actually use the Livestock reconciliation feature of their Cash Manager software? With 30 June looming, why not take the opportunity to enter this season's closing tallies so you can fully utilise the function during the 2007/2008 financial year.

## HOW WE CAN HELP YOU?

### Advice for Staff on KiwiSaver

At BWR we understand that it is just as important for your staff to understand KiwiSaver as it is for those hiring them and paying their salary or wages. That is why we are happy to offer your staff a training session, either at your office or ours.

Contact your BWR Director to arrange a time and location.



## Mark Coombe, Associate

Mark completed his secondary schooling at Hastings Boys' High School before studying at Massey University to complete his BBS majoring in Accountancy.

Mark has worked at BWR since 1992 looking after a variety of clients, particularly those involved in agriculture and corporates. Mark is a committee representative on the local Hawke's Bay branch of the NZ Institute of Chartered Accountants.

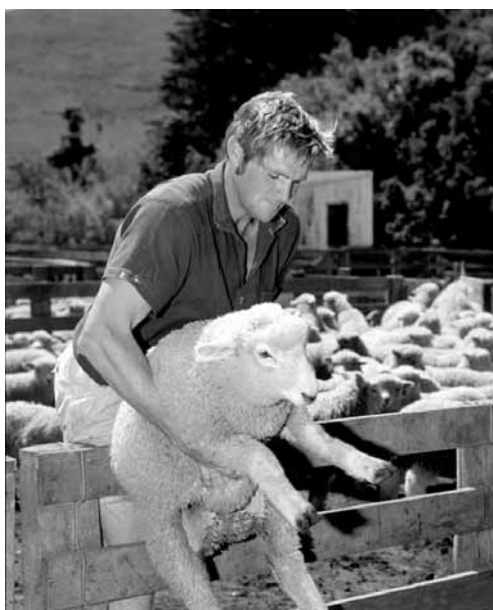
Mark enjoys working closely with his clients and is happy to assist with their management information needs, including business planning and forecasting, in addition to the essential tax-based and compliance accounting requirements.

When Mark has a spare moment, he enjoys spending time outdoors and biking around the countryside. On occasional Saturday mornings he can be heard reporting on cycling on Newstalk ZB.



## Some relief for drought stricken farmers

In the week that offered some rain relief for farmers, the IRD relaxed their rules by extending the time frame for applications to the Adverse Events Income Equalisation Scheme.



Deposits from the 2007 income year will now be accepted up to the end of April 2008. A refund from the scheme can then be requested on the day following the deposit. The income will be taxed in the year of refund or earlier if requested. Deposits can be left in the scheme for up to five years but will revert to the main Income Equalisation Scheme after 12 months.

The relaxation of the rules will apply to you if:

- You are a pastoral farmer who has been adversely affected by the current drought; and
- You provide evidence of the adverse event when you submit the deposit. A signed statement recording that you have been adversely affected is all that is required; and
- Your deposit is received by the IRD on or before 30 April 2008;

We encourage all farming clients who think they might be eligible for this scheme, to contact their BWR Director for more information.

IRD are working on other relief measures for the coming tax periods, we will keep you updated as they are announced.

Key dates from 1st June to 30th September 2007

5 June	Large employers	PAYE/employer deductions for May 2007
7 June	Provisional tax	June, October and February balance dates
20 June	PAYE/employer deductions	May 2007
28 June	GST	Periods ending 31 May 2007
5 July	Large employers	PAYE/employer deductions for June 2007
7 July	Provisional Tax	July, November and March balance dates
20 July	PAYE/employer deductions	June 2007 FBT – June 2007
28 July	GST	Periods ending 30 June 2007
5 August	Large Employers	PAYE/employer deductions for July 2007
7 August	Provisional Tax	August, December and April balance dates
20 August	PAYE/employer deductions	July 2007
28 August	GST	Periods ending 31 July 2007
5 September	Large Employers	PAYE/employer deductions for August 2007
7 September	Provisional Tax	September, January and May balance dates
20 September	PAYE/employer deductions	August 2007
28 September	GST	Periods ending 31 August 2007

**DISCLAIMER**

Please note this client newsletter is not advice and therefore you should not act solely on the information contained within. We recommend you obtain our formal advice before acting in any of the areas presented within.