Bright Wild & Thomas

NEWSLETTER
WINTER 2013

IN SUMMARY

The 2013 Budget

The Government has presented its annual budget with very modest changes to tax matters. The Government expects tax revenue to continue to grow over the next four years due to a faster growing economy and a shift in income distribution. This growth translates to a projected increase of $14.5 billion in the annual tax take, with the tax take forecast to reach $72.8 billion in 2016/17.

Additional permanent funding of $6.65 million has been allocated to IRD to facilitate further tax compliance activities so it can pursue property investors who are not complying with the law. The extra funding will begin in the 2014/2015 financial year and is expected to return a healthy $45 million a year in additional tax. Success in this area has raised about $110 million from additional property audit funding since July 2010. The Revenue Minister noted that this is a $6.60 return for each dollar spent on pursuing non-compliance.

On the other hand, after the embarrassing back down on FBT car park & smart phone taxes, the politicians seem to have realized that the public has little tolerance for complex tax reform that raises only marginal tax revenue.

The few tax announcements that are business friendly are as follows.

Research & Development

It has been announced that small start-up companies with tax losses from Research and Development expenditure may be able to get these refunded in cash. Further details are expected in June.

ACC relief for businesses

ACC Levy rates for households and businesses will drop by up to 40%, staged over the next two years.

The final decisions on levies for 2014/15 will be made later this year, following public consultation.

Bill English, Minister of Finance, delivers the budget to our reporters.

Tax relief for six areas of so-called 'black hole' business expenditure.

This will make some items tax deductible where there have previously been no tax breaks at all.

1. Direct costs associated with the payment of dividends by a company to its shareholders will be deductible
2. Annual fees for listing on a stock exchange will be deductible (but not the initial costs of listing)
3. Annual shareholder-meeting costs will be tax deductible (but not special shareholder meeting costs)
4. Expenses incurred on resource consent applications where the application has been abandoned prior to lodgement will be deductible. The deduction can be claimed in the income year in which the taxpayer decides to not proceed with seeking the resource consent
5. Certain Fixed-life resource consents granted under the Resource Management Act 1991 will be depreciable. These are specific to something that otherwise contravenes 15A (dumping of waste in coastal areas) or s 15 (discharging hazardous substances from ships and offshore installations).
6. Legal and administrative fees in applying for patents or plant variety rights will become deductible, if no depreciable asset is recognised.

Limited time to get smart

The Government is tightening up on Student Loan borrowings. If you are nearing 65 or older and were intending to study, you might want to think again. The Government has decided to remove eligibility for over 65s and if you're over 40, stricter limits will be put in force when you're applying for a student loan.

Those with student loan debt, who are living overseas, are now in the firing line too. Overseas-based borrowers with higher loan balances will have a higher repayment obligation. It will now be an offence for a borrower to knowingly default on an overseas-based borrower repayment obligation. More information on student loans and allowances schemes is loaded on the StudyLink website.

Encouraging employers to employ youth

The government has introduced a new initiative aimed at encouraging employers to recruit young New Zealanders, especially those who have been on a benefit. It allows a lower minimum wage rate - 80% of the adult minimum - to apply to a wider range of people. The new scheme came into effect on 1 May 2013.

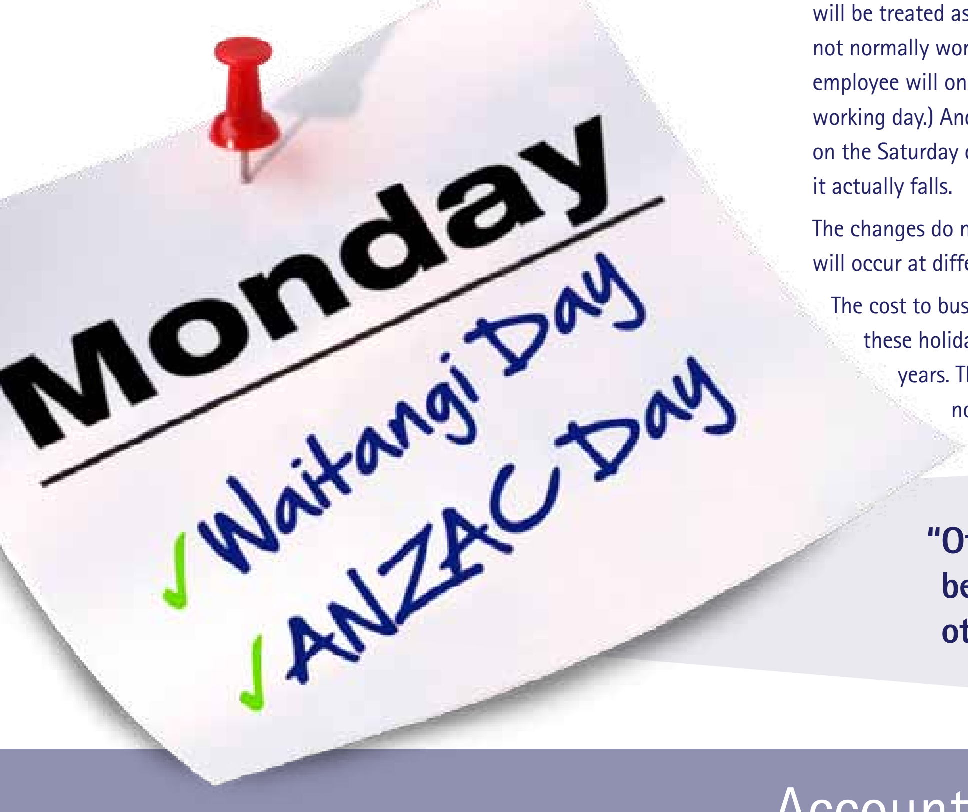
The 'starting-out' minimum wage can be paid to certain categories of youth aged 16-19 years. Currently, the categories are:

- 16 and 17 year olds in their first 6 months of paid employment with their current employer
- 18 and 19 year olds who have received a benefit for 6 months or more and have not completed 6 months' work with any employer since starting on that benefit
- 16 - 19 year olds involved in a recognised industry training course of at least 40 credits per year

The starting-out wage replaces the new entrant minimum wage and the trainee minimum wage for under 20s. (There is still a trainee rate for those who are 20 years or older.)

'MONDAYISATION' AHEAD

Previously when Waitangi Day or ANZAC Day fell on a Saturday or Sunday, it wasn't recognised with a day of paid leave unless the employee normally worked on that day. For some New Zealanders, this projected the idea that these dates, marking significant moments in our history, weren't important enough. Many also wanted to see employees enjoying their full entitlement of 11 public holidays every year.



We will now see the Mondayisation of these holidays. That means that if the date in question falls on a Saturday or Sunday, the public holiday will be treated as falling on the following Monday for those staff who do not normally work on the day upon which it actually falls. (Of course, the employee will only be paid for that Monday if it would otherwise be a working day.) And the public holiday will continue to be treated as falling on the Saturday or Sunday for those staff who normally work on the day it actually falls.

The changes do not mean that the actual observance of the two holidays will occur at different times.

The cost to businesses following the law change is not enormous since these holidays fall on weekends in only two out of every seven years. The first time one of these holidays falls on a weekend is not until 2015.

"Of course, the employee will only be paid for that Monday if it would otherwise be a working day."

Entertainment Rules

We often get questions on what is deductible as entertainment, so we thought it was a good time for a summary of the rules. Thetax treatment of entertainment is often confusing, and is dependent on the particular situation.

To be deductible, the entertainment expenditure must meet the general permission test, with the expenditure being incurred in deriving business income (Section DA1 Income Tax Act 2007). It must also pass the Private Limitation test of Section DA2 (2) in that the spending is not of a 'private or domestic nature'.

50% Deductible Entertainment Expenses

There are four types of entertainment expenses that are 50% deductible:

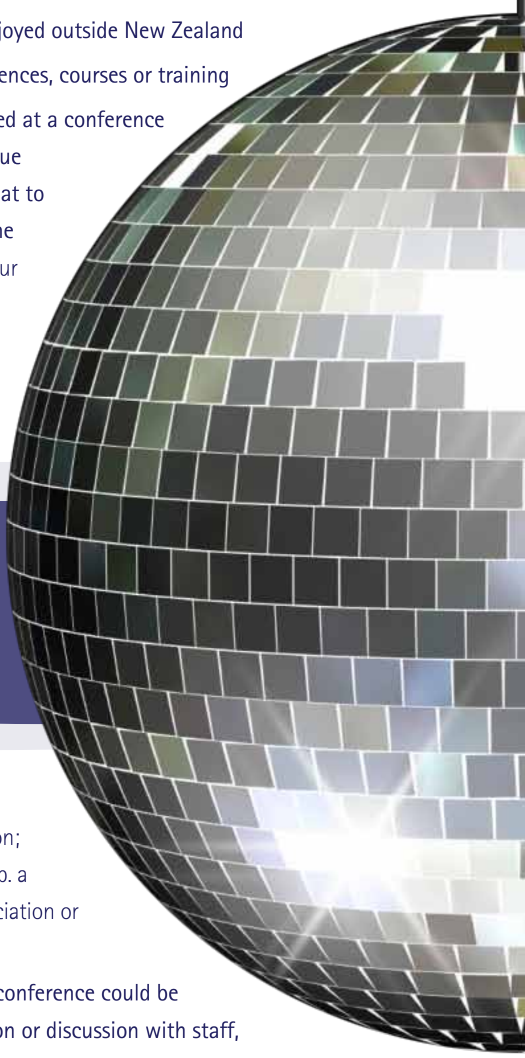
1. Corporate boxes, marquees, tents or other exclusive areas
2. Accommodation in holiday homes, time share apartments, etc.
3. Pleasure craft (think yachts or boats)
4. Food and drink provided or consumed:

- Incidentally, at any of the three situations above
- Off the business premises
- On business premises at a party or social function
- At any event or function for staff morale or goodwill (on or off site)
- In an area of business reserved for senior staff (executive dining room)

Fully Deductible Expenses

The Inland Revenue Department's Entertainment Expenses guide lists 15 types of entertainment expenditure that are 100% deductible. For our clients, the following are most applicable:

- Meals while travelling on business (unless a business contact is a guest)
- Morning and afternoon teas on the business premises
- Expenditure on employees overtime meals and allowances
- Sponsorship if the entertainment promotes the business to the public generally
- Entertainment that is enjoyed outside New Zealand
- Food and drink at conferences, courses or training



For food and drink consumed at a conference or course, the Inland Revenue Department guide states that to claim a 100% deduction, the event "must continue for four hours or more". While the Income Tax Act doesn't define what a 'conference' is, the New Zealand Oxford Dictionary defines it as "consultation, discussion; a meeting for discussion, esp. a regular one held by an association or organisation;"

Based on this definition, a conference could be any meeting for consultation or discussion with staff, business partners, bank managers or sales reps. The legislation suggests that a conference doesn't necessarily have to last four hours for food and drink to be deductible. If the conference or course lasts less than four hours, then 'light refreshments' (not defined, but probably everything other than a meal) will be fully deductible.

For all entertainment claims, we advise keeping records / diary notes of the date the expenses were incurred, names of those entertained, their business, their position, and the reason for the entertainment.

KiwiSaver Tax Credits

The 30th June is the end of the KiwiSaver year. This is when eligible members tax credits are calculated and claimed by the KiwiSaver providers from the IRD.

To maximise the tax credit, eligible members need to have contributed $1,042.86 in the year 1.7.12 to 30.6.13. There are conditions for first year members, 18 year olds, and those eligible for retirement withdrawals.

Members of the Grosvenor KiwiSaver Scheme will receive a postcard reminder, but if you need a hand or clarification of eligibility criteria, please give David or Lisa a call at our office.

Staff News

We are pleased to introduce **Lisa Apperley** as a new team member. Lisa has significant experience in payroll systems, including installation, processing and training. Lisa will be preparing many of our client payrolls, as well as assisting David Cutfield in our Financial Services division.

Jordan Slappendel has left the firm recently to pursue a career in the IT industry, and we wish him all the best.

Right: Jordan Slappendel, off to pastures new

Far Right: Lisa Apperley, our new Client Payroll Administrator

Removal of access to standard GST web form

The IRD have advised us that the link to the standard GST form in 'Get it done online' on their website will be removed on 10 September 2013.

Until that date, you can continue to access the form by searching their website under keyword, service name or activity. However, from 10 September 2013 any of our clients who file their own GST online will need to do so through a new myIR Secure Online Services.

In July IRD will send a letter to clients to let them know they need to register for a myIR account. Our firm will still be able to continue using the standard online form to file on behalf of our clients by accessing it through the special tax agents section of their website.

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