



April 2011

Issue 68

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**IMPORTANT DISCLAIMER**

The information contained herein is of a general nature only. Not all of the information will be of interest to all clients; however we hope there is some content that is of benefit to you. If this information requires more detailed explanation, or should you require information on topics not covered by this newsletter, please contact our office. The information in the report is confidential to clients and staff of this firm. While every effort has been made to ensure accuracy, no liability is accepted for errors of fact or of opinion herein.

## 2011 - 2012 TAX RATES

**Personal Income tax rates from 1 April 2011 are as follows:**

Income Band	Tax rate	Tax	Cumulative Tax
\$0 - \$14,000	10.5%	\$1,470	\$1,470
\$14,001 - \$48,000	17.5%	\$5,950	\$7,420
\$48,001 - \$70,000	30%	\$6,600	\$14,020
\$70,000 and over	33%		

**Company income tax rate:**

For the 2012 year there is a reduction in the company tax rate from 30% to 28%. The change takes effect from the start of your company's 2012 income year. For most, this is from 1 April 2011.

**Trustee income tax rate:**

The tax on a trust's trustee income is calculated at a flat rate of 33%.

**Personal prescribed investor rate (PIR)**

The rates for individuals are **10.5%**, **17.5%** and **28%**. Income over the last two years needs to be considered. Please contact your Richards Woodhouse advisor if you are unsure which rate applies to you.

If your taxable income was more than \$48,000 in **both** of the previous two income years, your PIR is 28%.



### 2011 ANNUAL ACCOUNT PREPARTION – GST workpapers

If you have a March balance date you will have received our annual checklist. We look forward to hearing from you and commencing your 2011 financial statements and tax returns.

With the change in GST rate in September 2010, to reconcile your GST returns with your financial statements **it is important all your GST workpapers and adjustment schedules are sent in** with the rest of your financial information.

## WORKING FOR FAMILIES TAX

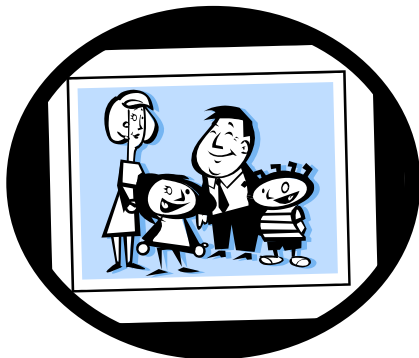
### CREDITS: DEFINITION OF “FAMILY SCHEME INCOME”

New legislation will apply from 1 April 2011 for those seeking Working for Families tax credits. Included in the legislation is a new term, “family scheme income” which is used to calculate any entitlements.

Family scheme income is based on “net income” for income tax purposes with certain adjustments. There were already a number of add backs, e.g. losses which increase the family income. The following are additional types of income that will be included in the family income: attributed trust income, which includes all income for the year of a trust that has not been distributed as beneficiary income and income remaining in any company controlled by the trust, fringe benefits, passive income over \$500 of dependent children, PIE income if it is not sufficiently locked away until retirement, foreign –sourced income of a non-resident spouse, tax exempt salary and wages, income equalisation deposits, 50% non–taxable private pensions and annuities and any other payments received totaling more than \$5000 to meet family living expenses.

We see a number of cases where family assistance tax credits are calculated at year end and result in a refund. Based on the new definition of family scheme income there may no longer be a refund available. If you are receiving regular family assistance payments it is important to consider if any of the “new” income types are applicable. IRD will seek to recover any overpayment.

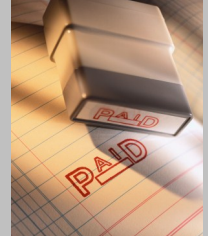
Please do not hesitate to contact our office to clarify the implications of the new rules on your personal situation.



## IRD PAYMENTS

### Take action before it becomes overdue

If you think that you can't pay an IRD payment in full amount by the due date, please contact us as soon as possible. By contacting us early, we may be able to negotiate with IRD a reduction in the penalties charged after the due date.



### If it's already overdue *Payment in full*

The first option to consider is whether you have the ability to pay in full. Your outstanding debt will incur daily interest and late payment penalties. You may also incur non-payment penalties if you're an employer and the debt is from an unpaid Employer monthly schedule (IR 348).

There are advantages in raising money from other sources if you can. Some options for funding full payment may include:

- ◆ funds in a bank account e.g. term investments
- ◆ the ability to raise and service a loan
- ◆ sufficient equity in assets to raise finance—this may be insurance policies, houses, cars, shares or business assets
- ◆ overdraft facilities
- ◆ credit cards.

### *Installment arrangements*

If you can't make payment in full, we can ask IRD for an installment arrangement where an amount is paid off in a lump sum at a later date or by installments over a period of time.

Interest is still charged during the term of the arrangement and is payable as part of the overall arrangement amount. In some cases you may need to provide more information and usually no penalties are charged for an agreed period of time while you obtain this information. Interest remains payable throughout. This suspension of penalties does not apply to overdue student loan repayment obligations and overdue child support payments.

If we are successful in arranging an installment arrangement, then for each month that the agreed monthly payment is paid in full, IRD will not charge you any further penalties.

## IRD COMPLIANCE

After receiving additional funding, IRD intend to detect and take action against those who choose to avoid paying tax. Cash transactions and specific areas such as the hospitality industry, undeclared offshore income, e-commerce, fishing and aquaculture, tourism and leasing have been identified and industry research is used to identify other industry groups for trends showing non-compliance with tax.

IRD, as well as Nelson are gearing up for the 2011 Rugby World Cup. IRD estimate New Zealand will have over 85,000 tourists and they will spend half a billion dollars. IRD have targeted and will be looking for compliance from individuals and organisations involved with entertainment, hospitality and accommodation. Using your home to host visitors may have a tax consequence.

We are aware of a number of cases where IRD have followed up individuals with overseas bank accounts and then commenced an audit.

IRD are increasing data-matching activities and investigating

under-reporting of income, negotiating further tax information exchange agreements with offshore finance centres and enforcing sanctions and penalties for non-compliance.

A typical arrangement is a land owning family trust leasing its land to a related company or individual. IRD have been looking at the valuation of these assets and leases and how they are manipulated.

Where the parties are GST registered, the lease GST input and output tax is required to be returned in the appropriate lessor and lessee GST returns during the year. Where parties are registered on the payments basis, a cash transaction i.e. payment is required. Where parties are registered on an invoice basis, a monthly tax invoice will be required.

A GST exclusive journal entry to each entity at year end is insufficient. IRD are looking for the GST component to be actually paid and returned to the department in a timely way consistent with the supply.

Please contact a Richards Woodhouse advisor if require help to organise tax invoices or monthly payments.

## CHANGES TO EMPLOYMENT RELATIONS & HOLIDAYS LEGISLATION

Changes to the Holidays Act 2003 and the Employment Relations Act 2000 have been passed by Parliament. Most changes for both Acts will come into effect on **1 April, 2011**.

The main changes to the **Holidays Act** include:

- ◆ The ability for employees to cash in a maximum of one week of annual holidays.
- ◆ Transferring public holidays to another working day.

The main changes to the **Employment Relations Act** include:

- ◆ Extending trial periods to all employers.
- ◆ Changes to the personal grievance provisions.

- ◆ Requiring consent to be given before a union can access a workplace, and confirming communication with employees can occur during collective bargaining.
- ◆ Requiring employers to retain employment agreements
- ◆ Extending the role and powers of labour inspectors.

One provision in the Employment Relations Act comes **into effect from 1 July 2011**. This provision requires employers to retain a signed copy of individual's employment agreement or current signed copy of the terms and conditions. Employees are entitled to a copy of their agreement if they request one.



## GST Changes from 1 April 2011

### Compulsory Zero-rating of Land Transactions

Our last newsletter highlighted some GST changes were on the way. New GST legislation has now been passed and will be relevant to land transactions, leases of commercial property, and transactions involving a nominee or supplies of accommodation.

From 1 April 2011, transactions involving land between GST registered parties will usually be subject to GST at 0% if at the time of settlement:

- ◆ The purchaser intends to use the land for the making supplies that are subject to GST, and
- ◆ The land is not intended to be used as the principal residence of the purchaser or an associate.

This means the cashflow generated by a GST refund will no longer occur.

Both the vendor and purchaser are required to provide and keep written evidence of the transaction.

The vendor will obtain a written statement from the purchaser regarding their GST registration status and intentions as to the use of the land at time of settlement. To ensure the vendor against any later GST liability the best practice is to use "plus GST (if any)" in any pricing document or sale and purchase agreement and to check that the GST position as at the "time of supply" matches that at the time of settlement. Time of supply is the earlier of invoice or payment, so the receipt of a deposit

by the vendor will trigger the supply date.

The purchaser should check that the vendor is GST registered and the sale is in the course of the vendor's taxable activity. The purchaser needs to provide a written statement that they are GST registered and their intended use of the land. To complete the purchaser's GST return a valid tax invoice is required showing the sale is compulsorily zero-rated or the amount of GST charged.

### New Apportionment Rules

New rules apply to goods and services acquired after 1 April 2011 to replace the current adjustment approach.

Previously under the "principal use" test, if the goods were used 50% or more in a taxable activity, 100% of the GST was claimed as an input tax deduction and adjustments were made to GST output tax for the non taxable supply in each subsequent GST return.

Under the new rules the GST input claim corresponds with the portion of the asset's use or service that is intended for taxable purposes. e.g. if a motor vehicle is going to be used 70% for business, only 70% of the GST on purchase is claimed as an input tax deduction. In subsequent years, an adjustment maybe required to align the GST input claim to the actual business use. Records will be required to support the business input claim e.g. in the case of a motor vehicle, a log book. The number of adjustments maybe limited so that on disposal a "wash -up" calculation is required.

Please contact the office for more information on these GST changes.

## STAFF UPDATES

We have had some new staff join our team since our last update; we welcome **Bryce Hannah** who has moved to Nelson from Invercargill, **Gemma Skelton** who has come to us from Christchurch, and **Amy Chetham** who is currently studying part-time with the Nelson Marlborough Institute of Technology.

We also welcome back **Brent O'Hagan**. He has been studying for his B.Com at Canterbury University for the past 3 years and has come home to sunny Nelson.



From left to right:

*Brent O'Hagan,  
Amy Chetham,  
Gemma Skelton  
and Bryce Hannah.*

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