

The 2010 Budget announcements have now finally impacted on the tax rules and mostly came into force as from 1 April 2011.

In addition the 2011 Budget, as read in May 2011, will start to have implications for business soon and steps need to be taken so that you know how they will affect you.

GST CHANGES

Now that 1 October 2010 has well and truly passed most business should now be coping with GST at the new rate of 15%. We saw a few hic-cups with computer systems around the changeover time but by and large most businesses have managed the adjustments quite well. It should be remembered that the increase in GST helped fund the reduction in personal and company income tax rates.

LAND TRANSACTIONS

From 1 April 2011 where both vendor and purchaser are GST registered and the sale and purchase includes land either wholly or partially, then the transaction can be zero rated for GST purposes. There are some complex areas in determining whether the transaction is zero rated or not and therefore we would suggest you contact us to discuss your GST position. As the cost of land is generally a significant amount, and if you get it wrong, the GST consequences will also be large.

GST APPORTIONMENTS

From 1 April 2011 those operating their business as Sole Traders or Partnerships now have a change in how you calculate the apportionments on GST where something is used both for business and private use. By far the most common is the motor vehicle. The new rules will only apply if say the vehicle was purchased after 1 April 2011. For vehicles used by the business before this date, then the old adjustment rules must be used.

The new rules are supposed to be fairer, particularly if the vehicle is used less than 50% for business purposes. Unfortunately the calculations are quite complex and require you to keep detailed calculations. In addition depending on the cost of the vehicle, it will determine how many years you need to make adjustments for. Therefore for a vehicle it is important that your Log Book is as accurate as possible detailing the business/private use.

To start out with you estimate what percentage will be the business use. From there the number of adjustment periods will depend on what the cost of the vehicle is. If it is less than \$5,000 there is a single calculation at the date of purchase. If it's cost is between \$5,000 and \$10,000 there will be 2 adjustments, if the cost is between \$10,000 and \$500,000 5 adjustments, and if it is over \$500,000 then there are 10 adjustments. On top of that when the vehicle is finally sold there is a wash up.

At each adjustment period you need to recalculate the business/private split to determine whether any further adjustment is needed. To avoid minor adjustments IRD have said that if the business/private split does not change

by more than 10 percentage points or is less than \$1,000 then no adjustment is required until the vehicle is sold. However it requires you to complete some calculations to determine whether you can use this exemption.

Because of the complexity we would suggest that you firstly discuss how much GST is claimable on the purchase of the vehicle. At the time we prepare your annual accounts we can calculate for you whether there should be any adjustment. Also when the vehicle is sold a final adjustment will be required.

While these changes affect the GST on the purchase of say the vehicle, you still need to make a period by period GST adjustment for the running expenses such as fuel, insurance, registration, repairs & maintenance, tyres, etc.

While we have used a vehicle as an example it can also apply to other goods & services where there is a business/private use.

LAQC's

As from 1 April 2011 those companies with a LAQC tax status that allowed losses to be claimed by the shareholders ceased to exist. Those using LAQC's have to make a decision as to whether to transfer to another entity, do nothing, or enter the new "Look Through Company" tax regime. We have already met with most of you to discuss the options and made recommendations. The first deadline for making a decision is fast approaching (30 September 2011) so if you have not done anything yet please give us a call now.

DEPRECIATION ON BUILDINGS

Depreciation of buildings will not be claimable in tax returns for periods after 31 March 2011. For those with rental properties, this will affect the result for the 2012 tax year (31 March 2012). We would expect to see profits increase or losses decrease by the depreciation lost. For some this may impact on your 2012 provisional tax payments, the first payment due 28/8/11. Please call to discuss if this needs to be adjusted to avoid interest being charged on the shortfall.

GIFT DUTY

This is to be abolished as from 1 October 2011. While the Bill was introduced to Parliament in November 2010, it has not been passed into law yet. The current limit of \$27,000 per year is to be removed meaning that gifts can be made for any amount.

It is likely that when it is passed into law, a number of people will want to make gifts to dispose of personal properties and loans to their Trusts so as to minimise their personal exposure to creditors.



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2011 BUDGET ANNOUNCEMENTS

After the recent May Budget announcement the main areas that will impact on most of our clients are in the areas of KiwiSaver, Working For Families, and Student Loans.

KIWISAVER

- From 1 July 2011 the “Member Tax Credit” whereby the Government matched employee contributions dollar for dollar up to \$20 per week, will be cut in half to only \$10 per week.
- From 1 April 2012 the employer contributions to KiwiSaver will be subject to a new tax called “Employer Superannuation Contribution Tax” which will be at the employee’s marginal tax rate. While the employer will still be paying 2% of an employee’s wage some of it will now go to IRD and a lesser sum will be credited to the employee’s account. For an employee earning \$55,000 per annum the employer deduction will still be 2% or \$1,100 however \$192 of this will go to IRD and the remaining \$908 will be credited to the employee’s KiwiSaver account.
- From 1 April 2013 the rate of KiwiSaver contributions will increase for both employee and employer to 3% from the current 2%. The 3% will become the new default rate, however employee’s can continue to contribute 4% or 8% if they wish.
- The existing \$1,000 Kick Start payment from the Government is at this stage unchanged.

The reason that the Government has made changes to KiwiSaver is that it has been more popular than originally estimated and the Government has had to contribute more to the funds than originally budgeted for. Information supplied to us indicates that the Government has so far contributed 40% of all monies in KiwiSaver with members making up a further 40% and employers contributing the remaining 20%.

IRD – CORRESPONDENCE & SCAMS

Please be aware that the IRD will never liaise with you via email as it is not a secure medium, all mail you get along these lines are spam and please delete.

We have also had some clients caught by the “Microsoft” scam and they allowed an unfriendly person remote access to their computer, if they phone you or contact via email please hang up or delete.

WORKING FOR FAMILIES

The cost of the WFF tax credit scheme has been increasing every year and now costs this country around \$3 billion dollars annually. Changes will start from 1 April 2012 and will gradually be introduced through to 1 April 2018.

The abatement threshold is expected to reduce from \$36,827 to \$35,000. There will also be an increase in the abatement rate from 20¢ to 25¢ in the dollar. There will also be an alignment over time of the amount paid in respect of children aged 16 and over with the amount paid for children aged 13 to 15.

STUDENT LOANS

Changes announced include the following:

- Students with overdue payments of \$500 or more and who are in default for more than one year will have their eligibility for further loans restricted.
- Students over 55 years of age will be able to obtain loans only for tuition.
- The entitlement for part-time students to borrow for course related costs will be removed.
- The repayment holiday for overseas based students will be reduced from 3 years to 1. They will also need to apply for a holiday and provide an NZ based contact person before going overseas.
- Inflation adjustment to the \$19,084 Student Loan repayment threshold will be suspended until 1 April 2015.

MILEAGE RATES

IRD have increased the mileage rates allowable for businesses who either reimburse their staff for use of their private vehicles, or if you use your own private vehicle for business purposes. The mileage rates have now increased to 74¢ per kilometre however you can still use other reputable sources of running costs such as the AA if you wish.



As you are all aware June-October are our peak work inflow months, we thank you for your patience during this time and please let us know if there is a specific deadline for your financial statements like funding reviews etc and we will do all we can to accommodate it.