



## JUNE 2014 USEFUL SNIPPETS

### AGRICULTURAL VEHICLES GUIDE

An updated guide, dated April 2014, explaining the rules with regard to agricultural motor vehicles operated on the road, is now available in electronic format or can be downloaded as a pdf on the New Zealand Transport Agency's website [www.nzta.govt.nz/resources/agri-vehicles-guide](http://www.nzta.govt.nz/resources/agri-vehicles-guide). The rules, which came into effect on 1 June 2013, apply to agricultural vehicles driven on a road – specifically streets, highways and road shoulders. However, 'the road' also includes any place the public has access to and includes bridges, beaches, riverbeds, reserve lands and wharves.

### BILLIONS RAISED THROUGH UK TAX CUT

New Zealand's top personal marginal tax rate is 33% and no doubt whether it should be increased or decreased will again be debated as the country goes into this year's election.

Strange as it seems, recent experience in the United Kingdom suggests that a tax cut could provide the Government with additional tax revenue. The UK's top rate of 50% introduced in October 2010 was cut back to 45% in April last year. Figures released by HM Revenue and Customs shows that there has been a £9 billion increase in tax receipts this year!

There have been mixed views as to the exact reasons for the increase in tax revenue. Some consider it proof that the tax cut encouraged investment into the UK. Others are of the view that high-wealth individuals delayed returning their income in 2012-13 knowing a change in rate was coming, leading to a big increase in 2013-14.

Significantly, several politicians are now pushing for the top tax rate to be cut to 40%.

### DEADLINE CHANGES - IRD PAYMENTS

From 1 October 2014, cheque payments posted to the Inland Revenue Department must arrive on or before the due date to avoid payment penalties and interest. This means that cheque payments can no longer be posted on the due date.

Also from this date, 1 October 2014, the service whereby Westpac branches can accept cheque payments and return forms for the IRD will be discontinued, although cash and eftpos payments can still be made at Westpac. The IRD recommends you use electronic channels to pay them, as these are a convenient, secure, fast and a 24/7 way of doing business.

### A WORLD WAR 1 DATABASE SET UP

A British museum is launching an ambitious online database to commemorate the lives of the millions of men and women who served in World War 1. The Imperial War Museum hopes that by piecing together their life stories, the history project, timed to coincide with the 100<sup>th</sup> anniversary of the war, could form a permanent digital memorial to the scores of soldiers, nurses and others from Britain and the Commonwealth who contributed to the war. The project's website launched recently so far features records for 4.5 million people who served with Britain's army overseas – these records have been pulled together from existing archives and family collections.



However, many of the entries are still just blank pages attached to names and the museum is urging the public to get involved in rebuilding those stories.

Go to: [livesofthefirstworldwar.org](http://livesofthefirstworldwar.org) or [www.1914.org](http://www.1914.org) to find out more.

### BEST QUOTE OF ANY ERA!

"The Budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed, lest Rome will become bankrupt. People must again learn to work instead of living on public assistance." - Cicero, 55BC

### Comment:

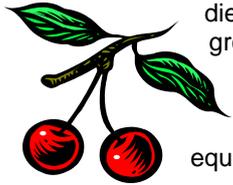
Evidently we have learnt bugger all over the last 2069 years!

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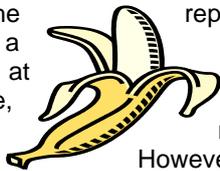
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## GST ON/OFF FOOD QUESTION

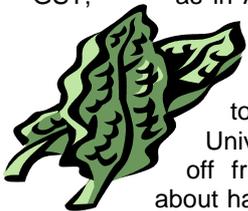
The question of whether GST should be removed from food has been raised in the media and by political parties a number of times over recent years - the objective being to improve the diet and well-being of lower socio-economic groups within society. The idea may seem reasonable and resonate with the 'average' person on the street, if only from a perspective of fairness and equity.



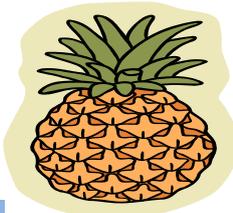
But would it work? A recent Treasury report has shed some light on the issue. The report surmises that the proportion of a family's food budget does not increase at the same rate as incomes rise. Therefore, an equity argument exists for the rate of GST on food to be reduced. However, given that high income earners spend more on food in an absolute sense, they would actually benefit more from a blanket food exemption. In addition, to ensure the tax generated from GST remains the same, the GST rate on other items would need to increase by an estimated 2%. This gives rise to a flaw in trying to achieve social aims by manipulating GST as the rate cannot be flexed to a person's individual circumstances in the same way as income tax rates – so the rate applies to goods (and services) irrespective of the person buying them.



No consideration is given to the more targeted reduction in GST, as in Australia, where certain types of food such as bread, flour, sugar and milk are not subject to GST, and other items such as biscuits, cakes and takeaways are subject to GST. Research conducted by the University of Auckland found that taking GST off fruit and vegetables led shoppers to buy about half a kilogram more fruit and vegetables per household, per week.



By the way - a recent experiment in Denmark with a 'fat tax' surcharge did not work; the Danes continuing to get their daily intake of burgers by driving over the border into Germany for the cheaper 'fix'!



### Comment:

One argument for keeping the status quo is that New Zealand's system is simple and efficient. The broad based approach avoids the complexity and compliance costs that arguably exist under other regimes, such as the UK's VAT on hotdogs but not on sausages. So, as some smart operator did, sell them the ingredients and charge a fee to make the hotdog. The pressure on the New Zealand Government to introduce an exemption on food will only increase if GST increases. Therefore, it is important to ensure any decision is based on rational debate and certainty that it will have the desired outcome.

## KIWISAVER DEFAULT SCHEME PROVIDERS

It was announced in April that nine Kiwisaver default providers have been selected for a seven year term starting on 1 July 2014: AMP, ANZ, ASB, BNZ, Mercer, Fisher Funds, Grosvenor, Kiwibank and Westpac.

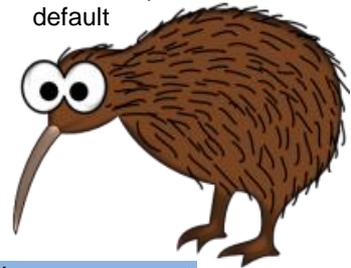
The purpose of the default providers is as a temporary holding fund and these default schemes have a conservative investment approach, which includes a 15% to 20% allocation to growth assets.

If eligible, new employees will continue to be automatically enrolled into Kiwisaver when they start a new job, unless they are already in a Kiwisaver scheme.

Automatic enrolment is followed by the Inland Revenue allocating the member to one of the default schemes. New default members are allocated evenly across all default providers. Kiwisaver members will remain with this Kiwisaver provider and in the same default fund until they decide to change their fund or scheme.

An employee has the option of choosing their own Kiwisaver scheme when they are automatically enrolled or at any point during their Kiwisaver membership. Within 14 to 56 days after starting a new job and being automatically enrolled, an employee also has the option of opting out of Kiwisaver.

The Minister of Commerce recently noted that it was important Kiwisaver members are equipped with the information to actively decide which fund best suits their individual circumstances, taking into account factors such as risk level, fees, investment returns and services. As a requirement of their appointment, the Kiwisaver default providers will also be required to offer investor education to encourage people to make this active choice.



### Comment:

While employees may be members of Kiwisaver, employer contributions to Kiwisaver are not compulsory when an employee is younger than 18 years or 65 years or older. The 'retirement' criteria is actually that the Kiwisaver employee member is 'entitled to withdraw their funds as they have reached the age of entitlement for National Superannuation AND have been in Kiwisaver for five years or more'. Kiwisaver has been around for seven years in July this year so withdrawals by fund members under the above circumstances are possible. It is recommended that employers consider the issue with regard to older members of their workforce and communicate their policy to their employees.

## DROUGHT LOWERS STOCK NUMBERS

The North Island, hit hard by drought in 2012-13, has suffered a significant drop in sheep, dairy and beef cattle numbers as Statistics New Zealand figures for the year ended 30 June 2013 show.

In particular, sheep numbers in Hawkes Bay, Manawatu-Wanganui and Wairarapa have dropped by a total of 16.2 per cent to 10 million animals, equating to a third of the nation's sheep flock. Dairy cattle were down 3.6 per cent, although in Hawkes Bay conversions from sheep farms saw numbers increase there by 2.2 per cent.

Nationally, the South Island had the largest gains with dairy cattle increasing by 1.3 million since 2003, while during the same period the South Island lost 5.3 million sheep.

"The additional dairy cows in the South Island now produce enough milk to fill around 415 milk tankers each day" Statistics New Zealand Manager Neil Kelly reported.

## MANAGING WORKING CAPITAL

Irrespective of the stage of the business' life cycle, managing working capital is extremely important. During the growth phase, many businesses have failed due to growing too rapidly, and not having the corresponding cashflow to keep up with the expanding needs of the business. Meantime, mature businesses need to maintain sufficient working capital to ensure funds exist to meet

liabilities as they fall due and to take advantage of business opportunities as and when they arise.

Management of working capital gives rise to two fundamental questions: how much working capital is required and how should it be funded?



A good indication of the working capital requirements of a business can be determined by the 'cash conversion cycle'. This is the length of time from the purchase of inventory or materials to the receipt of cash from customer sales. The length of this cycle can be influenced through the management of debtors and creditors.

Other financial measures that can be used to monitor working capital requirements include debtor days, inventory days, inventory turnover, creditor days and working capital days. Monitoring these types of ratios over time can help identify problems before they manifest themselves in other more damaging ways, thereby enabling preemptive action to be taken.

Tangible 'best practices' can be adopted to manage cash inflows – i.e. accounts receivable - such as establishing a credit policy, making invoicing clear to facilitate payment, invoicing earlier, reducing payment terms, following up on overdue accounts, offering early settlement discounts and stopping credit to debtors that do not pay.

Of course, such practices need to be balanced against their potentially negative impact, such as customers going elsewhere because of unfavourable credit terms.

Conversely, managing cash outflows is also important by taking advantage of early payment, prioritising suppliers, only making payments when they are due, ensuring invoices are checked for accuracy before payment and putting procurement practices in place that are price driven, not relationship driven.

Care needs to be taken to ensure continuity of supply of materials and inventory and includes considerations such as calculating the optimal re-order point so as not to run out stock and holding 'safety stock' to avoid shortages.

## RENTAL INVESTMENTS

Investment in real estate, especially residential properties, remains a popular choice of investment. Its attractions to New Zealand taxpayers are that at present there is no capital gains tax on the eventual sale of the property, the current rate of after-tax return on fixed term deposits is low and many are risk averse when it comes to share investments in wake of the 2008 financial crisis.



However, property owners should be aware of the following regarding residential rentals:

- Repairs and maintenance expenses are only claimable if the repairs were carried out while the tenant was still living in the house or the house was still available for renting purposes. Often overseas owners returning home realise the damage done to the property after the tenants have moved out and because of the change to private use, the Inland Revenue accordingly may not allow a claim for repairs to such damages.
- Splitting losses – unless the Inland Revenue is satisfied with documentary evidence to the contrary, a couple owning the property jointly cannot split rental losses unevenly. Often the higher income earning spouse is

hopeful of claiming all or most of the losses when it should be split equally.

## EMPLOYERS' ACC EARNERS' LEVY

All employees must pay ACC earners' levy which has been built into the PAYE tables and is deducted within PAYE.

### Comment:

The Earners' levy is charged at a flat rate, which can change each year. For the income year, 1 April 2014 to 31 March 2015 the Earners' levy has been reduced to \$1.45 per \$100. Consequently it is important for employers to use the 2015 tax tables when calculating employees' PAYE. Go to [www.ird.govt.nz/forms-guides/number](http://www.ird.govt.nz/forms-guides/number) and select 300 - 399 and then either IR340 for weekly and fortnightly or IR341 for four weekly and monthly.

## LIVESTOCK VALUES

The national standard costs (NSCs) and Herd Values have been released for livestock for the 2013-14 income year. The NSC values are for 100% homebred livestock.

Category of Livestock	NSC	HERD
<b>Sheep</b>		
Ewe Hoggets	\$37.70	\$ 94.00
Rams & Wether Hoggets	\$37.70	\$ 90.00
2th Ewes	\$59.40	\$131.00
Mixed-age Ewes	\$59.40	\$118.00
Rising 5yr & Older Ewes	\$59.40	\$ 101.00
Breeding Rams	\$59.40	\$257.00
<b>Beef Cattle</b>		
Rising 1yr Heifers	\$369.70	\$506.00
Rising 2yr Heifers	\$547.00	\$799.00
Mixed -aged Cows	\$547.00	\$986.00
Rising 1yr Steers & Bulls	\$369.70	\$614.00
Rising 2yr Steers & Bulls	\$547.00	\$933.00
Rising 3yr Male Steers & Bulls	\$700.00	\$1145.00
Breeding Bulls	\$547.00	\$2031.00
<b>Red Deer</b>		
Rising 1yr Hinds	\$124.00	\$164.00
Rising 2yr Hinds	\$176.90	\$313.00
Mixed-age Hinds	\$176.90	\$380.00
Rising 1yr Stags	\$124.00	\$210.00
Rising 2yr & Older Stags (Non breeding)	\$176.90	\$360.00
Breeding Stags	\$176.90	\$1341.00

## GET A HEAD START ON HEALTH AND SAFETY

There are no shortcuts in health and safety but a new guide for company directors will point the business in the right direction.

The Health and Safety Leadership Guide for small to medium businesses is designed to give an overview of the health and safety responsibilities of a business owner or director. It will help in assisting to create a positive health and safety culture in your business, backed up by strong systems, which will lower your business risk.

The guide, available from [www.business.govt.nz/news-and-features/get-a-head-start-on-health-and-safety](http://www.business.govt.nz/news-and-features/get-a-head-start-on-health-and-safety), gives you the lowdown on the legal issues you need to be aware of, case studies and steps to help develop a plan.

## THE YOUNG ACCOUNTANT

**A young newly qualified accountant spends a week at his new office with the retiring accountant he is replacing.**

**Each and every morning as the more experienced accountant begins the day he opens his desk drawer, takes out a worn envelope, removes a yellowing sheet of paper, reads it, nods his head, looks around the room with renewed vigour, returns the envelope to the drawer and then begins his day's work.**

**Now alone in the office, the new accountant can hardly wait to read for himself the message contained in the envelope in the drawer, particularly since he feels so inadequate in replacing the far wiser and more highly esteemed professional.**

**Surely, he thinks to himself, this must contain the great secret to his future success, a wondrous treasure of knowledge.**

**The young man's fingers tremble as he removes the mysterious envelope from the drawer and reads the following message:**

**"Debits in the column towards the file cabinet. Credits in the column towards the window"**

