



APRIL 2016

CHANGES TO THE IRD'S ADMINISTRATIVE SYSTEMS

The manner in which we interact with Inland Revenue is likely to change dramatically when the upgrade of IRD's IT system and associated legislation comes on-line. The IRD's broad objective is to reduce the amount of time and cost that IRD and private businesses spend on tax administration by modernising its software platform so digital solutions will integrate tax obligations into everyday business practices.



GST related changes possibly include the ability to allow GST-registered persons to submit their GST returns through their chosen accounting software programme as they fall due – thus eliminating the need to file a GST return as a separate process and avoiding the double entry of information leading to the potential for error.

PAYE could shift to a semi-automated process. Similar to the proposed GST filing change, businesses would be able to submit payroll information to the IRD directly from their accounting system and make the necessary payments at the same time. Under this design, PAYE employee information could be submitted to the IRD at the same time as a 'pay run' occurred, with PAYE to IRD due at the same time. Certain processes, such as the requirement to file a NIL employer monthly return, would thus be eliminated.

Such changes represent a shift to a framework in which IRD's system would no longer work on a stand-alone basis and instead the IRD would 'talk' to the software and then accept what it was sent.

IRD'S FOCUS AREAS

In the past, an IRD audit could be commenced for no other reason than the business had not been audited in recent years. Audits would comprise a series of broad questions before the investigator commenced trawling through invoices looking to see if everything is in order.

There has been a noticeable increase in the level of sophistication and the technical depth of IRD investigations. This has its benefits and disadvantages. Time won't be wasted on small issues as a result of technical inexperience. However, when an issue is identified it is more likely that the IRD investigator will have established non-compliance by a detailed background analysis (of the industry and the business itself) or will have good reason to investigate further.

If you do receive a risk review or audit letter from the IRD it is important to take it seriously. A professional and collaborative relationship with the IRD should be built from first point of contact. Be prepared to discuss areas of risk within your business and processes already in place to address those risks.

An example of questions and requests in an IRD targeted questionnaire to determine a business' risk of GST non-compliance could be:

-) Requests for general ledgers along with GST tax coding
-) A step-by-step rundown of how GST returns are prepared by the business
-) Any safeguards or checks that the business has in place in preparing and reviewing the GST returns
-) How the GST treatment of the supplies is determined.

It is important that your business meets its tax obligations with the appropriate level of rigour. It is also important not to let the process consume you. Utilise your professional advisors throughout the investigation process – it is a process, it just needs to run its course!

Contents

Changes to the IRD Administrative System	1
IRD's Focus Areas	2
Setting The Record Straight	2
New Employment Laws	2
Read The Fine Print If You Want NZ Super	3
If You Don't Have A Will	3
They Walk Amongst Us!	4

SETTING THE RECORD STRAIGHT

Inland Revenue have also signalled they will be looking at businesses' record keeping systems. Key targets will be that all jobs and all income are being recorded and that GST is being handled properly. Recent prosecutions indicate that PAYE records are another hot topic, along with the corresponding employment records. If sketchy records are a quick way to set off the IRD alarm bells, this could be a great time to do a check on your systems and paperwork.

As a business owner you are required by law to keep certain records. Poor record keeping lets you down, and not just in terms of the penalties that apply for record keeping failure (up to \$12,000).

Inadequate systems make it harder for you to keep track of what you owe, how much you have already paid, to whom and what for and who owes what to you. Miss key deadlines and your costs increase in proportion to how much of a nightmare it is to straighten it out. With the advances in online systems of recent years, many businesses have overhauled their systems and are in good shape to pull out regular management reports that detail their position clearly. However, there may still be areas where things fall through the cracks.



This applies particularly in industries such as construction where large sums of money stay on the table as retentions until the job is completed and it is difficult to keep track potentially across several tax years. At the other end of the scale, the high volume and high speed cash transactions occurring daily in the hospitality sector can also punch holes in a business' records.

If you are still making do with the same basic systems you started out with, it is possible that your business has outgrown them and they now constitute a business risk. We can assist you to look into this and do something about it if necessary.

RENTAL PROPERTY CHATTELS

The IRD no longer allows depreciation on residential rental buildings – however, certain chattels can be depreciated. Therefore, if you are buying a rental property, it can be beneficial to have major chattels listed with a value placed on them in the Sale & Purchase Agreement. This will allow a depreciation deduction and a write-off if the chattel ever needs replacing.

Major chattels include (but are not limited to) the stove, the carpets/lino, curtains/drapes, heat pumps, etc.



NEW EMPLOYMENT LAWS

New employment law came into place effective from 1 April 2016 - the changes aim to retain flexibility where it is desired by both employers and employees but also to increase certainty by ensuring that both parties are clear about the mutual commitments they have made.

What you need to know:

Minimum hourly rate: The adult minimum wage for permanent employees increased from \$14.75 to \$15.25 an hour on 1 April 2016 and \$16.47 (\$15.25 per hour plus 8% holiday pay \$1.22 per hour) for casual employees. The starting out and training hourly minimum wages increased by \$0.40c to \$12.20 per hour.

Casual agricultural employees: The term 'casual agricultural employees' includes shearers, shearing shedhands and casual employees. The CAE rate for PAYE for these employees is **18.89** cents in the dollar. The reduced rate reflects the lower ACC earners' levy which is included in the PAYE.

Written Employment Agreements: Every employee must have a written Employment Agreement and all employers are required to retain a signed copy of the agreement and of the signed current terms and conditions of employment.

Hours need to be stated in the Employment Agreement: Where the employer and employee agree to a set number of hours, these hours need to be stated as a record in the Employment Agreement and include any or all of the following –

-) the number of hours to be worked
-) start and finish times, or
-) the days of the week the employee will work

Employers may not require employees to be available without a genuine reason based on reasonable grounds and reasonable compensation: Employers are prohibited from requiring employees to be available above their agreed hours stated in their Employment Agreement, unless the employees are compensated for that availability as recorded.

A shift can only be cancelled with reasonable notice or compensation: Employers will be required to either give employees the agreed reasonable notice before cancelling a shift or provide them with reasonable compensation for late notice if the shift is cancelled just before the shift commences. If an employee has already commenced their shift, or the reasonable notice period and reasonable compensation is not recorded in the Employment Agreement, the employee is entitled to what they would have otherwise earned for that shift.

Unreasonable restrictions on secondary employment are prohibited: Employers will be prevented from restricting secondary employment for employees in their Employment Agreements, unless they have a genuine reason based on reasonable

grounds for so doing. These grounds must be related to the risk of loss to the employer of knowledge, property (including IP), commercial reputation, or a real and unmanageable conflict of interest.

Unreasonable deductions from employees' wages are prohibited: Employees must consent to deductions from their wages and the deduction must not be unreasonable. For example, a deduction to cover losses through breakages or theft may be deemed unreasonable, particularly if the employee had no control over a third party conduct.

Parental leave:

-) Increased parental leave payments to 18 weeks - babies must be due or born after 1 April 2016
-) 18 weeks of parental leave payments will also be available to primary carers, other than biological or adoptive parents, who take permanent primary responsibility for care, development and upbringing of a child who is under the age of 6 years. For example, a grandparent who will be raising the grandchild in place of the parents
-) Parental leave payment is extended to include workers who have worked for any employer for any 26 of the 52 weeks prior to becoming the primary carer to a child and therefore includes:
 - Casual and seasonal workers
 - People with more than one employer
 - A person who has recently changed jobs
-) 'Keeping in touch' hours can now be arranged for employees to be paid to come into work up to 40 hours during their 18 week paid parent leave period. These hours can start only after the baby is four weeks old and the arrangement requires both the employee's and employer's agreement.

READ THE FINE PRINT IF YOU WANT NZ SUPERANNUATION

Every year a number of Kiwis find they are not entitled to our 'universal' NZ Super. Or, not at the same rate as everyone else. Some of the common reasons are that they have married a foreigner; worked overseas for several years; taken long overseas holidays; want to retire to Australia or elsewhere; or have not lived in New Zealand for long enough in the years prior to becoming 65 years of age.

Perhaps the most contentious part of the NZ Super legislation is Section 70 of the Social Security Act 1964 which says if you or your partner are entitled to an overseas 'state-administered' benefit, it will be deducted from your NZ Super. On the surface this is only fair as why should someone get double the income when they only worked part of the time in New Zealand?

The problems with the direct deduction policy are multiple, complicated and not always fair. In some cases it is applied to private retirement savings, for example the Canada Pension Plan. Some of the overseas 'state-administered' pensions that are deducted are more like KiwiSaver, made as employees

into individualised accounts and not a universal pension fund. Therefore they should be paid over and above NZ Super – although groups such as Pension Protest have had little luck in getting the NZ Government to budge.

New Zealand has bilateral deals with Australia, Canada, Denmark, Greece, Ireland, the Netherlands and Britain that allow people to use their residency in New Zealand to qualify for a state pension in the agreement country (and vice versa) or to receive up to 100 per cent of NZ Super. However, a big problem that Kiwis come across is the rule that they only receive NZ super while living in Australia to the level of the Australian Age Pension that they qualify for and that Australian pension is means tested. Therefore, as a result, Kiwis living in Australia whose assets and income fail the means tests will have their NZ Super reduced to nil.

Comment:

-) Retiring Kiwis moving to Australia must apply for the Australia Age Pension within 26 weeks. Kiwis moving to non-agreement countries need to apply for NZ Super before the move.
-) You can travel and get paid for up to 26 weeks of the year and still get NZ Super.
-) There is a requirement to be resident in New Zealand for 10 years after the age of 20 and five years after turning 50 to be entitled to NZ Super.

IF YOU DON'T HAVE A WILL...

Your estate will be divided up according to the Administration Act:

-) Your spouse or partner gets your personal chattels, the first \$155,000 of the estate and one-third of the rest. The other two-thirds go to your children;
-) If you have no children, your partner gets the personal chattels, the first \$155,000 and two-thirds of the rest. Your parents get the other third. Your partner gets the lot if your parents are deceased;
-) If you have children but no partner, the entire estate is left to the children equally;
-) If you have no partner or children, your parents inherit;
-) If your parents are deceased, the entire estate is left to blood relatives or to the Crown if no relatives exist. (source: consumer.org.nz/articles/wills)

It is believed over half of New Zealanders do not have a current Will. Writing a Will is not expensive or time consuming so it appears that personal inertia rather than cost is the main barrier for many people to sort their affairs. In the case of unexpected death, the lack of a Will can place a huge burden on surviving family members.



Newsletters are available by e-mail - please go to our website www.grahamdobson.co.nz click on the "Our latest newsletter: view or subscribe" icon and complete the registration screen.

THEY WALK AMONGST US!

A householder bought a new fridge for his renovated kitchen. To get rid of his old model, he put it outside his fence and hung a sign on it saying 'free to a good home – you want it, you take it'

For three days the fridge sat there without anyone looking twice at it. He eventually decided that people were too mistrustful of the deal. So he changed the sign to read: 'Fridge for sale \$50.00'

The next day someone stole it!



A lady applying for a job in a lemon orchard in Te Puna seemed to be far too qualified for the job; given her arts and education degrees from Waikato University and her job as a social worker and a teacher at the local Polytech.



The foreman frowned and said, ***“I have to ask you this:***

“Have you had any actual experience in picking lemons?”

The lady replied, ***“Well, as a matter of fact, I have!”***
“I’ve been divorced three times, owned a Ford station wagon, a Leyland P76, supported the Blues for the last 4 years, voted for David Cunliffe and bought shares in Dick Smith”

