



AUGUST 2016

SNIPPETS

UNEMPLOYMENT RATE DROP POINTS TO STRONG ECONOMIC GROWTH

Figures now available demonstrate a fall in the unemployment rate to 5.2% in the first three months of 2016. The statistics also show the labour force went up by 1.5%, the largest quarterly increase since 2004, resulting in more people both employed and unemployed.

This is an interesting development as what happens in the labour market has important implications for inflation, interest rates and residential building.

The Reserve Bank in December 2015 predicted that the unemployment rate would increase to 6.2% this year and would not fall to approximately 5.3% until the March 2018 quarter. The unexpected fall in the unemployment rate however warrants more than just having a laugh about the inaccuracy of the economic forecasters!

The drop in this rate fits in with other indicators that point to economic growth being stronger than the Reserve Bank and other bank economists are predicting. This increasing strength in economic growth could drive the unemployment rate even lower, meaning higher inflation, especially in wage and salary levels. With rising inflation comes the risk interest rates may increase rather than fall next year.

This is because the Reserve Bank is responsible for maintaining price stability in New Zealand by keeping inflation within a set range (1% to 3% on average over the medium term). Simply put, by increasing the Official Cash Rate which helps determine the wholesale price of borrowed money - therefore directly affecting the interest rates banks charge for you to borrow money- the Reserve Bank can influence inflation – either up or down.

Comment:

The stronger the economy performs this year, the greater the chance interest rates will increase next year

POVERTY BAY A&P SHOW PET COMPETITION

Graham & Dobson, a Diamond sponsor of this successful annual event in the local Spring calendar, also enjoys sponsoring the Show's Pet competition – our office manager is already on the



lookout for the treats that go into the sizable prize bags for competitors and there are ribbons and prize money to be won as well. There is no cost to enter. Further information may be obtained by emailing info@gisborneshow.co.nz.

Prize categories are:

-) Best dressed lamb and goat
-) Best undressed lamb and goat
-) Best calf
-) The most entries from one school.

GST TREATMENT OF CREDIT CARD FEES/SURCHARGES

Some retailers charge an additional fee or surcharge as reimbursement for the fee they are charged by the credit card company. If you are GST registered and:

-) Charge a fee or surcharge to customers who pay by credit card, it needs to be included as income in your GST return
-) Are charged a fee or surcharge as a result of paying by credit card, then include it as an expense in your GST return.

DAIRY DELIVERS!

When dairy prices were booming many people were outraged at the price of milk and cheese. For the record, latest figures show that on an annual basis cheese prices are down 9.5 per cent, milk down 3.9 per cent and yoghurt down 9.2 per cent.

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CONSTRUCTION CONTRACTS ACT 2015 FURTHER AMENDMENTS

The Construction Contracts Act 2002 provides a process for dealing with payments and disputes under a building contract. It covers both commercial and residential construction contracts and includes work on:

-)] buildings and other structures that form part of the land, including temporary structures
-)] fittings in the building, such as heating, lighting and fire protection, and
-)] infrastructure that forms part of the land, such as roads, utilities and drainage.

Amendments to the Act stipulate that from:

-)] 1 December 2015, residential and commercial construction contracts are treated the same under the Act, giving the parties to residential contracts full access to the Act's dispute resolution and payment regimes.
-)] 1 September 2016, design, engineering and quantity surveying work is included under the scope of the Act. This gives parties to construction contracts for this type of work full access to the provisions of the Act.
-)] 31 March 2017- retention money withheld under commercial construction must be held in trust.

VEHICLE FRINGE BENEFIT TAX

In the vast majority of cases fringe benefit tax (FBT) on vehicles is paid based on the GST inclusive cost price of a vehicle. But it is worth considering application of the depreciated tax value (TV) method if you have older vehicles on which FBT is being paid.



Under the TV method the value of the benefit for FBT is calculated based on the depreciated value of a vehicle. The method chosen in the very first FBT return for a specific vehicle must continue to be used for that vehicle for five years – thus the use of the TV method can only be considered after that initial five year period has finished. However, if FBT is being paid on vehicles that have been owned for more than five years, a comparison to the TV method should be made – it is likely to give rise to a lower FBT cost.

Comment:

The greater the original cost of the vehicle, the greater the potential saving. It is worth checking your vehicle register and if you believe application of the TV method of calculating FBT on specific vehicles may be an option, please contact us and we will run the numbers.

INSTANT FUEL DISCOUNTS

Fuel retailers are innovating new ways to drive loyalty via fuel discounts.

From 1 August, Z Energy changed its approach to attracting customers, dumping Countdown supermarket

vouchers and rolling out instant 'competitive' discounts for Fly Buy members at petrol stations.

Although Z Energy bought Caltex earlier this year, Caltex customers will still be able to use supermarket vouchers at 146 Caltex stations throughout the country.

BP sites will still redeem Countdown fuel vouchers as part of BP's new partnership with AA Smartfuel. BP has also launched the "BPMe" phone app, which allows customers to pay for fuel purchases from their car – the app can also record fuel purchases, remember regular fill-ups and allow purchases from BP on site cafes.

CORRECTING YOUR EMPLOYER

MONTHLY SCHEDULE (IR348) AFTER FILING

Making corrections to your employer monthly schedule (EMS) is the same whether you file electronically or on paper. You can either:

-)] Complete an Employer Monthly Schedule Amendments form (IR344) and send it to the IRD, or
-)] If there are a small number of adjustments, call the IRD on 0800 377 772 and they will update them over the phone. You will need your IRD number.

Note:

The IRD system cannot process more than one IR348 per month from each employer. If you file a second IR348 it will show as a duplicate and will not be processed.

BANKING ON THE LAW

The legal action against banks over their 'exception fees', particularly in the area of credit card charges, has been very quiet for some time. New Zealand does not have history of class actions and many in judicial circles are dismissive of 'ambulance chasing' lawyers working on no win/no fee contracts. However, in the UK, law changes allowing consumers to make collective damages claims have led to MasterCard facing a claim for up to £19 billion in damages for interchange fees. UK supermarket chain Sainsburys has also been awarded £68.5million in damages from MasterCard by an EU tribunal. Perhaps bank and credit fees in New Zealand are all fair; but then again, perhaps not!

FARMING LAND SALES SUBJECT TO THE BRIGHT-LINE TEST

The Bright-line Test for land sales which applies from 1 October 2015 requires taxpayers to pay income tax on gains derived from the sale of residential land that has been owned for less than two years. Residential land is defined in the Income Tax Act Section CB6A and includes:

-)] Land with a dwelling on it
-)] Land for which the owner has an arrangement relating to the erection of a dwelling
-)] Bare land that may be used for erecting a dwelling under rules in an operative district plan
-)] A dwelling is defined as being any place used predominantly as a place of residence or abode.

However, farmers may find the Bright-line Test applies when they sell land with a dwelling on it, or bare land (that is not farmland) that may be used for erecting a dwelling.

Land sales that are most at risk of being caught by the Bright-line Test are sales of surplus farm houses following an increase to the land holding, surplus farm cottages, bare land that is not capable of being farmed and sale of lifestyle blocks. The sale of a lifestyle block would struggle to meet the definition of farmland and the taxpayer would have to show the lifestyle block was being run as a farming business. The Commissioner of Inland Revenue does not accept such activities as the growing of trees for timber production and provision of services by agricultural contractors to the farming sector as being an agricultural or farming business.

CHARITIES REPORTING CHANGES - COMMON ISSUES

With the changing reporting requirements for charities for 31 March 2016 and later financial years some common issues have been noted.

Ensure you select the appropriate tier of reporting for your entity. You may opt up a level but cannot opt down. Audit requirements also need to be considered, if an audit is required ensure you use a qualified auditor.

Service Performance reporting is compulsory for Tier 3 and Tier 4 entities (less than \$2m of expenditure). This must be tied to the purposes of the charity that are included in the constitution, trust deed or rules.

There are compulsory categories that must be disclosed. These can be renamed, have subtotals added or you can disclose additional details. Unused categories may be removed but you cannot merge categories or add categories that are required to be included in an existing category.

For correct classification of grants you have to determine if they are general purpose or for provision of specific services. If there is a use or return clause for the grant, this determines when the income is recognised.

Related parties are people who hold decision making power in the charity and their close family and related entities. Transactions with related parties must be well disclosed in the notes to the performance report. Transparency of these relationships is important to protect a charity's reputation.

Lotteries and COGS have now aligned the audit and review requirements for grant applications with the charities legislation. You will only need a review where your expenditure is over \$500,000 or an audit over \$1m of expenditure. Other major funding providers may consider this in future.

Livestock Valuation - National Average Market Values (Herd Scheme) Comparison 2014 - 2016

Type	Class	2014	2015	2016	\$ Change	% Change
Sheep	Ewe Hoggets	94	88	92	4	4.5%
	Ram & Wether Hoggets	90	83	84	1	1.2%
	2th Ewes	131	126	133	7	5.6%
	M/A Ewes	118	113	117	4	3.5%
	5 & 6yr Ewes	101	90	96	6	6.7%
	M/A Wethers	79	73	68	-5	-6.8%
	Breeding Rams	257	253	304	51	20.2%
Beef	Rising 1yr Heifers	506	607	726	119	19.6%
Cattle	Rising 2yr Heifers	799	940	1079	139	14.8%
	M/A Cows	986	1171	1273	102	8.7%
	Rising 1yr Steers & Bulls	614	706	842	136	19.3%
	Rising 2yr Steers & Bulls	933	1104	1229	125	11.3%
	Rising 3yr Steers & Bulls	1145	1376	1468	92	6.7%
	Breeding Bulls	2,031	2,293	2,571	278	12.1%
Red Deer	Rising 1yr Hinds	164	169	223	54	32.0%
	Rising 2yr Hinds	313	333	397	64	19.2%
	M/A Hinds	380	375	438	63	16.8%
	Rising 1yr Stags	210	215	263	48	22.3%
	Rising 2yr Stags	360	434	543	109	25.1%
	Breeding Stags	1341	1478	1775	297	20.1%

POOR OLE BILL!

Hillary Clinton goes to her doctor for a check-up,
only to find out that she is pregnant.

She is furious. Here she is – in the middle of her election campaign
to become the first woman President of the United States of America
– now this has happened to her!

She calls home, gets Bill on the phone and immediately starts ranting:
“How could you have let this happen? With all that’s going on right now,
you go and get me pregnant!
I can’t believe this! I’ve just found out I’m five weeks pregnant
and this will undermine my stamina!
Never mind the emails fiasco - Trump will have a field day when this gets out.
Well, what have you got to say?”

There is nothing but dead silence on the phone.
Hillary screams, “Did you hear me?”

Finally she hears Bill’s very, very quiet voice,
in a barely audible whisper: “Who’s calling?”

