

YOUR CREDIT RATING

Credit reporting agency Veda Advantage is assigning a new points based rating to almost everyone allowed to vote in New Zealand.

Veda Advantage started life in New Zealand as Baycorp in 1971 and the credit rating division known as Baynet. Over this time they have been accumulating data on us and providing businesses with this information normally when we apply for credit or to open an account.

However, we will now be rated and assigned a number between negative 330 and positive 1000. A high number represents someone with extremely low risk, whilst a number below zero means someone that is likely to default on their commitments.

One improvement over the old system is that the severity of a crime is taken into account when deducting points. A missed hire purchase payment will be viewed considerably differently to a large mortgage in default. Everyone has the right to view their credit file and there is an option (which takes longer) that has no charge. You can download the application form at www.vedaadvantage.co.nz.

Don't be dismayed if your score is lower than expected. An example was provided in a recent



newsletter from a financial advisor who paid his credit cards in full each month, hardly ever bought things on hire purchase, had no finance on his car and his mortgage represented 3% of the value

of his home. He made a good income and had a range of investments. He thought he would get a rating in the top quarter (over 750) but was surprised his score was a mere 475.

There are some reasons which Veda elaborate on in a brochure sent with your report why someone with a good credit history may have a low score. One is that the more inquiries made about you, the lower your score. This is probably based on the assumption that the only reason someone wants to look at your file is if you have applied to borrow money!

As well as a points score your report will provide a "relative rating". Our financial advisor scored 1.62. This means he is that much better risk than the average person (1.00).

RENTING OUT YOUR HOLIDAY HOME



The income tax treatment of a holiday home that is used both privately and rented to third parties can be difficult to determine because of its mixed use. The difficulty arises because expenses of a private nature cannot be claimed, but expenses incurred to derive income can be claimed. The issue becomes how to apportion expenses between the private and taxable use of the home.

Where a taxpayer can show that a particular expense directly relates to a time when rental income is being derived, then the expense will be deductible. For example, a telephone or power bill that shows actual usage while the home is being rented. However, the deduction may be limited to the lesser of the actual expenditure or rent received, (i.e. deductions cannot exceed rent received).

If the holiday home is treated as a genuine income producing asset and is only partially used for private purposes, deductions may be available for periods during which it is available but not occupied. Proof of the home being "genuinely made available for rent": requires evidence of "active and regular marketing" of the holiday home for desirable period at attractive rates.

If the holiday home is only sporadically made available for rent at undesirable periods and at unattractive rates, it is more likely to be a personal asset for the intervening periods and therefore deductions would not be available.

The IRD also contends that where the home is made available to friends or family at less than market rates, deductions should be limited to the amounts received, so the net income is nil.

CONTENTS

Your Credit Rating	1
Renting out your Holiday Home	1
NZ Supply Adjusting	2
Tenants Wanted	2-3
Retirement Savings Portability	3
The Free House wants Tax Free Beer	3
Newsletters via the Website	3
Inner Peace	4



NZ SUPPLY ADJUSTING TO STRUCTURAL LAND USE CHANGES

The structure of New Zealand agriculture is changing – particularly within the pastoral sector. Rabobank reports that compared to 10 years ago, and notwithstanding the peaks and troughs during the period, New Zealand’s sheep meat production is around 14% lower in 2009, while apple production has fallen 13%. Beef production on the other hand is 13% higher, milk production up 48% and kiwifruit volumes around 63% higher.

In comparison to horticultural activities reliant on an annual crop, meat production volumes in the past have remained more stable than other agricultural sectors. However meat production in recent years has showed negative or relatively flat growth – evidence that expansion and additional investment in the sector has been limited.

Changing land use is driven by relative profitability in certain industries – some hill country has been retired or planted in forestry as carbon farming but the land use adjustment in the pastoral sector has been mostly dominated by the dairy industry, either as dairy conversion or dairy support. This has the dual impact of reducing sheep meat production and increasing beef production – although the national prime beef herd has decreased in size, the national dairy herd continues to grow, with the resulting delivery of a large number of cull animals to the manufacturing beef processing. Consecutive droughts on the East Coast have also contributed to the change in production levels in the past three years.

More importantly, an increased number of farms have moved away from traditional farming systems to operate as ‘feed factories’, growing or supplying feed to the livestock sector where the greatest return can be generated. While this approach adds flexibility to the enterprise and reduces the capital investment (no breeding or capital stock), it potentially increases the risk

and viability of returns. These risks are likely to increase if many farmers adopt this practice, as the magnitude of the swing in livestock and feed prices is greater when producers are all seeking to buy either livestock or feed at the same time. Greater flexibility in funding is also required as trading livestock and/or feed results in lumpy cash flows and susceptibility to seasonal fluctuations.

Rabobank in its publication “Global Focus – New Zealand Meat” comments that enterprise flexibility will be an asset to the sector provided the risks and rewards are well understood. Typically an above average farmer operator with considerable trading and negotiating experience will be better placed to capitalize on the volatility that inevitably arises with this type of operation. For others, a more specialized or integrated system will be preferable where market place volatility is reduced, and therefore fluctuations can be more readily managed.

Structural change in the pastoral industry will also require adjustment throughout the supply chain. The overall capacity in the processing sector will need to further decrease in response to reduced stock numbers. As changes in national stock numbers impact on some regions more heavily than others (eg North Island’s East Coast drought, and the extensive dairy conversion in the South Island), processing adjustments will take place in greater proportion in the south and east of the North Island. Arguably this has removed processing overcapacity that has existed within the industry for some time and although the processing industry continues to make efficiency gains, further action is likely to be required. Many smaller processors, primarily niche marketing their products at the premium end of the market continue to outperform some the larger processors.

Europe and North America remain the dominant markets for New Zealand’s sheep meat and beef exports. While there is general agreement on the desirability of developing new markets, the reduced lamb and prime beef kill refocuses exporters on better serving traditional markets rather than seeking to supply large additional quantities to new markets.

TENANTS WANTED!



Average rents are easing as an oversupply of residential properties put pressure on the market. First National Group, which manages around 6500 rental properties in this country, reports that rents were down by an average 3.5 per cent in the past three months.

Demand for lower end properties was helping stabilize rents but there was a trend of up to \$50 per week rent reductions for higher end properties with new tenancies.

First National's property managers also report that supply continued to outstrip demand, as typical winter rental market conditions, exacerbated this year by the economic downturn, provided plenty of choice for tenants. Some regions had double the usual rental supply, although a general shortage of quality rental property was noted.

John Stewart, First National's general manager, believes that, as is usual in winter, colder and older homes were difficult to fill, with warmer drier properties being let quickly.

Tightened economic conditions are also reported as being responsible for more tenants downsizing, reducing work travel distances or moving into shared accommodation. There also appears to be a trend in which university and polytech-tenanted properties falling vacant at the end of the first semester recently were not picked up for the new term.

RETIREMENT SAVING PORTABILITY



In mid July the Australian Treasurer and New Zealand's Finance Minister signed a Memorandum of Understanding to establish a trans-Tasman retirement savings portability scheme. This will enable Australians and New Zealanders to transfer their retirement savings across the Tasman when they move and once

enacted it will enhance the movement of labour between the two countries. In addition, by reducing individuals' exposure to multiple sets of fees and charges, the scheme is expected to support the growth of individuals' retirement incomes.

Currently when New Zealanders work in Australia and move back to New Zealand their compulsory retirement savings are left behind.

Deciding whether or not to bring funds back to New Zealand will need to be carefully considered by returning New Zealanders. Advice by Association of Superannuation Funds of NZ director, Bruce Kerr, is that each individual will need to weigh up the implications of the choice because there is currently different tax treatment of investment earnings for super saving in each country. Moreover, Australian superannuation offers a broad range of entitlement ages, whereas Kiwisaver savings are currently only available at the age of entitlement for New Zealand Super (currently age 65 years).

It is possible there are a number of small, uneconomic accounts in the Australian superannuation scheme. However, New Zealanders who have returned home after working in Australia but have since lost track of their retirement savings accumulated in Australia should use the Australian Taxation Office website www.ato.gov.au/superseeker to check for any lost accounts:

TAX-FREE BEER!



An online petition launched by a Nelson pub, "The Free House" urging the Government to exclude boutique breweries from the one size fits all approach to the application of excise tax on alcohol, is gaining momentum both nationally and internationally. The Free House serves craft beer and its petition has been signed by craft beer fans from as far away as San Francisco. The petition comes in the wake of the Law Commission's recommendations that raising the price of alcoholic products could be part of the answer to hedging New Zealand's binge drinking culture. Boutique breweries make up less than 3% of the total market for beer. Given the relatively small number of boutique brewers, the tax breaks would have little effect on Government coffers, is the argument by the Free House. Will the petition be successful? Watch this space!

Inner Peace

If you can start each and every day without caffeine;

If you can always be cheerful, bravely ignoring aches and pains;

If you can resist complaining and boring people with your troubles;

If you can eat the same food every day and be grateful for it;

If you can understand when your loved ones are too busy to give you any time;

If you can take criticism and blame without resentment or tears;

If you can conquer tension without medical help or counselling;

If you can face old age without worry

If you can relax without liquor;

If you can sleep soundly without the aid of drugs....

...Then You Are Probably The Family Dog!



*Thank you for receiving our newsletter via the website.
We consider this to be a more efficient and cost effective
way of getting the newsletter to you,
and helps in reducing our carbon footprint.*

