

Snippets

Adding Insult to Injury

After the share market collapse of 1987 there were 'co-incidentally' a number of disputes with the IRD as taxpayers claimed the cost of their shares for tax purposes. This was on the basis that they had purchased the shares on revenue account. These disputes were generally decided in the taxpayers favour.

With the recent spate of finance company collapses the IRD has made the first move by issuing a press release stating that "most investors in failed finance companies will not qualify for a tax write-off". In some cases this will also apply to interest income previously taxed but not physically received. This could occur if a person re-invested accrued interest. As the interest will have been applied for the investor's benefit, they will technically have received it and not be able to claim a deduction for a bad debt.

The press release can be viewed under the 2008 media releases on the IRD website at www.ird.govt.nz.

Recent IRD Alert

The IRD uses a 'Revenue Alert' system to notify the public of issues of concern. The IRD has recently issued its second 'Revenue Alert', outlining its view that tax avoidance may exist where taxpayers operate a business of providing personal services through a company or trading trust. Personal services income is income that arises from personal exertion, for example, services provided by doctors, lawyers and electricians etc. The use of such a structure can enable income to be directed to recipients on comparatively lower marginal tax rates. This issue has been around for some time now, most famously covered in the Taxation Review Authority Case W33 involving a trading trust.

The question of whether or not tax avoidance exists can be very complicated to answer and cannot be covered in detail in the context of a 'Revenue Alert'.

The issue that may arise going forward is that officers of the Department may take a simplistic approach to the issue and deem a structure to be tax avoidance (simply because it 'fits' with the situation in Case W33) when it is in fact a completely legitimate structure.



Jared Ingoe Resigns as a Principal of Graham & Dobson

Jared Ingoe will resign and leave Graham & Dobson on 30 June 2008 to pursue other business interests, including the development of a dairy farm in the Matawai district. We wish him well!

Q. What's a mixed feeling?

A. When you see your mother-in-law backing off a cliff in your new car.

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Donations and Rebates

Limits relating to donations deductions for companies and the donations rebates for individuals have been removed from the 2008 – 2009 income year. As a result of the changes, companies will be able to claim a deduction for donations up to an amount equal to net income. Individuals will be entitled to a tax rebate of one third of their donation, limited to the amount of the person's tax credits for the year. Previously, both companies and individuals were subject to limits on the amount of deductions and rebates, respectively that could be claimed.

In the past the IRD were reasonably practical, even relaxed when it came to processing applications for an individual's donations rebate. However, as these changes are likely to result in an increase of tax being refunded by the IRD, there was uncertainty regarding whether the IRD would increase their scrutiny during the processing of donations rebates. The uncertainty arose because the legislation prescribing who could claim a donation rebate simply refers to a person who makes a gift. There has been concern that where a donation receipt is issued in the name of a non-working spouse who has no tax credits, the donation rebate would be disallowed by the IRD. The issue has recently been clarified by the IRD.

- Where a donation is made in joint names, both parties are eligible to claim either the whole, or part, of the rebate, provided the combined claimable amount does not exceed the donation, and that the amount either individual is claiming is not greater than their personal taxable income.
- Where a donation is made solely by one spouse, and that donation exceeds that person's taxable income, the other spouse can claim the balance of the donation, up to the amount of the other spouse's taxable income.

Irrespective of which spouse is named on the receipt (or both – jointly), if more than one claim is made relating to a donation, one spouse must attach the receipt to the claim form. The other spouse must attach a note to their claim form giving the name and IRD number of their spouse with whom they intend to share the claim.

For example, if a married couple makes a donation and the receipt is issued in the name of the spouse with no taxable income, that spouse would be unable to claim a donations rebate. However, if the

other spouse has taxable income greater than the donation, that other spouse may claim the entire donation amount.

The following situation illustrates the need for companies to be aware of how the new rules work before gifts or donations are made. Consider a motor vehicle dealership that wishes to donate a new vehicle to a worthy charity. The vehicle is donated, and the charity is very appreciative. If the company expects to claim a deduction based on either the cost or market value of the vehicle, it may be surprised to find a deduction will not be available. In order for a company to claim a donation as a deduction it has to be a donation in cash.

It is clear that Government has intended increased tax benefits to come from making charitable gifts and donations. There is however, uncertainty as to whether or not this intention will be achieved in practice.

Budget Highlights

Personal income tax rates

The personal income tax rates announced in the 2008 Budget remove the low income rebate and introduce a new bottom tax rate of 12.5% on income up to \$14,000. The income thresholds for the 21%, 33% and 39% rates also increase over the next three and a half years as follows:

Current rates

Income to \$9,500	15%
\$9,501 - \$38,000	21%
\$38,001 - \$60,000	33%
\$60,001 and over	39%

New rates from 1 October 2008

Income to \$14,000	12.5%
\$14,001 - \$40,000	21%
\$40,001 - \$70,000	33%
\$70,001 and over	39%

New rates from 1 April 2010

Income to \$17,500	12.5%
\$17,501 - \$40,000	21%
\$40,001 - \$75,000	33%
\$75,001 and over	39%

New rates from 1 April 2011

Income to \$20,000	12.5%
\$20,001 - \$42,500	21%
\$42,501 - \$80,000	33%
\$80,001 and over	39%

Since the change in tax rates comes into effect part-way through an income year, employers will have to apply different PAYE rates to pay made before and after 1 October 2008. These are called composite rates and represent the actual amount of income tax that applies for the 2008/09 income tax year. The composite rates for the full 2008/09 income tax year are as follows:

Income range	Composite tax rate applied
\$0 - \$9,500	13.75%
\$9,501 - \$14,000	16.5%
\$14,001 - \$38,000	21%
\$38,001 - \$40,000	27%
\$40,001 - \$60,000	33%
\$60,001 - \$70,000	36%
\$70,001 and higher	39%

Business tax thresholds

Budget 2008 also provides for substantial increases to a range of business tax thresholds. The budget papers indicate that the changes to the thresholds will be incorporated in a tax amendment Bill to be introduced in June. These threshold changes include:

- increasing the PAYE once-a-month filing and payment threshold from \$100,000 to \$250,000
- increasing the FBT annual return filing threshold from \$100,000 to \$250,000
- increasing the provisional tax use-of-money interest safe harbour threshold from \$35,000 to \$50,000
- increasing the low value trading stock threshold from \$5,000 to \$10,000
- increasing the GST registration threshold from \$40,000 to \$50,000
- increasing the GST six-monthly return filing threshold from \$250,000 to \$500,000.

Currently, there are no changes to the portfolio investor rates used by PIEs to calculate tax payable (which will stay at 19.5% and 30%) or the RWT rates, which will remain at 19.5%, 33% and 39%. The Government intends undertaking a more substantive review of these regimes in consultation with the finance sector.

Herd Scheme Values announced

The 2008 Herd Scheme values were announced recently. These show a further reduction in the value of breeding sheep, and a reduction for all classes of cattle. The values are as follows:

Category	2006	2007	2008
Sheep			
Ewe Hoggets	58.00	54.00	52.00
Ram & Wether Hoggets	48.00	48.00	49.00
Two-tooth Ewes	87.00	75.00	60.00
MA Ewes	77.00	65.00	50.00
5yr + Ewes	57.00	48.00	41.00
MA Wethers	39.00	37.00	32.00
Breeding Rams	172.00	215.00	190.00
Cattle – Non Dairy			
R 1yr Heifers	402.00	406.00	333.00
R 2yr Heifers	626.00	620.00	547.00
MA Cows	753.00	752.00	638.00
R 1yr Steers & Bulls	497.00	502.00	427.00
R 2yr Steers & Bulls	712.00	720.00	640.00
R 3yr Steers & Bulls	856.00	882.00	801.00
Breeding Bulls	1645.00	1546.00	1464.00



Newsletters via the website

In future, we would prefer to send an e-mail to clients advising that our latest newsletter is on our website. We consider this to be a more efficient and cost effective way of getting the newsletter to you.

If you would like to receive future newsletters by e-mail, please go to our website at www.grahamdobson.co.nz, click on the "Register for Newsletter" icon and complete the registration screen.

Graham & Dobson Pens

Running out of ink? Ask at reception for a free refill!!

Light Humour

Some funny notices from around the world

Cocktail lounge, Norway:

"Ladies are requested not to have children in the bar."

Doctors office, Rome:

"Specialist in women and other diseases."

Dry cleaners, Bangkok:

"Drop your trousers here for the best results."

In a Nairobi restaurant:

"Customers who find our waitresses rude ought to see the manager."

On an Athi river highway:

"Take notice: when this sign is under water, this road is impassable."

On a poster at Kencom:

"Are you an adult that cannot read? If so, we can help."

In a city restaurant:

"Open seven days a week and also weekends."

A sign seen on an automatic restroom hand dryer:

"Do not activate with wet hands."

In a cemetery:

"Persons are prohibited from picking flowers from any but their own graves."

Tokyo hotel rules and regulations:

"Guests are requested not to smoke or do other disgusting behaviours in bed."

On the menu of a Swiss restaurant:

"Our wines leave you nothing to hope for."

Hotel, Yugoslavia:

"The flattening of underwear with pleasure is the job of the chambermaid."

Hotel, Japan:

"You are invited to take advantage of the chambermaid."

In the lobby of a Moscow hotel across from a Russian Orthodox Monastery:

"You are welcome to visit the cemetery where famous Russian and Soviet composers, artists, and writers are buried daily except Thursday."

A sign posted in Germany's Black Forest:

"It is strictly forbidden on our Black Forest camping site that people of different sex, for instance, men and women, live together in one tent unless they are married with each other for this purpose."

Hotel, Zurich:

"Because of the impropriety of entertaining guests of the opposite sex in the bedroom, it is suggested that the lobby be used for this purpose."

The box of a clockwork toy made in Hong Kong:

"Guaranteed to work throughout its useful life."

In a Swiss mountain inn:

"Special today - no ice-cream."

Airline ticket office, Copenhagen:

"We take your bags and send them in all directions."

A laundry in Rome:

"Ladies, leave your clothes here and spend the afternoon having a good time."

