



JUNE 2012

GRAHAM & DOBSON EXPANDS

On 1 May 2012 Graham & Dobson purchased the accountancy practice of Roberts & Harper from Bill Roberts who has retired after decades of service to clients in the district. All of the existing employees have been retained by Graham & Dobson and they are operating from the Palmerston Road premises under Graham & Dobson's management.

It is our intention to relocate all the Roberts & Harper operations to our existing location within the next 12 months.

We welcome all Roberts & Harper clients and will strive to provide a seamless transfer of their affairs under the new structure.

USEFUL SNIPPETS

HIRING CONTRACTORS & THE ACC LEVY

If you hire contractors and deduct schedular payments (as withholding tax is now called) remember to include the gross schedular payments details in the "Earnings and/or payments NOT liable for ACC earners' levy" column in your Employer Monthly Schedule. This will ensure you do not get charged ACC earners levy on the schedular payments made.

EMPLOYEES WHO NEED AN IRD NUMBER

For urgent IRD numbers, employees can go to an Automobile Association (AA) Driver Licensing Agent with the appropriate documents. There is a \$10 charge for urgent applications.

Non-urgent IRD numbers can be also processed at New Zealand Post shops as well as the AA.

'COFFEE & MUFFIN' EXPENSES

We have been asked to clarify how 'coffee and muffin' expenses are to be treated. If a business owner sometimes takes employees, clients or prospective clients out for a 'coffee and a muffin' to discuss work-related matters, then 50% of these costs can be claimed as an entertainment expense.



However, if you have a meal while travelling on business (and this can include food expenses such as a coffee and muffin) then the cost is fully deductible. You can also claim the total cost of any food and drink you have provided at conferences/ staff training or business courses as long as the conference or course is more than four hours long (not including meal breaks) and if the main purpose of your conference/staff training is not entertainment.

IRD INTEREST AND PENALTIES

In the event tax is owed to the IRD, without prompt action, the combination of interest and penalties charged can quickly add up. It was recently announced that from 8 May 2012 the IRD use-of-money rates on under and overpaid taxes will reduce to 8.4% (on under paid tax) and 1.75% (on over paid tax). However, penalty rates remain high – a total of 5% for the first month and 1% for each following month.

If a person finds themselves in the situation of being unable to pay the total amount of tax owing by the due date, at a minimum the IRD should be contacted to discuss the situation. If an instalment arrangement is entered into, some penalties can be remitted if the terms of the arrangement are met. There are also a number of other options which can be put in place. Perhaps the most daunting of which is approaching the IRD for assistance.

Your principal at Graham & Dobson can assist you with this if required.

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NATIONAL AVERAGE MARKET VALUES 2012/13 (HERD SCHEME)

The National Average Market Values (Herd scheme) were released for the 2012 income year recently. The main livestock categories are detailed below. Values for 2th and M A Ewes increased by over 15% with a MA ewe being valued now at \$166.

Immature cattle values increased by approximately 10% with other classes increasing by just over the rate of inflation.

	\$	\$	\$	%
Sheep	2012	2011	Increase/ (Decrease)	Increase/ (Decrease)
Ewe Hoggets	119	120	(1)	(0.8%)
Ram & Wether Hoggets	101	107	(6)	(5.6%)
Two Tooth Ewes	191	160	31	19.4%
Mixed Aged Ewes (Rising 3 & 4yrs)	166	142	24	16.9%
Rising 5yr & Older Ewes	138	124	14	11.3%
Mixed Aged Wethers	78	99	(21)	(21.2%)
Breeding Rams	305	353	(48)	(13.6%)
Beef Cattle				
Rising 1yr Heifers	558	509	49	9.6%
Rising 2yr Heifers	807	786	21	2.7%
Mixed Aged Cows	1,025	997	28	2.8%
Rising 1yr Steers & Bulls	665	599	66	11.0%
Rising 2yr Steers & Bulls	921	883	38	4.3%
Rising 3yr & Older Steers & Bulls	1,100	1,049	51	4.9%
Breeding Bulls	1,992	1,931	61	3.2%

GST PROCESSES AND CONTROLS

The entitlement to recover GST costs incurred has recently been an area of increased focus by the Inland Revenue Department - in particular whether a taxable activity is being carried on to support the entitlement to deduct GST. If you have not recently reviewed your GST processes and controls now is the time to do so.

A recently published IRD briefing paper contains some interesting observations and statistics:

- GST is the No 2 source of tax revenue in New Zealand. For the year ended June 2010, GST was 24% of the tax take, compared to 48% for individual income tax and 13% for company income tax.
- The New Zealand GST has the broadest base in the OECD. Using statistics from 2009, GST was collected on 85% of consumption, compared to 48% in Australia and 44% in the UK.
- The amount of tax raised from GST is significant by international standards. The GST collected in 2009 was 8.5% of GDP – the 6th highest in the OECD.
- GST has a wide impact on New Zealanders – 50% of households do not pay any net tax other than GST (net tax is income tax paid less cash transfers received – e.g. Working for Families tax credits).

WHO SAYS AUSSIE IS BETTER FOR TAX!

The Australian budget set tax rates for the next two years so how do we compare? The following table sets out tax payable using the basic scales so Working for Families, Medicare etc. are not included. Note how Australia 'whacks' non-Australian tax resident ("NR") earners who pop over for a few months.

Income	NZ Tax	Oz Tax	Oz "NR"Tax
\$	\$	\$	\$
37,000	5,459	3,388	12,025
48,000	7,420	6,963	15,600
70,000	14,020	13,138	22,750
80,000	17,320	17,213	26,000
100,000	23,920	26,213	33,400
120,000	30,520	35,213	40,000
140,000	37,120	44,213	48,200
160,000	43,270	53,213	55,600

So, at a basic tax rate level, above \$80,000 New Zealand has lower rates and there is no Medicare, capital gains tax or stamp duty paid – food for thought!!

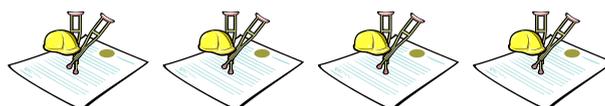
ACC & ACCIDENT INSURANCE

Protection against the consequences of personal injury is an important part of operating any business. The options include ACC CoverPlus, ACC CoverPlus Extra, no cover and acquiring insurance from a private provider.

All self-employed and shareholder employees will have some form of ACC cover. If no action is taken, ACC CoverPlus is the default policy that will apply.

ACC CoverPlus provides 24/7 cover for all workplace injuries, weekly compensation based on 80% of an individual's earnings and access to a full range of medical and rehabilitation benefits. However, in self-employed or shareholder employee situations, this policy may not provide a satisfactory level of compensation and the requirements to satisfy a claim can be onerous. For example, a person's prior year income tax return may not be sufficient to prove a person's loss of earnings.

ACC CoverPlus Extra can provide a better option. It has all the standard benefits of ACC Coverplus. However, you can negotiate the level of cover, so 100% is received should an accident occur. There is also no requirement to prove loss of earnings when making a claim. The additional cost of the cover is approximately 4% more than the default cost.





For example, a self-employed tradesman injures an arm and his doctor issues him with a certificate stating a recovery period of six weeks.

- If the tradesman has ACC Coverplus, he would have to report to ACC to confirm the number of hours worked each week to determine his entitlement to compensation and prove his loss of earnings, which can be difficult if his income fluctuates from year to year
- Compare this to ACC Coverplus Extra, under which the tradesman has previously agreed cover for \$800 per week. ACC will pay this amount as weekly compensation with no adjustments and no requirement to confirm loss of income.

A shareholder-employee with no PAYE or shareholder salary allocation from the company would by default have no ACC cover. However, they can apply for ACC Coverplus Extra.

Private Insurers offer additional options for accident and sickness cover through one of the commercial insurers. In some cases a combination of both ACC and private cover may provide the best solution. Each individual should evaluate their own personal circumstances, risks and associated costs to determine the best option.

HOW TO AVOID A TAX SHOCK

It is often said that the only certainties in life are death and taxes. This doesn't stop thousands of small businesses each year getting a tax shock. It is their 'she'll be right' attitude that comes back to bite them - so says Diana Clement in her recent New Zealand Herald article. What is more, the IRD waves a fairly big stick! Some of the planning points include:

- First year tax payments – a tax surprise often arises for new businesses which pay no tax in their first year of operation as they are not yet provisional taxpayers. They find in their second year of business they need to pay terminal tax for year one as well as provisional tax for year two. For businesses which operate in a non-corporate structure such as a sole trader or a partnership there is a 6.7% discount on the first year tax bill if a voluntary payment of tax is made in that first year.
- Growing pains – growing businesses are often bursting at the seams and are requiring cash flow to fund increased working capital requirements such as larger premises, more staff or more stock. As growth businesses turnaround from start-up losses to profitable positions, the payment of tax often becomes a year end surprise. Close monitoring of when tax losses will be utilised will reduce the surprise element, allowing better decisions of when to pay tax and how to fund it.
- Expert advice – While Accountants may appear to charge like wounded bulls, the reality is that a good Accountant is worth far more than the bill.

Small businesses should get good advice around their company structures and insurances, both of which correctly planned can reduce the tax bill.

- Keeping good records – businesses that fall foul of the IRD often have poor record keeping. Your business records are the only evidence you have to justify your revenue or expenses claims. For example, the IRD recommends using a business diary to record business activities such as meetings and trips – this can help support claims for entertainment and travel expenses.
- Using computerised accounting systems – the most popular systems in New Zealand are MYOB, which can be bought for as little as \$300, or Xero, which is an online accounting system that can be viewed from anywhere as Xero's cashbook can be managed on the 'go' using an iPhone or iPad.
- Prepare a tax plan, annual budgets and forecasts – one man band businesses often don't create adequate operational and capital budgets and nor do they forecast for the coming year. There is still a breed of business owners who take all the paperwork to the accountant at the end of year to see what happened. Having a budget and forecast gives an accurate sense of where a business might be at day to day and month to month and having whoever is responsible for inputting the numbers working with all parts of the business allows a factor of intimacy for a better figure on the business' pulse.
- Having appropriate bank facilities – if the annual operational budget shows that there are going to be some lumpy payments due through the year, it is probably cheaper and less hassle to have a suitable overdraft facility with the bank. In any case, it is important to have open lines of communication between a bank and the business in all circumstances.

- Cash-flow advantage using GST ratio method – it may be a good idea for businesses to consider using the GST ratio method to pay provisional tax. With this method, provisional tax payments are based on the level of sales made for GST purposes, which can help match tax payments to current year trading. There is also a potential cash-flow benefit in that the IRD does not charge any use of money interest under the GST ratio method. For companies which are growing or improving their profitability from prior years then there is an opportunity to defer some portion of their tax payments until terminal tax date without suffering any funding cost.



NEWSLETTERS VIA THE WEBSITE

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ELDER BANKING

**This is a letter sent to a bank by an 86 year old woman
The Bank Manager thought it amusing enough to have it published in the New York Times**

Dear Sir

I am writing to thank you for bouncing my cheque with which I endeavoured to pay my plumber last month. By my calculations, three nanoseconds must have elapsed between his presenting the cheque and the arrival in my accounts of the funds needed to honour it. I refer, of course, to the automatic monthly credit of my entire pension, an arrangement which has been in place for only eight years.

You are to be commended for seizing the brief window of opportunity, and also for debiting my account \$30 by way of penalty for the inconvenience caused to your bank. My thankfulness springs from the manner in which this incident has caused me to rethink my errant financial ways. I have noticed that whereas I personally answer your telephone calls and letters, when I try to contact you I am confronted by the impersonal, overcharging, pre-recorded, faceless entity which your bank has become. From now on, I choose only to deal with a flesh and blood person.

My mortgage and loan repayments will therefore and hereafter no longer be automatic, but will arrive at your bank by cheque, addressed personally and confidentially to an employee at your bank whom you must nominate. Be aware it is an OFFENCE under the Postal Act for any other person to open such an envelope. Please find attached an Application Contact form which I require your chosen employee to complete. It runs to eight pages, but in order that I know as much about him or her as your bank knows about me, there is no alternative. Please note all copies of this must be countersigned by a Notary Public and the mandatory details of his/her financial situation (income, debts, assets and liabilities) must be accompanied by documented proof.

In due course, at my convenience, I will issue your employee with a PIN number which he/she must quote in all dealings with me. I regret it cannot be shorter than 28 digits but again I have modelled it on the number of button presses required of me to access my account balance on your phone banking service. As they say, imitation is the sincerest form of flattery.

When you phone me, press the buttons as follows:

(Immediately after dialing, press the star (*) button for English)

- #1 To query a missing payment
- #2 To transfer the call to my living room in case I am there, although I may not choose to answer immediately
- #3 To transfer the call to my bedroom in case I am sleeping
- #4 To transfer the call to my mobile phone if I am not at home
- #5 To leave a message, a password will be required – this password will be communicated to you at a later date to that authorised contact nominated earlier.
- #6 To make a general complaint or enquiry, the contact will be put on hold, pending the attention of the automated answering service – this may, on occasion, involve a lengthy wait during which suitably uplifting music will be played.
- #7 This is a second reminder to press * for English.

Regrettably, but again following your example, I must also levy an establishment fee to cover the setting up of this new arrangement.

