NEWS

JUNE 2013

USEFUL SNIPPETS

TAX TINKERING

FBT ON CARPARKS

Business owners and employees might be forgiven for thinking that the Government's recent back down on charging Fringe Benefit Tax (FBT) on carparks located in the Auckland and Wellington CBDs means that the status quo will remain. However, the draft legislation as it was introduced actually includes three further proposed changes that would see FBT apply when:

- Carparks are acquired by an employer from a commercial carpark operator for more than $210 per month;
- An employee specifically chooses to have their salary reduced in order to receive a carpark (salary sacrifice), and
- Carparks are provided to an employee on the employer's premises.

No mention has been made by the Government of the above changes and given the detrimental effect to the Government of having to back down on the CBD carpark decision, it may not have the appetite to push through all these changes. The only exception might be the salary sacrifice element as this appears to be part of a broader initiative by the Government to specifically tax these types of arrangements which form part of an employee's salary package.

CAPITAL GAINS TAX

The IRD and the Treasury have released a Taxation Savings and Investment Income report outlining potential reforms that could improve New Zealand's economic performance. It is noteworthy that the Treasury and the IRD are at odds regarding whether or not a capital gains tax should be implemented. The document states that the Treasury favours this tax as it believes it will raise revenue and at the same time increase efficiency. However, the IRD are of the view that the practical disadvantages resulting from implementation of a capital gains tax regime will outweigh any benefits in the near future.

CAPITAL INCOME TAX

Another proposed idea is a reduction in the tax rate that applies to income from capital. The reduced rate would apply to investments such as interest on bank deposits and investments into the PIE regime. Relaxation of the rules may also remove the requirement for an investment to be held in a managed fund.

Cutting tax on interest income (for NZ residents) is favoured as it is perceived to have the biggest impact on savings. However there is concern over the distortions it may cause as a result of debt funding being more attractive than equity. Preference over debt is also seen as something that could chip away at financial stability.

PERSONAL TAX RATES

Amongst the various reforms discussed in the Report, the one that seems to be most favoured to boost economic welfare is further cuts in personal income tax rates. Personal tax cuts are believed to boost GDP and increase national savings. Also a change to the rate would be easy to implement.

It is unlikely that any of the tax rate changes will be implemented in the near future as further work is required on the consequences of the reforms.

CONTENTS

FROM THE BUDGET 2013

Taxation of Property Investments - Ministerial statement:

"And Inland Revenue will receive additional funding of $7million a year so it can better pursue tax compliance in the area of property investments. This is expected to return about $45million a year in additional tax revenue".

Comment:

Just as was done in Michael Cullen's Budget of 2007, the Government has provided additional funding for Inland Revenue, specifically earmarked for chasing property speculators who are not complying with their tax obligations. Previous swoops by IRD on the property sector have netted tens of millions of dollars and from the Minister's statement it appears he believes there is still a significant group of people out there either ignorant of their obligations or who choose not to comply.

It is therefore timely to remind people that where a person acquires land and/or buildings with the intention or purpose of disposing of that property (and subsequently disposes of that property), any profit from the disposal is taxable, even though New Zealand does not have a capital gains tax.

To coincide with the renewed audit focus on land transactions, the Government has released an issues paper which proposes legislative change to remove any uncertainty around when taxpayers need to test their intention in respect of the land. Two alternatives for determining the date of acquisition are being put forward.

Cuts to ACC levies – Ministerial statement:

"The Government is now satisfied there is scope for significant and sustainable reductions in ACC levies. We have therefore made an allowance for levy reductions of around $300 million in 2014/15. Final figures will be determined after ACC consults on levies later this year.

ACC's improved performance mean the Government has also allowed for levy reductions to increase to around $1billion in 2015/16. When combined with the levies reduction in 2012/13, these proposed changes amount to around 40 per cent lower ACC levy rates for households and businesses".

Comment:

ACC levies are a compulsory and significant (but often forgotten) cost for businesses and households, adding another 1.7% to personal tax rates and several hundred dollars to an annual motor vehicle registration. A reduction in the levies will be welcomed, so long as it does not result in a return to the precarious fiscal position the Accident Compensation Corporation found itself in 2008.

TAX MINIMISATION– HOW DO THEY DO IT?

Multi-nationals such as Starbucks, Apple and Amazon have been under the spotlight lately due to the low amount of tax they pay in comparison to their total earnings. For example, Google reported that it paid US$248 million in taxes on foreign income of US$7.633 billion. It is difficult for the man in the street to discern why there would be an issue over the payment of this level of taxes so let us look at the big picture with an example.

When doing business in more than one country, by necessity or choice, assets and services need to be made available in different countries. This provides the option of arranging that use in an advantageous manner. Take, for example, Crispy Fried Turkey (CFT), a hypothetical fast food chain that operates across the US, UK, Australia and New Zealand. Its spread of taxable income and tax payable is detailed in Table 1 below:

Table 1	USA	UK	NZ	AUS	Total
NP before tax	150,000	100,000	30,000	80,000	360,000
Tax rate	35%	24%	28%	30%	
Tax to pay	52,500	24,000	8,400	24,000	108,900

Table 2	USA	UK	NZ	AUS	Cayman	Total
NP before tax & royalty	150,000	100,000	30,000	80,000	N/A	360,000
Royalty Inc (payment)	(100,000)	(80,000)	(15,000)	(50,000)	245,000	0
Net Profit before tax	50,000	20,000	15,000	30,000	245,000	360,000
Tax rate	35%	24%	28%	30%	0%	
Tax to pay	17,500	4,800	4,200	9,000	0	35,500

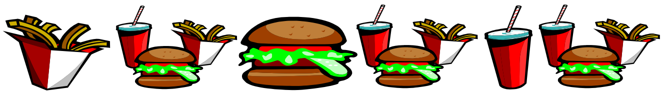
After a visit with its advisor, CFT decides to sell its intellectual property (i.e. its secret recipe) to a new company it incorporates in the Cayman Islands. For use of the recipe, each company in the various countries makes a royalty payment to the Cayman Islands' company. The royalty payments are tax deductible in the countries of origin. However, the Cayman Islands' corporate income tax rate is 0%. This produces the result detailed in Table 2 above.

This simple illustration shows one of the ways tax can be reduced with some restructuring. Another way would have been to set up a corporate head office, complete with back office support staff and financial services in a low tax rate country and charge the wider global group for use of those services.

The results achieved in this example are not far from reality. A report by the US Congressional Research Service states that in 2008 American multi-national companies reported 43% of their overseas income through tax havens such as Bermuda, Ireland, Luxembourg, the Netherlands and Switzerland, while only 4% of their foreign workforce and investments were in these countries.

The current tax regime dates back to a time when cross border business was not as common. While technology and globalization have grown exponentially over the last decade or so, the tax regime has not adapted. However, the tax revenue forgone by governments is prompting a rethink as to what is appropriate!

MCDONALDS REMOVE LAMB FROM 'LAMBTON'



According to an article by Jeanette Maxwell in Federated Farmers Newsflash, McDonalds has removed lamb as a permanent item in its local menu as local sales had tailed off. However, it is hoped that the breakthrough which saw lamb used in burgers will eventually cross into other markets where lamb is widely consumed.

Jeanette Maxwell, Federated Farmers Meat and Fibre spokesperson, thinks the decision is a bit of a speed bump. China has become our largest lamb market by volume and India where free trade negotiations are underway has a 300 million strong middle class fast developing a taste for meat.

Jeanette Maxwell believes it looks promising if we put the above developments together with the substantial intellectual property McDonalds New Zealand has for how lamb works as ingredient within the McDonalds' system. In addition ANZCO's Taranaki plant has the means to produce this burger meat while of course farms can supply the raw ingredients and an impressive back story. "As we have seen with Richard Revell's MO2 carbonated milk, good ideas have a habit of winning through in the end and what has been great is seeing how lamb is being used by other brands", said Mrs Maxwell "Subway has used it and meanwhile both Burger Wisconsin and Burger Fuel feature it as permanent menu items."

"McDonalds is worth some half a billion dollars each year to Kiwi suppliers. Some $180 million was spent locally last year, including buying 210 tonnes of lamb. In 2011 McDonalds helped export more than $320 million worth of food to its restaurants around the world. Our big hope is that lamb may one day make an appearance in those export figures," Mrs Maxwell concluded.

LIVESTOCK VALUES

The national standard costs (NSCs) have been released for livestock for the 2012-13 income year. The NSC values are for 100% homebred livestock

Category of Livestock	NSC	HERD
Sheep		
Ewe Hoggets	$34.70	$ 78.00
Rams & Wether Hoggets	$34.70	$ 69.00
2th Ewes	$50.90	$121.00
Mixed-age Ewes	$50.90	$102.00
Rising 5yr & Older Ewes	$50.90	$ 82.00
Breeding Rams	$50.90	$273.00
Beef Cattle		
Rising 1yr Heifers	$339.20	$456.00
Rising 2yr Heifers	$492.20	$724.00
Mixed Age Cows	$492.20	$872.00
Rising 1yr Steers & Bulls	$339.20	$546.00
Rising 2yr Steers & Bulls	$492.20	$837.00
Rising 3yr Male Non-breeding	$639.70	$1048.00
Breeding Bulls	$492.20	$2098.00
Red Deer		
Rising 1yr Hinds	$114.80	$188.00
Rising 2yr Hinds	$166.30	$369.00
Mixed-age Hinds	$166.30	$416.00
Rising 1yr Stags	$114..80	$235.00
Rising 2yr & Older Stags (Non breeding)	$166.30	$414.00
Breeding Stags	$166.30	$1298.00

XERO BUSINESS MANAGEMENT SOFTWARE

Graham & Dobson has for some time been in a position to provide the expertise to train clients to set up and to use cloud based, accounting and business management software, Xero. Fern McNaught is our client Xero trainer – Fern fully understands the needs of SME owners, especially those who require to regularly invoice out completed work and easily track these invoices until paid, as well as historically for research purposes.

A core Xero principle is to automate and improve a lot of the mundane data entry tasks and ensure that the business owner is empowered with control of the finances. The programme affords great ease and control over business systems, is assessable from anywhere at any time and goes a long way to ensuring the 'books' are always up-to-date.

PRO BONO PUBLICO – TRANSLATION: 'FOR THE PUBLIC GOOD'

Graham & Dobson is a strong supporter of the community – giving of our time and skills pro bono to a wide range of community organisations. One such organisation is the Gisborne East Coast Multiple Sclerosis Society. Debbie Barwick works with the Executive Committee of eight as the Treasurer and our staff manage the Society's day to day accounts including GST preparation. This enables the Society to better meet the needs of its clients with assistance from the Society's field worker out and about in the district.

Five Rules for Men To Follow For A Happy Life!

Here are the five rules for men to follow for a happy life.

Russell J. Larsen from Logan, Utah, had these inscribed on his headstone as a reminder of the choices others should consider!

1. *It is important to have a woman who helps at home, cooks from time to time, cleans up and has an income producing job;*
2. *It is important to have a woman who can make you laugh;*
3. *It is important to have a woman who you can trust and who does not lie to you;*
4. *It is important to have a woman who is good in bed and likes to join you in your leisure pursuits;*
5. *It is very, very important that these four women do not know each other, or*

YOU COULD END UP DEAD LIKE ME!!

NEWSLETTERS VIA THE WEBSITE

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