NEWS

MAY 2009

Winning in challenging times

Businesses that emerge from a downturn stronger than before do more than simply hunker down and try to get through it – they actively look for opportunities to improve and grow. Being pro-active and positive will not only give you confidence because you are more in control, but your optimism will also be attractive to your customers. Why? – because people respond positively to positivity.

- Take a fresh in-depth look: now is a great time to thoroughly and boldly reassess your business systems and processes, your suppliers, your customer communication and service. What changes could your business make that would save money? There is always room for cost saving efficiencies - just because you have always done things this way does not mean there is no room for improvement. Are your products and services unbeatable out in the competitive market place and do your customer satisfaction levels set you apart from your competitors?
- Rise to the top in your field: focus on what you do best. Identify your core business, because this is what drives your 'economic engine' and creates the most value for customers. Is it time to remind yourself why you set up in business in the first place?
- Know what customers value: listen to your customers, find out what they want and whatever your customers value most now is the time to ensure your business provides it and provides it well.
- Control what you can change: in all the doom and gloom, look at what might affect your business and focus on positive and manageable business strategies.
- Set realistic goals – get the most out of this week! Then next month!
- Address the small issues before they impact on your business.
- Look for opportunities: think laterally about what customers want in this business climate. Be truly entrepreneurial and trawl under the surface for opportunities. As competing services decline or are cut, is there a creative opportunity for your business to fill them?
- Make it easier to buy from your business than from a competitor – for example, websites with online ordering facilities make your products and services available to your customers around the clock.
- Blow your own trumpet! Emphasise what makes you better and different in all your communications, written or face-to-face.
- Remember the consumer, your customer, is your best salesperson – have them spread the word about your great service.

In times like these, those who do nothing risk going backwards.

Mortgage Break Fees

With interest rates dropping, a number of businesses might be considering refinancing their loan arrangements to take advantage of lower interest rates. In doing so, they may incur mortgage break fees or early repayment charges to compensate the bank for the cost of breaking the loan contracts.

Each loan break should be considered in its own circumstances to determine the appropriate tax treatment, whether or not the mortgage break fees are deductible and, if they are deductible, the timing of those deductions

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Change, change, change…..

PERSONAL TAX RATE THRESHOLDS

1 October 2008 – 1 April 2009			
Income	$14,000	40,000	70,000
Tax rate 12.5%	21%	33%	39%

From 1 April 2009			
Income	$14,000	48,000	70,000
Tax rate 12.5%	21%	33%	38%

From 1 April 2010			
Income	$14,000	50,000	70,000
Tax rate 12.5%	21%	33%	37%

From 1 April 2011			
Income	$14,000	50,000	70,000
Tax rate 12.5%	20%	33%	37%

Small & medium-sized enterprise Initiatives

The following changes are aimed at reducing tax compliance costs for SME's as from 1 April 2009:-

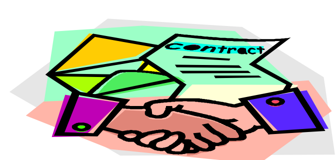
- Removing the 5% 'uplift' rate that businesses pay in advance on provisional tax instalments throughout the year.
- The GST payments threshold will increase from $1.3 million to $2 million in annual revenue.
- The GST registration threshold will increase from $40,000 to $60,000 in annual revenue.
- The GST six-monthly return filing threshold will be raised from $250,000 to $500,000.
- Businesses with $10,000 or less of annual business-related legal expenditure can fully deduct the expense in the year it is incurred, regardless of whether or not it is a capital expense.
- The PAYE once-a-month filing and payment threshold will be raised from $100,000 pa to $500,000 pa in employer PAYE deductions.
- The Fringe Benefit Tax annual filing threshold will be raised from $100,000 to $500,000 in employer PAYE deductions.
- The value of minor fringe benefits (such as chocolates and flowers) that can be provided to employees without FBT will increase to $300 per quarter – up from $200 – and $22,500 per annum per employer (up from $15,000).
- The provisional tax "use of money" safe harbour threshold will be raised from $35,000 to $50,000.

90 Day Employment Trial Periods

From March 1 this year, businesses that employ 19 employees or less can hire new staff for a trial period of up to 90 calendar days. The Government has introduced this legislation in an effort to encourage employers to provide employment opportunities to people, without financial risk to the employer if the employment relationship does not work out.

As with any legislation, it is not as simple as it sounds. There are a number of conditions for this provisional employment scheme. The trial period is **voluntary** and must be agreed to in writing in good faith as part of an employment agreement. This written agreement can be for a specific number of days up to ninety and the agreement must be signed by both the employee and the employer when an employee starts work. Both workers and employers must both bargain in a fair way about a proposed trial period. This includes the employer considering and responding to any issues raised by the workers.

Notice must be given within the trial period, even if the actual dismissal does not become effective until after the trial period ends. An employer and employee may agree to a trial period only if the employee has not previously been employed by the employer. If any employment relationship problem arises during the trial period, or if the employee is dismissed, the employee and the employer can access mediation services. In addition, while the employee cannot pursue a personal grievance for unjustified dismissal if the employee is dismissed during the trial period, a personal grievance may be pursued if issues such as discrimination arise.



Barter deals

Swaps, shared labour and barter deals seem to be a reasonably regular feature of rural sector life in New Zealand. They are all perfectly legal methods of doing business, but there may be both Income Tax and GST implications. They may also extend into the areas of PAYE and ACC, so we do need to treat them seriously and think through all the issues.

It is very common for neighbouring sheep farmers to assist each other with shearing, and other activities such as dipping and docking. Technically there is an *employment* situation between one and the other (and then between the other and one!!) which should technically give rise to PAYE. Or, if it was in fact a contract arrangement between the individuals, someone should be thinking about withholding payments!

These arrangements are of course (generally) tax neutral and few farmers even think about PAYE/Withholding payments. In our experience, IRD does not pursue this issue, nor do they pursue any GST on the supply of the service. The advice from ACC is that a self employed farmer who suffers an injury while assisting a neighbouring farmer will be eligible for compensation under their own self-employed ACC cover.

A bigger difficulty arises when labour is supplied by one person and the offsetting benefit is something that is not tax deductible. The classic case is the spare farm house which is supplied rent free to a person or a family, provided they assist the farmer with some of the farm work, do relief milking etc.

The result tends to be tax neutral for the farmer. They could have charged a proper rental for the house and then used the proceeds to pay the tenant for the work they did on the farm, so they think there are no issues from an Income Tax perspective.

Obviously these arrangements fall foul of the Tax Legislation. The employer (the farmer) is providing a benefit (the free house) which is included in employment income – under Provisions of Section RA5...."a person who makes a payment or provides a benefit or payment...must withhold and pay the amount of tax for the payment of benefit...." And if the employer (the farmer) fails to withhold and pay the tax (PAYE) there are further powers which puts the responsibility on the "person receiving or deriving any payment or benefit... for payment of the tax...".

Clearly there are no GST issues on the above which relate only to wages and house rentals – both GST exempt.

There are also situations where farming clients seek to reward their children, or farm staff or lower order sharemilkers, by giving them some stock to rear for themselves.

- Livestock are trading stock and if disposed of (given away) for no consideration, or for a consideration that is less than the market value, are deemed to have been disposed of (sold) at their market value
- The supply of livestock is clearly a taxable supply on which GST must be charged and accounted for, and the value of the supply (for no consideration in money) is deemed to be its open market value.

For the recipient, the receipt of the stock is deemed to be a purchase (at market value) so in the hands of the child/worker/sharemilker, the reward is tax neutral at the time the livestock is handed over to them. But at year's end the livestock has to be brought to account as livestock on hand using whichever of the livestock valuation methods they are eligible for. Now, the increase in stock on hand is taxable income and appropriate taxation liabilities must be met.

The noble intention was to reward a keen worker and to give them an ongoing interest in their farming career through having some livestock of their own. But the boss could have achieved a better outcome for all by simply paying a cash bonus from which PAYE was deducted and paid over to IRD in the normal way.

Light Humour

The world according to....cows!

A light-hearted look at cattle farming under different regimes around the world.....

Socialism: You have 2 cows. You give one to your neighbour.

Fascism: You have 2 cows. The State takes both and sells you some milk.

Communism: You have 2 cows. The State takes both and gives you some milk.

Bureaucratism: You have 2 cows. The State takes both, shoots one, milks the other and then throws away the milk.

Traditional Capitalism: You have 2 cows. You sell one and buy a bull. Your herd multiplies and the economy grows. You sell them and retire on the income.

An American Corporation: You have 2 cows. You sell one and force the other to produce the milk of 4 cows. Later, you hire a consultant to analyse why the cow has dropped dead.

A French Corporation: You have 2 cows. You go on strike, organize a riot and block the roads because you want 3 cows.

A German Corporation: You have 2 cows. You re-engineer them so they live for 100 years, eat once a month and milk themselves.

An Italian Corporation: You have 2 cows but you don't know where they are so you have a long lunch!

An Indian Corporation: You have 2 cows. You worship them.

A British Corporation: You have 2 cows. Both are mad.

A New Zealand Corporation: You have 2 cows. People ignore the cows and instead constantly ask you about sheep.

A Chinese Corporation: You have 2 cows. You have 300 people milking them. You claim that you have full employment and high bovine productivity. You arrest the newsman who reported the real situation.

Lehman Brothers Venture Capitalism: You have 2 cows. You sell 1 and buy a bull. You sell 3 of them to your publicly listed company, using letters of credit opened by your brother-in-law at Bear-Sterns, then execute a debt/equity swap with an associated general offer so that you get all 4 cows back, with a tax exemption for 5 cows. The milk rights of the 6 cows are transferred via an intermediary to a Cayman Island company secretly owned by the majority shareholder who sells the rights to all 7 cows back to your listed company. The annual report says the company owns 8 cows, with an option on 1 more. You sell 1 cow to buy a new president of the United States, leaving you with 9 cows. The public then buys your bull.

Quote of the Month

"For every tax problem there is a solution which is straightforward, uncomplicated – and wrong"

- Anon