

APRIL 2011

USEFUL SNIPPETS

'Family Income' Defined

Further to our article in the February 2011 edition of News, the widening of the definition of 'family income' is an important change in the social benefits, Working for Family Tax Credits and Community Services Cards. If you are entitled to these benefits and you receive any payments from family members and family trusts in excess of \$5,000 per annum, then we recommend you contact your Principal at Graham & Dobson to clarify your entitlement to the benefits.

GST Changes from 1 April 2011

Significant GST changes came into effect for supplies made on or after 1 April 2011.

Sale of Businesses that own or lease land

This new change to the GST Act means that in future, most cases where businesses (including farms) are sold with land either owned or leased the transactions will be zero-rated as long as the purchaser:

- Provides a written statement that the land is to be used in a taxable activity;
- Is GST registered, and
- The land is not to be used as a principal place of residence by the purchaser or any persons associated with them.

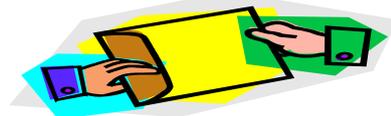
The statement must be provided in the Agreement for Sale and Purchase prior to the transaction taking place.

The party selling will be entitled to rely on the purchaser's written statement. The statement may be given well before settlement, so if after settlement it is found that the transaction was ineligible to be zero-rated, the purchaser will have to account for the GST that should have been charged.

Goods & Services Acquired on or after 1 April 2011

GST registered persons acquiring goods and services will now be required to deduct input tax only to the extent to which the goods or services will be used to make taxable supplies. This is a fundamental change to the old 'all or nothing' principal purpose test.

There will be a new apportionment calculation where assets are used for business and personal/exempt purposes. The new legislation requires a fair and reasonable estimate (based on a reasonable method such as a prior logbook or business experience) to be made of the intended taxable and non-taxable use on acquisition. For example, if a vehicle is to be used 70% for taxable purposes, an input claim is available for 70% of the GST on the purchase price.



Changes to the definition "commercial dwelling"

The definition has fundamentally changed to be widened significantly and will now include all dwellings unless they are used principally as a place of residence. This will mean going forward that dwellings such as B&Bs, farm-stays and home-stays may be liable for GST if turnover exceeds \$60,000 per annum.

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KEY CHANGES TO EMPLOYMENT LAW

Significant changes in employment law came into effect on the 1 April 2011.

■ **Cashing up annual holidays:**

From 1 April 2011, employees will be able to ask their employer to pay out in cash some or all of one week of their minimum entitlement of annual holidays per year. This can only be at the employee's request and the request must be made in writing. Employees may make more than one request until a maximum of one week of the employee's annual holidays is paid out in each entitlement year (i.e. a period of 12 months' continuous employment from the anniversary of the employee's starting date). This means the earliest an employee with a 2nd April annual holidays anniversary could cash up leave would be 2nd April 2012. Employees cannot cash up annual holiday entitlements that arose before 1 April 2011.

The employer must consider requests within a reasonable time and confirm the decision in writing. An employer may refuse requests without giving a reason and may introduce a workplace policy prohibiting cashing up altogether. The policy can only be on whether the employer will consider such requests and cannot be about the number of requests an employee may make or what proportion of a week they can ask for.

An employer cannot pressure an employee into taking the money rather than holidays and cashing up cannot be a condition of employment. However, an Employment Agreement may outline the process for making such a request.

It is therefore recommended that employers put policies in place to clarify employees' expectations on cashing up. If an employer does not have a workplace policy on cashing up that applies to the employee, they must consider any request to cash up annual holidays in good faith and advise the employee of their decision in writing.

■ **Public Holidays:**

As a rule everyone must observe public holidays on their calendar date and cannot transfer them.

From 1 April 2011, however, employers will be able to agree, in writing, with their employees, that a public holiday will either be



observed from a very different start time (perhaps to facilitate an organisation's shift work timetable) or on a completely different day. The transfer details need to be properly recorded and entitlements to time and a half and an alternative holiday fully transfer to the new calendar date or twenty-four hour period.

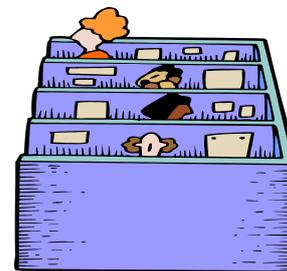
■ **Average Daily Pay**

Currently, if it is possible to calculate what an employee would normally be paid (i.e. their relevant daily pay) employers must pay this amount for sick and bereavement leave and public or alternative holidays. Alternatively, employers may use a formula based on an average of an employee's gross earnings for the last four weeks.

From 1 April 2011, an employer would use the new **Average Daily Pay** formula, based on an average of the last **year**.

■ **Minimum Wage increase**

From 1 April 2011, the adult minimum wage will increase to \$13.00 an hour. That is \$104 for an eight hour day and \$520 for a 40 hour week. The new entrants' minimum wage and the training minimum wage will increase to \$10.40 per hour.



■ **Employment contract requirements**

From 1 July 2011 employers must keep copies of all individual employment agreements and variations (signed or unsigned) and provide a copy to an employee upon request. This is due to a high number of personal grievance cases in which the Employment Relations Authority has had to make a decision without a written agreement available because it has been lost by the employee. Therefore the onus has now been placed on the employer to keep a copy. Failure to produce a copy of the agreement can result in a penalty (fine) being imposed on the employer.

Employers should consider updating employment agreements and policies to ensure they comply with the new laws.

■ **Proof of Sickness**

Employers will no longer have to wait for three days before asking for proof of sickness from employees. However, they will need to meet the costs of medical appointments employees are required to attend at employer's request.

ELECTRONIC PAYMENTS TO THE IRD

The IRD receives in excess of 330,000 electronic payments each month and 67,000 of these are unsatisfactory. Fourteen per cent of all direct credits also contain errors, it is easy to see why the department has reason to complain!

When making an electronic payment:

- Ensure the tax period is correct. If PAYE is paid on the 20th April, the period end is March
- Put in the tax type from the tax assessment
- IPS is the tax code for RWT deducted from interest – not RWT
- Use numbers for dates such as 31/3/2011

NEW RATES FOR CHILD SUPPORT

If you or your employees pay child support, here are the new rates to be used in the formula assessment for 2011 – 2012 year:

The minimum annual assessment of \$848 equates to a monthly amount of \$70.65 and a weekly amount of \$16.30.

Rates for 1 April 2011 to 31 March 2012	
Minimum formula assessment rate	\$848
Maximum assessable income	\$121,833
Living allowances	
Single person with no dependents	\$14,281
Partnered with no dependents	\$19,490
Single/partnered with one dependent	\$27,628
Single/partnered with two dependents	\$30,558
Single/partnered with three dependents	\$33,487
Single/partnered with four dependents	\$36,417

HOME AFFORDABILITY BEST IN SEVEN YEARS

Home loan affordability for young couples in particular improved last month to its best levels in seven years, as flat to falling house prices in many areas and a large reduction in floating mortgage rates after the February 22 Christchurch earthquake boosted home buyers' purchasing power. The national median house price rose in February but overall the first quartile house price was flat at \$245,000.

The Roost Home Loan Affordability Report measures affordability nationally and regionally for individual income earners and households, taking into account median house prices, interest rates and incomes. The Report's measure of a 'standard first-home-buyer household' assumes a median male income and a median female income aged 25–29 years in a household with no children. According to the Roost Home Affordability Report, a young couple earning the median wage can afford to buy a first quartile

priced house with 21.6 per cent of their disposable income required to service an 80 per cent mortgage. This is down from a high in June 2007 of 35.1 per cent. Any level over 30 per cent is considered unaffordable in the longer term for the 'standard first-home-buyer-household'.

Home loan affordability hit its worst level of 83.4 per cent of a single median after tax income in March 2008 just after house prices peaked and the two year mortgage rates were close to 10 per cent. Affordability remains difficult in Auckland, Wellington, Hamilton and Tauranga for those on a single median income, but homebuyers in smaller provincial cities will find home ownership much more affordable. Queenstown reclaimed the mantle as the most expensive city in the country after a rise in its median price while Wanganui took the top spot as the most affordable city.

TRAVEL EXPENDITURE

Travel expense, like any other expense, is deductible for tax purposes provided it is incurred in the course of business. Travel including accommodation and meal expenses must be connected to the income-earning process of the taxpayer for it to be deductible.

The most common form of travel expenditure is overseas travel where a holiday is tagged to an overseas business trip. If the principal purpose of the trip is business, then airfares and all business-related expenses are fully deductible. Expenditure relating to the holiday component of the trip is not deductible. A mere allocation on a percentage basis is not normal – records of the trip must be kept such as itinerary, places of business visited, actual business conducted, etc. Any element of private expenditure must be treated as drawings when analysing the expenses for accounting at year end.

If the business trip is merely incidental to a holiday then airfares may not be deductible. There has to be a nexus between the trip and the production of income for business for the airfare expenses to be deductible.



NEWSLETTERS VIA THE WEBSITE

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Retirement advice!

It is important for men to remember that, as women grow older, it becomes harder for them to maintain the same quality of housekeeping as when they were younger. Try not to yell when you notice this. You will make them oversensitive and there is nothing worse than an oversensitive woman.

When I retired a few years ago, it became necessary for my wife to get a full time job along with her part-time work, both for extra income and for the health benefits we need. Now I usually get home from golf about the same time as she gets home from work.

Although she knows how hungry I am, she almost always has a rest for half an hour or so before she starts dinner. I don't yell at her. Instead, I tell her to take her time and just wake me when she has dinner on the table. I generally have lunch in the Men's Grill at the Club so eating out is not a reasonable compromise as I am ready for some home cooked grub when I hit that door.

She used to do the dishes as soon as we finished eating but now it's not unusual for them to sit on the table for some time after dinner. I do what I can by diplomatically reminding her several times each evening that they won't clean themselves.

She says she now finds it difficult for her to find time to pay the monthly bills in her lunch hour. But, boys, we take 'em for better or worse so I just smile and offer encouragement. I tell her to stretch it out over two or even three days – that way she won't have to rush so much. I also remind her that missing lunch completely now and then wouldn't hurt her any (if you know what I mean). I like to think tact is one of my strong points. I also think I am a fair man.

She seems to think she needs more rest periods especially when mowing the lawns. I try not to make a scene about the half-mowed lawn. I tell her to fix herself a nice, big glass of freshly squeezed cold orange juice and just sit for a while. And, since she is making one for herself, she may as well make one for me too.

I know that I probably look like a saint in the way I support my wife. I'm not saying that showing this much consideration is easy. Many men will find it difficult. However, boys, if you just use a little more tact and less criticism of your wife in your golden years together, this article will have served you well. After all in retirement we men must assist each other.

Signed *Jim*

Footnote: Jim died unexpectedly on 7 March. It is believed he fell on his Galloway extra-long 50 Big Bertha Driver 1 golf club. Police are investigating if another party was involved.

