



## USEFUL SNIPPETS

### Business/Private Vehicle Usage: New GST Apportionment rules

New GST rules applying from 1 April 2011 apportion the input tax deduction (input tax credit) in line with the actual use of the goods and services. Consequently when goods, such as vehicles, are acquired, the portion of the GST a registered person can claim a deduction for is based on the intended taxable use of the goods.

If you have purchased a business vehicle since April 2011 which you intend to use for less than 100% business purposes, you are advised to contact your Principal at Graham & Dobson to work out the GST claimable under the new apportionment rules. Similarly, if you claim capital adjustments in relation to your vehicle and you use this vehicle for less than 100% for business purposes, your Principal can advise on the apportionment ruling. Contact your Principal now!

### Company tax rate change

The company tax rate will reduce from 30% to 28% from the 2011-2012 income year. For companies with a standard balance date, this will apply from 1 April 2011. Dividends issued after the new rate takes effect can be imputed at the existing 30% rate for up to two years if the company tax has been paid at the 30% rate.

### Cashing up annual holidays

If an employee and employer agree to cash up a week's annual leave it should be treated like an extra pay or unexpected bonus. As it is taxable income, PAYE should be deducted by employers using the rates for extra pays. The employee's child support liabilities and Working for Families Tax Credits may also need to be adjusted.

### Business Basics

A commonly held marketing statistic reveals that, on average, businesses spent the majority of their marketing dollars prospecting for new customers compared to nurturing and developing relationships with current ones. These statistics also tell us that it can cost six to seven times more to sell something to a prospect than to sell that same thing to a current customer, and that repeat customers spend 33% more than new customers. Recent marketing 'thinking' views the value or benefit of 'goods or services' as being 'co-created' with customers and suppliers through strong relationships. Therefore:

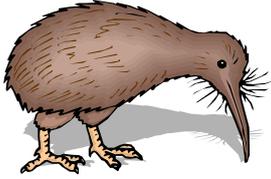
- Relationship building should be everyone's responsibility – regardless of roles, make sure everyone knows about the business so they can confidently communicate this information to others. Share details with colleagues about products and services, strategy, successes and industry trends.
- Value all business relationships – you never know what the people you meet today will be doing tomorrow, so ensure you and your staff don't leave them with a negative first impression of your business.
- Have a robust process for proposals/tendering – not all opportunities are worth investing significant resources on, so ensure you have a tested and robust process around the do we or don't we question.
- Your best customer is the one you already have – never take existing customers for granted and always be aware of opportunities to enhance your business relationship.

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## KIWISAVER STILL A GOOD BET FOR RETIREMENT

On the face of it the proposed changes to Kiwisaver constitute a paradoxical and confusing message from the Government: we need to lift national savings, so Kiwisaver is to be made less attractive, because it is proving too popular!!! Brian Fallow, Economics Editor of the New Zealand Herald, believes it is a cheap rhetorical trick employed on both sides of the Government to claim it is 'crazy to borrow to pay for' Kiwisaver. He points out it is internationally normal for governments to have tax incentives for retirement savings while running deficits. After all, are there calls in the United States to scrap the tax breaks for the 401 savings scheme because the Federal Government is running a trillion dollar deficit?



It is yet to be seen if the changes put people off joining the scheme and time will tell whether Kiwisaver members opt for contributions holidays rather than stumping up with the extra 1 per cent after April 2013.

However, there are still 'good incentives' for people to be in Kiwisaver, despite the Government's subsidy to members being slashed by 50 per cent from contributions after 1 July 2011. It is worth noting the credit is paid annually in arrears, so the next payment on 1 July 2011 will be the full rate of slightly more than \$1,000. It is in July next year - 2012 - that the amount going into people's Kiwisaver accounts is to be halved.

It is also noted that the \$1,000 government-funded kick start for new Kiwisaver accounts remains untouched. It is this kick start which is credited with helping to entice some 20,000 new Kiwisaver members a month to join.

From April 2013 the minimum employee contribution will rise from 2 per cent to 3 per cent and the compulsory employer contribution will rise from 2 per cent to 3 per cent. Of the 1.7 million people in Kiwisaver – roughly three-quarters of the workforce – about half are on the minimum contribution rate. The increase in the contribution rates is scheduled to occur in a year which according to the Treasury's forecasts, gross wages will grow about 4 per cent in nominal terms and 1.5 per cent in real terms. A 1 per cent increase in employee contributions will gobble up most of this. Some believe that the six per cent total contribution (3 per cent member & 3 per cent employer) will not be enough to keep New Zealanders 'in the style

we would like to be in' during our retirement. The Savings Working Group made the point that Kiwisaver is an adjunct to New Zealand Superannuation, not a replacement for it. With employer and employee contributions at 2 per cent, the Group estimates a notional annuity a Kiwisaver member on the average wage could fund, at the end of 40 years working and contributing, would be equivalent to only 17 per cent of his or her wages in the last year of work.

Australians compulsorily contribute 9 per cent to their retirement schemes, with the prospect of this being raised to 12 per cent and beyond.

According to Mary Holm, Kiwisaver is however still hard to beat for long term saving – it has merely moved from being a gold-plated scheme to a silver-plated one and those who will lose most from the proposed Kiwisaver changes announced in the Budget are self employed and non-employee members, whose tax credits will be halved.

## VEHICLE MILEAGE RATE CHANGE

Inland Revenue monitors fuel prices and publishes a motor vehicle mileage rate at least once a year. This mileage rate is for expenditure incurred for the business use of a motor vehicle and does not apply in respect of motorcycles.

The current mileage rate has been amended to 74 cents per kilometer for the 2011 income year. This rate applies to both petrol and diesel fuel vehicles.



As the Commissioner's mileage rate may not reflect true costs, actual costs or the logbook method can be used instead. Employers may use the motor vehicle running cost data published by other reputable sources, e.g, the New Zealand Automobile Association, as an alternative, to reasonably estimate the reimbursement for mileage to employees.

## CAN THE EXPORT BOOM BE SUSTAINED?

New Zealand's export sector turned in a phenomenal performance in April, despite the high dollar. Exports exceeded imports by a record \$1.1bn last month, almost double market expectations. This is the largest monthly surplus ever recorded and the largest as a percentage of exports since May 1993. Moreover, the trend in export values has risen 30% since September 2009, its most recent low point. Most New Zealanders are aware that there is an international

boom for dairy products but the startling feature of April's export figures is how the commodity boom is affecting other sectors.

Compared with April last year, dairy exports were up \$287m (or 32% higher), meat was up \$79m (13% higher) and forest products were up \$41m (15%) higher.

## RAISE A GLASS TO EXCISE CHANGES!

The wine industry is a \$1.1bn export earner for New Zealand. The industry was hit hard by a glut of wine in the years 2008 to 2010 and by the global economic downturn which saw prices slump. Supply and demand are beginning to stabilise and exports of 220 million litres for the year to 30 June 2011 are expected to exceed original expectations by 15 million litres. However, falling prices meant the value of wine exports would remain the same as last year.

Wine is taxed at \$2.60 per litre, which will increase to \$2.72 a litre from July 2011, taking the total increase to 33 cents in four years. Moreover, the industry has long been calling for the Government to collect the \$145m of alcohol excise directly from retailers rather than the wineries.

The Government announced recently that from 1 July 2011 about half of the country's 700 wineries would be able to pay their excise tax once or twice a year rather than monthly as at present. Under the changes, wineries with a tax liability of \$50,000 or less annually will be able to pay their excise annually rather than monthly. The previous threshold was for less than \$10,000 of excise tax.

## SQUEAKY CLEAN CREDIT RATINGS

Having a squeaky clean credit rating is very useful in life. It will certainly help you next time you really need to borrow some money.

Every time you apply for credit, your "record", which is held by a private company, Veda Advantage, is checked and if you look like a bad risk, you could have trouble getting anyone to lend money to you or take you on as a customer.

If you want to buy something on hire purchase, get a credit card, or even open a utilities account, you will have a much easier time if your credit record is 'clean'. That means you have no defaults on your credit records. Potential landlords and employers, particularly if you are applying for a job with cash handling responsibilities, can and do check people's credit rating.

There are many ways to ruin your credit record. Common 'blights' which trap the unwary are:

- Applying for credit too often. Each time you apply for credit, a footprint is left on your credit rating. Did you realise that each time you open a new account with a phone or power provider your credit records are searched?
- Failing to pay. If you fail to pay an account varying from your hire purchase instalment to your water rates, you could have a default recorded on your rating for all to see.
- Being an unreliable tenant. You would be surprised what landlords read into credit records.
- Going guarantor is a great way to ruin your credit record. Being a guarantor may seem simple and expedient but if your 'trustworthy' brother, sister or best friend falls behind with payments, you become responsible for them. This is a hugely difficult problem in New Zealand where cultural responsibilities mean that many people are expected to back up their family in this way.
- Don't pay your taxes. Currently taxpayers have confidentiality. But under new proposals, the Inland Revenue Department may start reporting non-payments to Veda Advantage from next year.
- No asset procedure (NAP) should you be faced with bankruptcy owing less than \$40,000. This alternative to bankruptcy allows discharge after one year, meaning you can apply for credit again – even so, it would make it very difficult to easily do anything from opening a bank account to getting a mobile phone account.



Debt figures in New Zealand make grim reading. The debt collection agency, Baycorp, has seen an increase in unpaid debt ranging from mortgages through to library fines in the past couple of years. The dollar value of debts being recovered by Baycorp (which has nearly half of the debt collection business in New Zealand) has also steadily risen since the recession hit.

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## **UNDER CONSTRUCTION!**

An Italian, a Scotsman and a Chinese man are hired at a construction site.

The foreman points out a huge pile of sand.

He says to the Italian worker, 'You're in charge of sweeping.'

To the Scotsman he says, 'You're in charge of shoveling.'

And to the Chinese guy, 'You're in charge of supplies.'

He follows his instructions with, 'Now, I have to leave for a short while. I expect you men to make a dent in that pile of sand.'

However, when the foreman returns after being away for a couple of hours, the pile of sand is untouched. He asks the Italian, 'Why didn't you sweep any of it?' The Italian replies, 'I no hava no broom.

'You saya to the Chinesea fella that he wasa ina charge of supplies but he hasa gona and I no coulda find him nowhere.'

Then the foreman turns to the Scotsman and asks, 'And you, I thought I told you to shovel this pile.' The Scotsman replies, 'Aye, that ye did laddie, boot ah could nae get meself a shovel. Ye left the Chinese gadgie in chairge of supplies, boot ah couldna fine him neither.'

The foreman is really angry now. He storms off to look for the missing worker. Just then, the Chinese man leaps from behind the pile of sand and yells, 'SUPPLIES!!!'

