



OCTOBER 2012

USEFUL SNIPPETS

GST - COMPULSORY ZERO RATING

We have seen instances in the past few months of clients being caught out with the new GST compulsory zero rating provisions when agreeing on a purchase price.

The scenario seems to go something like this: vendor and purchaser agree on a price, say \$500,000, for the sale and purchase of a property. The contract provides that the purchase price is 'inclusive of GST'. Both the vendor and purchaser are GST registered, the property will be used in the purchaser's taxable activity and will not be used as a principal residence.

The price of \$500,000 has been agreed on the (mis)understanding that the purchaser will be able to claim a GST input tax credit of \$65,217. The vendor is working on the assumption that they will have an output tax liability of \$65,217. So, in actual fact, the vendor and purchaser have agreed the property is worth \$434,782.00.

When it comes time to lodge the GST return, the parties are advised that the transaction is subject to the compulsory zero rating provisions and that it must be zero rated. The outcome is that the purchase price is effectively \$500,000, including GST of \$zero. The purchaser is left out of pocket for the GST and has in effect paid \$65,000 too much for the property. The vendor has made a windfall gain on the GST component.

These cases are a timely reminder that it pays to check with your accountant before signing the contract and/or reaching agreement on a final purchase price.



TRAVEL EXPENDITURE

Travel expenses are deductible for tax purposes when they are incurred in connection with the business. In order to validate a claim, the Inland Revenue may request the following:

- Reason for the trip
- Business conducted
- Business contacts visited
- Invoices detailing expenditure
- Detailed itinerary

Quite often, the issue of deductibility arises for the costs of an accompanying spouse, companion or other family member. The Inland Revenue will allow a deduction for the costs of an accompanying person under the following circumstances:

- The taxpayer must be accompanied by someone because of ill health;
- The accompanying person is also engaged full time in the business;
- The accompanying person contributes in some integral way to the business trip; or
- If an overseas organisation expects the taxpayer to be accompanied by a spouse, e.g. for conferences.

RAVENSDOWN MILESTONE

Farmer-owned fertiliser co-operative Ravensdown passed a significant milestone with revenue for the year to May 2012 reaching a record of \$1.07bn. Chairman Bill McLeod says the co-op supplied 1.56m tonnes of fertiliser to farmers and revenue rose due to the highly volatile world prices for products such as urea. Profits from urea were constrained as Ravensdown held the price at a constant \$798 per tonne for 9 months of the financial year. Operating profit was \$51.8m compared with a record \$71.6m the year before.

The co-op plans to distribute \$53.5m to shareholders.

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MILEAGE RATES FOR BUSINESS

IRD's new mileage rate for expenditure incurred for business use of a motor vehicle is now **77 cents per km**. The rate applies from the beginning of the 2011-12 income year for self-employed taxpayers and from 1 April 2011 for employers who reimburse employees for mileage costs. Self-employed taxpayers may only use this rate for up to a maximum of 5,000 km of work-related travel per year. For distances greater than 5,000 km, the taxpayer must keep an actual record of expenses incurred. Taxpayers are not required to use Inland Revenue's mileage rate. The self-employed can use actual amounts incurred and keep a log book for 90 days every 3 years to determine the business use. Employers can make a reasonable estimate of the expenditure employees are likely to incur. Also, you can use the AA rates which tend to be higher.



CASH FOR CASUAL WORKERS

All things considered, the cost of paying cash compared to the consequences of getting caught is very high.

If, for instance, an orchardist is found by the IRD to be handing out \$200 cash every few weeks to a casual worker, he will pay heavily for the crime. Not only will he be required to pay the PAYE, which is what he would have been trying to avoid in the first place; but it will be charged at the higher penalty "no declaration rate" of 45% plus earner levy. On top of that, he will be hit with a late payment penalty fee, use of money interest at 8.91%, the ACC levy, plus penalties, plus interest - and a tax penalty of possibly up to 100%.

As you can see, this illegal employer activity costs many times more in time, penalties, payments and stress than taking the, albeit tiresome, legal option. What's more, the IRD may decide to prosecute, and if not, they'll definitely be keeping a firm eye on anyone they pick up - possibly extend that watch to the orchardist's local colleagues. It's not rocket science to see that the legal approach is always the best!



GDC RATES REMISSION

The Gisborne District Council offers remission of rates to ratepayers that meet certain criteria. See the table that shows rates remitted under various criteria in 2012. The remission isn't automatically given, although it will be in the case of the Fixed Horticultural Remission if GDC via Land Mass Technology are aware your property is planted in permanent crops.

Please take time to look at the various categories of rate remission in the table and consider if you may be eligible for a remission of part of your rates invoice.

We highlight the following current or potential rate remission policies that many of our clients will be eligible for a remission of their rates.

- 1) **Permanent Crops Remission** – Where all or part of your property is planted in permanent crops. If after checking your rate assessments (reference is made to any remission given) you remain uncertain whether you are receiving this remission we recommend you phone GDC and check. Phone 867 2049.
- 2) **Multiple Rural Dwellings Uniform Annual General Charge ("UAGC") Remission** – If you are charged more than one UAGC on your rate assessments for multiple dwellings on your farm you are able to apply for a remission if the dwelling is derelict, used by either your direct family or an employee or no income has been derived from the dwelling.
- 3) **Contiguous Properties UAGC Remission** – If the same ratepayer owns two or more properties that are contiguous or nearby each other and used for a common purpose they may apply for a reduction or cancellation of a UAGC(s).
- 4) **Federated Farmers** is recommending to all its Gisborne members to apply to GDC for a rates remission if their rates increase for 2012/13 is greater than 5.5%. The GDC ten year plan stated that the increase in total rates would be up to 5.5% overall (not for individual ratepayers). Please note there is currently no specific rate remission policy for this. The Council are currently going through the process to decide whether they will create a remission's policy covering some of those targeted rates with unintended large increases, which they inform us they will automatically apply to affected ratepayers if adopted.

2012 Rates Remissions	Amount \$	%	Properties	Average \$ Proportioned
Fixed Horticultural Remission	178,782	35%	573	312
Whenua Rahui	94,417	18%	116	814
Low Value Properties	42,667	8%	73	584
Non Rateable 50 - 100% per Act	37,986	7%	35	1,085
Natural Heritage Remission	32,623	6%	405	81
Multiple Water Meters	31,078	6%	87	357
Coastal Property Remission	34,646	7%	15	2,310
Multiple Residential UAGCs	20,188	4%	20	1,009
Nil Value Eroded Land	22,469	4%	36	624
Community and Sports Groups 50%	10,592	2%	12	883
High Value CV Industrial	6,726	1%	4	1,682
Building Consent - unable to build	2,398	1%	4	600
Fragmented Farms	2,030	1%	10	203
	516,602	100%	1,390	372

GST INPUT CLAIM

Smaller businesses normally do not start up with flash budgets, cashflow statements or many assets required to earn income. Likewise, registering for GST is also not a prime consideration when starting out. In fact, it is not uncommon to find people starting small businesses by using their personal assets (such as a car or tools).

When they eventually do register for GST, they may not know what or how much GST to claim on the assets already in use. GST input tax can be claimed on such assets using the second hand goods rules as they form part of the taxable activity. However, it is important to obtain an independent value of these assets as they are acquired from an associated person (owner) by the business. Whether the business claims GST on such assets or not, they have to return GST on its sale or disposal – therefore it makes perfect sense to claim GST input tax when starting up with these assets.

WITHOUT BEES, NO ONE WOULD ROLL IN CLOVER!

One of the best bee keeping quotations is attributed to Albert Einstein: “If the bee disappears from the surface of the earth, man would have no more than four years to live”. Globally, honey bees are in serious decline and without their pollination work our future would be an apocalyptic one.



Whilst Albert Einstein had the foresight to see the value of bees, this isn't necessarily the case for a lot of people today. While many judge the bee industry by the honey they see at a farmers market or in a supermarket, the real value of honeybees (in 430,000 hives) is as pollinators. Just this one aspect is estimated to be worth \$5bn each year to the New Zealand economy and an indication of the scale of our dependency is that everything with colour on your dinner plate tonight depends on bee pollination.

An enigmatic disorder called Colony Collapse Disorder (CCD), whose exact cause is unknown, is the biggest threat to global honeybees and underscores that false Einstein quotation. No one can put their finger on the cause behind a hive suddenly dying out. Internationally, there is suspicion that CCD could be a combination of major bee diseases and parasites with chemical spray residues picked up in foraging.

Before 2000, New Zealand enjoyed the world's healthiest bee population with only one bee disease present since the 19th Century. In 2000, the sum of all fears arrived with the Varroa Destructor Mite, which in 12 years, has spread from Auckland to Bluff.

The Varroa Mite itself is an alien and will hitch a ride on their victims in order to seek out new hives to infect. Untold numbers of wild hives have been wiped out by it, meaning the honeybee in New Zealand is utterly dependent upon humans to survive.

In 2010 another major threat arrived in the form of Nosema ceranae. This leaves New Zealand with only two major bee diseases not present on our shores, and these are prevalent across the Tasman and transmittable in honey – so Australia is the single biggest biosecurity threat to New Zealand apiculture. With our bees under so much pressure, who in their right mind would jeopardise our pastoral and horticultural sectors by allowing potentially diseased honey or bee products into New Zealand? Our hardest

little workers need all the help they can get as they matter greatly.

LIVESTOCK LAW CHANGE WELCOMED

New tax legislation for livestock valuation will no longer disadvantage new generation farmers following changes made by the Government. Amendments to the herd scheme valuation methods have been released, providing an exemption for farm succession changes.

They follow submissions by accountants, including this district's farm tax specialist Charles Rau. The changes now included cover the common 50-50 sharemilking arrangements whereby the next generation purchases the herd outright and the parents own the land. Also covered are common dry stock succession arrangements such as the son/daughter purchasing the livestock and leasing the land. However, there are a number of restrictions, including the 'child' not previously having an income interest in the livestock and the parents not continuing to have an interest in the said livestock.

INTELLECTUAL PROPERTY

Intellectual property is a term used to describe that area of law that recognises the creativity and intellectual output of the human mind. The main types of rights that are usually protected from unauthorized use are patents, trademarks, designs, copyright, geographical indicators and plant variety rights.

Patents are granted under the Patents Act 1953 for any new invention or manufacturing process. Once a patent is granted the owner has the exclusive right to make, use or sell the invention for 20 years provided the renewal fees are paid.



Trademarks are signs or symbols that distinguish a set of goods or services from those provided by other traders and once registered, the owner has exclusive use for an unlimited period provided the prescribed renewal fees are paid. On the other hand, design protection under the Design Act 1953 gives the owner only 15 years of exclusive rights if fees are paid.

Copyright protection for any original material such as musical or artistic work, is not registered but automatically comes into existence on completion of the author's original work and provides protection for the period of the life of the author plus a further 50 years.

Plant variety rights protect the breeders of new plant varieties by allowing the owner exclusive rights over the new variety.

NEWSLETTERS VIA THE WEBSITE

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An advertisement kiwi style for a great job!

GroundSpray

Head office: 60 Sussex Street Tapanui - **Workshop:** 21 Ontario Street, Gore
Ph: (03) 204-8576; **Workshop:** (03) 208 0382
www.groundspray.co.nz; **email:** marty@groundspray.co.nz

WEED SPRAYING - WILDING TREE CONTROL

GroundSpray are looking to hire staff for the coming Spring/Summer season controlling terrestrial weeds in DOC estates, Crown Lands and private farms. Based in Gore, we cover an area from Tekapo to Bluff.

We require personnel with “can do” attitudes that will work in harsh, steep and inhospitable conditions. You will be:

- Very fit
- Have a full driver's license
- Have a passion for conservation and the outdoors
- Be a NON SMOKER
- Be prepared to work weekends (happily)
- Be prepared to work long hours (12+ per day)
- Be prepared to work away from home Mon-Fri
- Be prepared to sleep in huts, tents, woolsheds, under trees etc.
- Able to wash, use deodorant and keep your personal hygiene to an acceptable level. This may mean washing/showering in cold water.



This Job is not for wimpy, faint hearted, soft, “run to mummy” halfwits with pants halfway down their bottoms! We only want staff that will do as they are told by their supervisors, follow company rules and can put up with being wet, hot, cold, exhausted, hungry and thirsty. You also need to be able to sit in a van for three hours and not complain to us (We don't listen and we don't care). You need to be of a stature that you can walk around hills and bluffs, and climb in and out of small helicopters without terrifying the pilot. If this sounds like you, then you're probably completely mad and we would love to have you. Please phone the above phone number to arrange an interview. CERTAINLY NO TEXTS.

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