AUGUST 2014

USEFUL SNIPPETS

NO WHERE TO RUN!

Over the past couple of years New Zealand has been entering into Tax Information Exchange Agreements (TIEAs) with other countries. The TIEAs are of particular interest as they are largely with tax haven countries and are in force with jurisdictions such as the Cayman Islands, Cook Islands, Curacao, Gibraltar, Niue, Samoa, Guernsey and the Isle of Man.

A careful reading of the list leads to an easy conclusion that the target taxpayers are British migrants, Pacific Island activities and Vanuatu where it is well known both New Zealand and Australian taxpayers have used its tax haven and secrecy laws to avoid taxation obligations. Under TIEA arrangements, the Inland Revenue can request information from investment companies, banks and indeed any other useful source of information.

A new weapon in the Inland Revenue armoury is the "Convention on Mutual Assistance in Tax Matters" to which New Zealand signed in November 2013 and which came into force on 1 March 2014. Under the Convention, member tax authorities are authorised to:

- Request information from other members
- Send the requested information, including information that may be of interest to another member without being asked specifically for this
- Collect unpaid tax from a person in a member's country for another "Convention" member
- Serve document on a person in a member's country

So, if a person owes tax in New Zealand and leaves the country, the IRD can now write to the country they are in and advise that the person of interest has not complied with New Zealand's tax laws and ask them to collect New Zealand tax.

Sound far-fetched? Not at all – IRD is already enjoying its newfound powers and is seeking unpaid taxes from within member countries.

TRUST BASICS

If you are a trustee it is useful to keep in mind the basic "rules" - duties - with regard to being a trustee. In a courtroom situation, judges know these rules and will judge a trustee by them.

The four fundamental duties of a trustee are to:

1. Know and understand the Trust Deed and adhere to its terms
2. Act for the beneficiaries (not the settlor)
3. Ensure that the trust property (the assets) can be identified at any given time and are protected
4. Act in good faith (which means not acting in self interest or to profit from the trust).

WELCOME TO SELF EMPLOYMENT!

The Inland Revenue has recently ruled that junk mail delivery persons and pizza delivery drivers are self-employed so can register for GST and claim expenses against their income.

For most countries, the youngsters (and some oldsters) who undertake such work avoid the hassle of tax because of tax-free thresholds – AUD$18,200, GBP10,000 and US$10,000. However, New Zealand taxes the self-employed (children included) on the first dollar.

If you see the paper boy doing his round on a brand new bike, it could be because he has realised he could claim GST and an income tax deduction on his work vehicle – perhaps his accompanying dog also has its added value as a security cost!

EARTH FRIENDLY SCOOTER DOCKS

Graham & Dobson has for some time gone 'green' by joining a scheme whereby used toner cartridges from printers are recycled to make scooter docks. These practical, very affordable docks are now available to any school in the district at cost price from Kathy at Business Applications, Gisborne.

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BUSINESS OWNERS' GUIDE TO KIWISAVER

If you employ staff, you play an important role in their uptake or otherwise of Kiwisaver. Here are some easy to follow guidelines:

All new employees should be automatically enrolled in Kiwisaver if they are:

- Aged 18 or older and under the age of 65 years
- Living or normally living in New Zealand
- Entitled to stay in New Zealand indefinitely (this includes NZ & Australian passport holders and those with residence visas)
- Temporary workers employed for more than 28 days – automatic enrolment applies on the 29th day of employment
- Casual agricultural workers if their day to day employment has extended beyond three months

An employee is not eligible to join Kiwisaver if they:

- Hold a temporary entry visa
- Have a limited purpose visa
- Are aged 65 years or older
- Are contractors or self-employed who have a WT tax code

When a new and eligible employee starts work with you, you should do the following:

- Give them the Kiwisaver deduction form KS2
- And the new employee opt-out request KS10

When the KS2 form is returned:

- Complete the Kiwisaver employee form (KS1) and send it to the IRD at the same time as your next employer monthly schedule (EMS)
- Start making deductions from the employee's first pay even though they intend to opt out.
- Once deduction begins you must also pay compulsory employer contributions and employer superannuation contribution tax (ESCT)

Other important information for employers:

- Existing Kiwisaver members cannot opt out.
- An existing Kiwisaver member must apply for a contributions holiday and you must get a copy of the employee's contributions holiday letter.

Comment:
Shareholder-employees are considered employees for Kiwisaver purposes if PAYE is required to be deducted from their wages or salary. If PAYE is not required to be deducted, the shareholder-employee may join Kiwisaver by contracting direct with a chosen scheme provider as can the self-employed.

PAID PARENTAL LEAVE UPDATE

- Women can currently get up to 14 weeks' taxpayer-funded paid parental leave (PPL). To qualify they must have worked regularly for the same employer, or have been self-employed, for an average of 10 hours a week for at least the previous six months
- PPL replaces the employee's earnings up to maximum payment which is currently $488.17 per week before tax. The maximum weekly payment is adjusted each year to reflect increases in the average wage.
- PPL can also be claimed when a person or couple adopts a child under six years.
- Women employees can also be entitled to up to 52 weeks of employment-protected unpaid parental leave if they meet criteria such as having a work history with regular hours with their employer.

As part of measures introduced in the 2014 Budget, the Government has committed to spending an additional $171.8m over the next four years to enhance parental leave provisions.

Changes to improve the Paid Parental Leave framework include:

PPL will be extended to 18 weeks -

- This will happen in two steps – to 16 weeks from 1 April 2015 and to 18 weeks from 1 April 2016

Eligibility will be widened to include permanent carers -

- From 1 April 2016 permanent carers will be eligible for PPL, including primary carers providing permanent foster care, people who have permanent guardianship and grandparents caring for grandchildren
- This change reflects the fact that family structures have become more diverse since PPL was first established. Permanent guardianship arrangements, for example, have become more common than formal adoption.

Payments will be extended to less-regular employees –

- From 1 April 2016, PPL will be extended to people in less-regular jobs.
- Employees will be entitled to parental leave payments (but will not automatically have their job held open for them) if they worked an average of at least 10 hours a week with any employer over any 26 of the previous 52 weeks
- This will extend PPL to employees who have recently changed jobs, seasonal and casual workers and workers with more than one employer.

Parental leave will also become more flexible –

- Current rules prevent a person on PPL from returning to work for activities such as training or planning days
- Flexibility of the rules will allow employees to work an occasional day or attend a course during their paid and unpaid leave period
- These arrangements will be limited by law and will be with the agreement of both employer and employee.

Comment:
These changes, designed to enhance paid parental leave, will be complemented by an increase to the parental tax credit from $150 to $220 a week and extension of this tax credit's length from eight to ten weeks, The measures announced as part of the Budget 2014 are part of a comprehensive package to improve outcomes for families and children while also being fiscally responsible.

ITEMS PURCHASED TO RUN YOUR BUSINESS BUT NOT USED AT BALANCE DATE

Do you have items you have purchased for your business that will be expensed in your financial statement but will still be on hand at your year-end balance date? IRD call these items "Consumable Aids" and may not allow you to expense them in the year you paid for them.

Firstly, what sort of items need you consider?

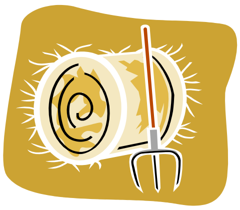
For Farmers: Fertiliser not spread, sprays and chemicals on hand, animal health vaccines and drenches on hand, maintenance materials for buildings, fences, water supply and irrigation on hand, stock feed bought in and on hand, fuel in storage tanks.

For Commercial Businesses: Fuel in storage tanks, maintenance materials, chemicals, cleaning materials, office consumables and stationery.

Secondly, consider whether the item is a raw material that will form part of a product that you make. If it is a raw material it is not a "Consumable Aid" and if the item or part of it is on hand at balance date it will form part of your trading stock on hand. Spare parts may be considered as "Consumable Aids".

Thirdly, consider whether the item has been "used up". Has all or part of the item been consumed during the financial year?. You only need to consider "Consumable Aids" that have not been used up.

Fourthly, consider whether the item is in your possession. Although you may have ordered and paid for an item, it may not be in your physical possession. In that case you will not be able to deduct the cost in the current financial year and it will not be required to be treated as a "Consumable Aid".



Fifth and lastly, if the total value for all the consumable items you have on hand (all added together) at balance date does not exceed $58,000 in value, you are not required to make an adjustment to the amounts you have expensed in the current financial year. If you think the total for all items on hand at balance date will have a value of $58,000 or greater you need to advise your Accountant.

QR CODES

Have you seen one of these interesting looking squares and wondered what they are or what they do? No! Well read on.

They are known as QR Codes and are also sometimes referred to as Q Codes. That stands for Quick Response Code and they are a matrix or two dimensional type of barcode. It was invented in 1994 by Toyota's subsidiary Denson Wave to track vehicles during manufacture. Data is extracted from patterns both present in the horizontal and vertical components of the image.

The QR code consists of square dots arranged in a square grid on a white background. These days they are often used to take you to a website homepage or a specific place on a website. Most of us know finding a particular matter on a website can be a point of significant frustration at times.

A smartphone can be used to read QR Codes. Simply download a free QR reader App and you are in business. Try scanning the two QR codes pictured here. The one on the left will give the website address of the Graham & Dobson homepage (and allow you to go to the website directly if you wish) whilst the one on the right will enable you to go directly to the Graham & Dobson June 2014 newsletter online. That should save you a few clicks of the mouse and time looking where to find the newsletter on our website.

There are also QR Code generator apps that create QR codes. You simply type in the text (e.g website address) and it will create a code – and it does not have to be web address.

FENCING COSTS ON LIFESTYLE BLOCKS

Fencing costs are a deductible expense for farmers under Section DO1 of the Income Tax Act 2007. However, for lifestyle block farming, due to the smaller scale of operations, fencing can easily be the biggest cost, causing the business to make a loss. So should the tax treatment of fencing costs be treated differently for a lifestyle block farmer, when compared to a larger farming enterprise? The lifestyle block fencing costs will be deductible so long as they satisfy the test that a farming business is being operated. The size of the farm or fencing is irrelevant. Two conditions need to be considered – firstly is there a business and secondly is the activity agricultural or farming?

Comment:
Aspects to consider in order to satisfy the test include:

i. whether the lifestyle farmer is demonstrating a coherent, business-like approach to the activity;
ii. the size and scale of the operation;
iii. similarities with others who are operating a business within the same classification;
iv. the repetition and regularity of the activities
v. the taxpayer's experience and abilities;
vi. the likelihood of making a profit;
vi. is the activity farming? The IRD has published a list of what might be considered to be farming or agricultural activities.
vii. This list includes animal husbandry (i.e sheep, cattle, deer, horses, pigs, goats), beekeeping, dairying, poultry, sharemilking, tobacco growing, wine growing, tomato growing and forestry. Excluded are dealers in livestock, bailers or lessors of livestock and agricultural contractors.

"TURBOSCAN" – A BUSINESS APP

Scanning documents on the go has proven problematic in the past. App designers (Smartphones and iPhones) have created a myriad of solutions which aim to solve these issues. Simply put, these apps are designed to use the camera capability of the device to produce a scan of a document – these can be emailed in PDF form to a recipient or stored on the device for later reference. With the evolution of cloud based accounting systems such as Xero, which allows invoices to be attached directly to a transaction, the possibility to scan, for example, a business lunch tax invoice, save it on PDF and attach it to the transaction directly means that the invoice is always easily found and never lost! We trialed one such Smartphone app called "Turboscan" (downloaded at a cost of $2 from Google Playstore) which proved quite effective at producing reasonable quality PDF images. There are free applications available also, so if you are looking at mobile scanning apps you may wish to trial a few of the free ones first to see if they work for you. Remember you can always uninstall an app if it does not work as you had hoped.

Scam warning

Be careful out there! Police are warning all men who frequent clubs, parties and local pubs to be alert and remain cautious when offered a drink by any woman.

These drinks could be drugged. The drug is found in liquid form called 'beer' and is readily available everywhere.

It comes in bottles, cans and from taps and in large kegs. A woman needs only to get a guy to consume a few units of beer and then simply ask him home. Some men are rendered helpless by this approach.

Be warned, men often awaken with only hazy memories of exactly what happened to them the night before, often with just a vague feeling that "something bad" occurred.

At other times these unfortunate individuals are swindled out of their life savings, in a familiar scam known as a 'relationship'. In extreme cases, the female may even be shrewd enough to entrap an unsuspecting male into a longer term of servitude.

Men are much more susceptible to this scam after beer is administered and sex is offered.

Please! Warn every male you know. If you fall victim to this 'beer' scam and the heartless women devising it, there are male support groups where you can discuss your shocking encounter with similarly traumatised guys.

For the support group nearest you, just look up 'Golf Courses' in your local phone book.