



## FEBRUARY 2013

### USEFUL SNIPPETS

#### TAX CHANGES FOR EMPLOYERS

##### KIWISAVER CONTRIBUTIONS CHANGE

The minimum contribution rate for both employers and employees will increase from 2 percent to 3 percent of gross salary or wages from the first pay period commencing on or after 1 April 2013. All employer contributions paid to a superannuation fund, including Kiwisaver schemes and complying funds, for the benefit of an employee remain liable for ESCT (employer's superannuation contribution tax).

##### PRIMARY & SECONDARY SCHOOLCHILDREN EMPLOYEES

If you pay salary/wages or schedular payments to school children, you must deduct PAYE and include their details on the employer monthly schedule (EMS) from 1 April 2013. These employees will also need to complete an IR330.

New employees under the age of 18 years are not subject to automatic enrolment in Kiwisaver, but if advised by your employee, you will need to deduct Kiwisaver employee contributions for existing Kiwisaver members under 18 years of age. You do not need to make employer contributions until the employee reaches 18 years of age. Kiwisaver deductions are not made from schedular payments (formerly known as withholding payments).

##### ML & ML SL TAX CODES CAN NO LONGER BE USED

If your employees are using either the ML or ML SL tax code, deduct PAYE using M or M SL from 1 April 2013. A new IR330 Tax Code Declaration has been produced and is now available on the IRD website and updated PAYE tables and calculators will be made available prior to 1 April 2013 to ensure correct PAYE deductions

#### STUDENT LOAN CHANGES

The repayment rate for all New Zealand-based borrowers earning over \$19,084 will increase from 10 cents to 12 cents in every dollar from 1 April 2013. The employee needs to use an SL tax code if they have a student loan.

Borrowers can apply for two new certificates to change the amount of their student loan repayment deductions. Full time students may be able to apply for a repayment deduction exemption. Those with two or more jobs may be able to apply for a student loan special deduction rate for their secondary earnings. In both cases, these employees need to give their employer the certificate to authorise the exemption or reduced rate for their student loan deductions.



Information matching between Inland Revenue and the New Zealand Customs Service will be extended to identify student loan borrowers in serious default as they enter New Zealand so that the IRD can immediately initiate contact with the borrower.

Limits have also been placed on who may borrow through the Student Loan scheme. From this month, anyone who holds \$500 or more in default will be declined in their application. This applies for all new student loan applications received from 7 February 2013. The 10% voluntary repayment bonus, previously available to those who paid back more than required on an annual basis, has been removed from 1 April 2013.

An annual administration fee has been introduced which will charge \$40 for those who have a student loan balance of \$20 or more as at 31 March each year. Those who have been unable to make repayments on time generally have been charged late payment penalties at 1.5%. The rate for outstanding payments is now charged at 0.843% monthly, and is called late payment interest.

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## GETTING YOUR NEW YEAR FINANCES IN ORDER

It is February. Christmas is but a distant memory: you have been on and off the wagon several times, been to the gym once or twice and by now are back on the coffee. As tempting as it might be to start planning your next getaway, with the end of the tax year approaching, now is the time to think about getting your business' ducks in an orderly row.

Right now businesses with a March balance date need to ensure they have all the necessary information ready for their accountant at 31 March. Waiting months after the end of the financial year to find out your tax liability is unwise – not the least because the third instalment of provisional tax for 31 March 2013 balance dates is due on 7 May. Reviewing profit figures for the year sooner rather than later could result in the adjustment of your payment, if necessary, so avoiding penalty interest charges.



These are some key considerations to focus on:

- Accountants send out a questionnaire which asks a number of seemingly irrelevant questions. It is important to take the exercise of completing this seriously as it saves us time, and therefore you money in fees.
- Review your debtors – you will be paying tax on the profit even if you have not been paid by the customer so make it a priority to chase overdue debtors. New Year is an especially good time to develop a firm but fair collection policy and stick to it. Depending on your situation, you may consider offering early payment discounts (while being aware that this comes straight off the bottom line).
- At the same time, consider whether any of these debtor balances should be written off. To secure a tax deduction, the debt must be bad and actually written off before balance date. If you are on an invoice basis for GST, remember to claim back the GST you have paid.
- Plan ahead for your stock take. 31 March coincides with Easter this year so make sure any staff you need to assist are forewarned. Consider using prepared stock sheets in a spreadsheet to make calculation easier and remember to value stock at cost, excluding GST.
- Review work in progress (WIP) and start thinking about what can be invoiced between now and the end of the year. Consider also what cannot be invoiced out – is there WIP that should be provided for or written down?
- Review the business' fixed asset register and if any of the items are no longer in use, it may be possible to secure a tax deduction for the remaining book value.

- If there are any unusual expenses the business will need to pay out in the coming months, it may be sensible to pay these before 31 March to secure a tax deduction in the current year. However, be careful to check the expense will qualify for a deduction and will not be considered capital expenditure.
- Plan for the future – consider improving your reporting systems so you can monitor your results. Prepare cash flow forecasts and review your budgets against actual results.

If you still find you need an incentive getting all these detailed points right, then consider it will not only make the year end process easier, but the tax bill will be kept in check – making your winter getaway all the more affordable!

## SELF EMPLOYED CONTRACTOR OR EMPLOYEE?

Hiring a self-employed contractor can be a great way to kick start a project, as these contractors are often experts in their field and you can avail yourself of a short term resource if there is not enough work to justify a full time position. However, self-employed contractors differ from regular employees under New Zealand employment law.

When the services of a specialist individual for one-off work (such as a small job builder) are used, they invoice you directly and file their own tax returns. However, it is in the employment of self-employed contractors for longer term work contracts that the important differences become evident.



Self-employed contractors generally:

- Set the rate and the standard of work
- Invoice you for their work
- File their own tax returns
- Can get other people to work for them without reference to anyone else
- Provide their own equipment
- Control when they take holidays

Self-employed contractors are not covered by the Employment Relations Act 2000 or the Holidays Act 2003 which deals not only with annual leave, but with public holidays, sick and bereavement leave. While self-employed contractors do not have the same protection under the law as employees, they should still be legally protected by the terms of a signed contract at least covering payment terms and their health & safety obligations while on your job.

Although the self-employed contractor is responsible for their own tax, in some circumstances dependent on the industry and whether the contractor is a company, it will be a requirement to deduct schedular tax from payments made to the contractor (and pay these amounts to the IRD) unless the contractor holds a Certificate of Exemption.

### **KIWISAVER: THE GIFT THAT KEEPS ON GIVING**

For each dollar you save, you get almost another dollar from your employer and another 50c from the government up to a maximum of \$521.43 per annum. So Kiwisaver literally is the gift that keeps on giving.

Would an individual be better off putting any surplus money into the mortgage if the amount being saved was not significant?

Assuming the person's earnings are \$20,000 and that the 2% minimum of their pay is put into Kiwisaver – that is \$7.69 per week (the cost of two cups of coffee from a café!) The beauty of Kiwisaver is that this individual's employer puts in the same amount – the weekly amount saved therefore goes up to \$14.04 (after tax deductions). Then the government stumps up with another 1% or \$3.85 through a tax credit which brings the total saved weekly to \$17.89. So the person's contribution is less than \$8 but the actual savings are a bit under \$20. On an annual basis, it all blossoms to over \$900 and what is more, the contributions attract a one-off \$1,000 kick start from the government and if a little more is saved, the savings qualify for up to \$10 a week in savings subsidy payments from the government.

That all adds up to a much bigger benefit than the mortgage holder would get by putting the extra money (\$7.69 weekly) into paying off the mortgage more quickly. Although reducing debt is generally a good idea, it does not compare with the subsidised returns from Kiwisaver - and that is not including any actual investment return from the Kiwisaver provider!

### **HEIGHTENED EXPOSURES FOR COMPANY DIRECTORS**

The Pike River Coal Mine Disaster Royal Commission identified many shortcomings and failures which contributed to the disaster. In its report it was particularly critical of the Pike River Coal Limited Board of Directors.

The report observed that:

“The board needed to have a company-wide risk framework and keep its eye firmly on health and safety risks. The board should have ensured that good risk assessment processes were operating throughout the company. An alert board would have ensured that it has familiarised itself with good industry proven health and safety management systems.

It would have regularly commission independent audit and advice. It would have held management strictly and continuously to account.”

Under the heading of “Improving Corporate Governance” the following points were also made:

“Protecting the health and safety of workers is not a peripheral business activity. It is part and parcel of an organisation's functions and should be embedded in an organisation's strategies, policies and operations. The board and directors are best placed to ensure that a company effectively manages health and safety. They should provide the necessary leadership and are

responsible for the major decisions that most influence health and safety; the strategic direction, securing and allocating resources and ensuring the company has appropriate people, systems and equipment.”



Amongst the Commission's sixteen recommendations, three are specific to company boards:

- The statutory responsibilities of directors for health and safety in the workplace should be reviewed to better reflect their governance responsibilities;
- The health and safety regulator should issue an approved code of practice to guide directors on how good governance practices can be used to manage health and safety;
- Directors should rigorously review and monitor their organisation's compliance with health and safety law and best practice.

Directors already have legal responsibilities under Health and Safety legislation. However the insurance company, Vero, is of the opinion that, even without the eventual implementation of the Royal Commission's regulatory recommendations, there will be increased scrutiny of directors' management of Health and Safety issues and therefore all directors and managers should be conscious of improving risk profiles.

### **TAX STATISTICS**

The IRD publishes statistics on its website that provide an interesting picture of New Zealand's tax profile. The data shows that the percentage of resident student loan borrowers who meet their repayment obligations is now at an all time high of 97%. The data also shows an increase in revenue collected from GST and company tax in recent years, compared to individual tax and other duties such as customs, approved issuer levy etc. It is reported that the number of families receiving Working for Families tax credit has been increasing but the average entitlement received per family has decreased slightly.

#### **NEWSLETTERS VIA THE WEBSITE**

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## A Blonde Guy Joke!!

An Irishman, a Mexican and a blonde guy were construction workers. They were working on scaffolding on the 20<sup>th</sup> floor of a building.

They were eating lunch and the Irishman said: "Corned beef and cabbage. If I get corned beef and cabbage one more time for lunch, I'm going to jump off the building".

The Mexican opened his lunch and exclaimed: "Burritos again! If I get burritos one more time in my lunch, I'm going to jump off too".

The blonde opened his lunch and said "Ham again! If I have one more ham sandwich, I'm jumping off too".

The next day, the Irishman opened his lunch box, saw the corned beef and cabbage and jumped to his death.

The Mexican opened his lunch, saw a burrito and jumped too.

The blonde guy opened his lunch box, saw the ham sandwich and jumped as well.

At the funerals the Irishman's wife was weeping. "If I'd only known how really tired he was of corned beef and cabbage, I never would have given it to him. The Mexican's wife also wept and said, "I could have given him tacos or enchiladas if only I had realised he hated burritos so much".

Everyone turned to sympathise with the blonde guy's wife.

Hey, don't look at me," she said. "He made his own lunch."

