OCTOBER 2009

JOB OPS FOR YOUNG KIWIS

Recently the Government announced a number of new initiatives under the Youth Opportunities Package to assist young people move from the Unemployment Benefit to work and training. In Gisborne we have over 100 18-24 year olds on the Unemployment Benefit and Job Ops targets unskilled 16 to 24 year olds with low or no qualifications who have limited employment opportunities. It will pump $20 million into funding around 4000 entry-level jobs: a win for everybody.

Job Ops provides employers with a $5,000 subsidy to provide employment opportunities to young people with low or no skills or work experience. $3,000 of the subsidy is paid upfront, the balance of $2,000 is paid on completion of six months work – i.e. at the end of the Job Ops contract.

The Job Ops criteria are:

- Entry level position which does not replace existing roles or roles lost to redundancy
- Employment of at least 30 hours per week
- Employment is to last for at least six months
- The young person must be paid at least the minimum wage and all employment legislation must be complied with.

An example of what the employer commitment for wage costs could look like is:

Wages 30 hrs/wk @ $12.50/hr	
x 26 weeks =	$9,750
Less subsidy	$5,000
Net wage cost	$4,750

The young person can work for more than 30 hours per week but the Government contribution will stay at $5,000 for the six month contract. The employer is not obliged to keep the worker on after six months but in some instances there may be ongoing work for the young person. The package is not intended for use by seasonal employers.

If the young person leaves Job Ops because they have gained another job, training or positive opportunity in the last four weeks of the Contract, the final $2,000 payment will still be paid to the employer.

Contact WINZ Employer Line 0800 778 008.

INCOME PROTECTION INSURANCE

Premiums on income protection insurance policies are a deductible expense. But, the scope of what is considered income protection insurance is narrower than most people think. The most common error is mistaking personal sickness or accident insurance for income protection insurance when there is a definite line between the two and different tax treatment is needed for each. Income protection insurance policies are subject to tax in the sense that the premiums are deductible and the compensation receipts are assessable. Premiums paid under personal sickness or accident insurance policies, on the other hand, are not deductible and compensation receipts are not assessable.

If the benefit payable under an insurance policy is tied to a person's pre-disability income, it is likely the policy will qualify as an income protection policy. However, if a policy provides that the recipient will receive a fixed amount upon injury, it is unlikely to qualify as an income protection policy, e.g. a self employed person earning $60,000 acquiring insurance to protect his income in the event of injury. This will not qualify as income protection insurance as the benefit is not calculated with reference to earnings or profits lost as a result of the injury. It is not enough that at the time the policy was drafted the payment was based on the insured person's earnings.

It is the detail within the policy that determines the nature of the insurance. If you are claiming deductions for income protection insurance, it may be worth checking that the policy benefits rises and falls in line with changes in your income.

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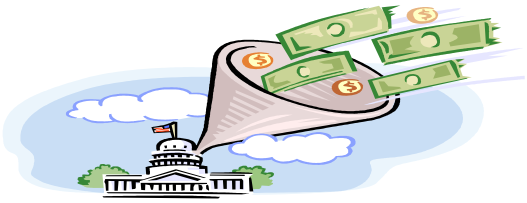
THE TAX SYSTEM IN AN ECONOMIC CRISIS: WILL IT SAVE OR SINK US?

Remember the recent good times when year after year the Treasury rather sheepishly announced that the tax revenues collected had exceeded its forecasts, sometimes by billions of dollars?



It made us feel good, almost smug!! The extra taxes collected papered over the cracks caused by the relentless incremental creep in government expenditure and allowed headline-making big ticket deposits to the Cullen fund.

Well, what a difference a year makes! The actual and forecast tax position is the worst for nearly 30 years and has completely dispelled any residual smugness. We are left with a sickening sense of vertigo as we gaze down into a whirlpool of draining tax revenues and spiraling government debt. As a result of the impact of the recession on corporate earnings, personal income and consumption, forecast tax revenues through to 2014 are now expected to be $15 billion less than we thought last year. Our promised tax cuts are on indefinite hold.

Against this background then, what is the role of our tax system in an economic crisis? Can it be used as a lever to drive us out of recession sooner or will it crush business revival with higher rates as the Government scrambles for revenue to service debt and close the deficit?

Many other countries around the world have turned to their tax systems as tools to use to stave off the worst impact of the recession.

In Australia a range of new tax incentives was introduced to stimulate investment in capital assets and millions of earners received one-off tax rebates of $A950 to stimulate consumer demand. Measures such as these are enormously expensive and difficult to target (anecdotally many young Aussies spent their $A950 in the beer gardens of Germany!!). And at some stage they must be paid for.

By and large the New Zealand Government has resisted using the tax system to target 'desirable' economic behaviour, preferring instead to focus its stimulatory efforts on the expenditure side. To refocus intently on imposing tax at the lowest rates possible across the broadest base of economic activity while ensuring it minimises the compliance costs and distortions to investments caused by tax is the right thing to do. And then one day we may get back our tax cuts.

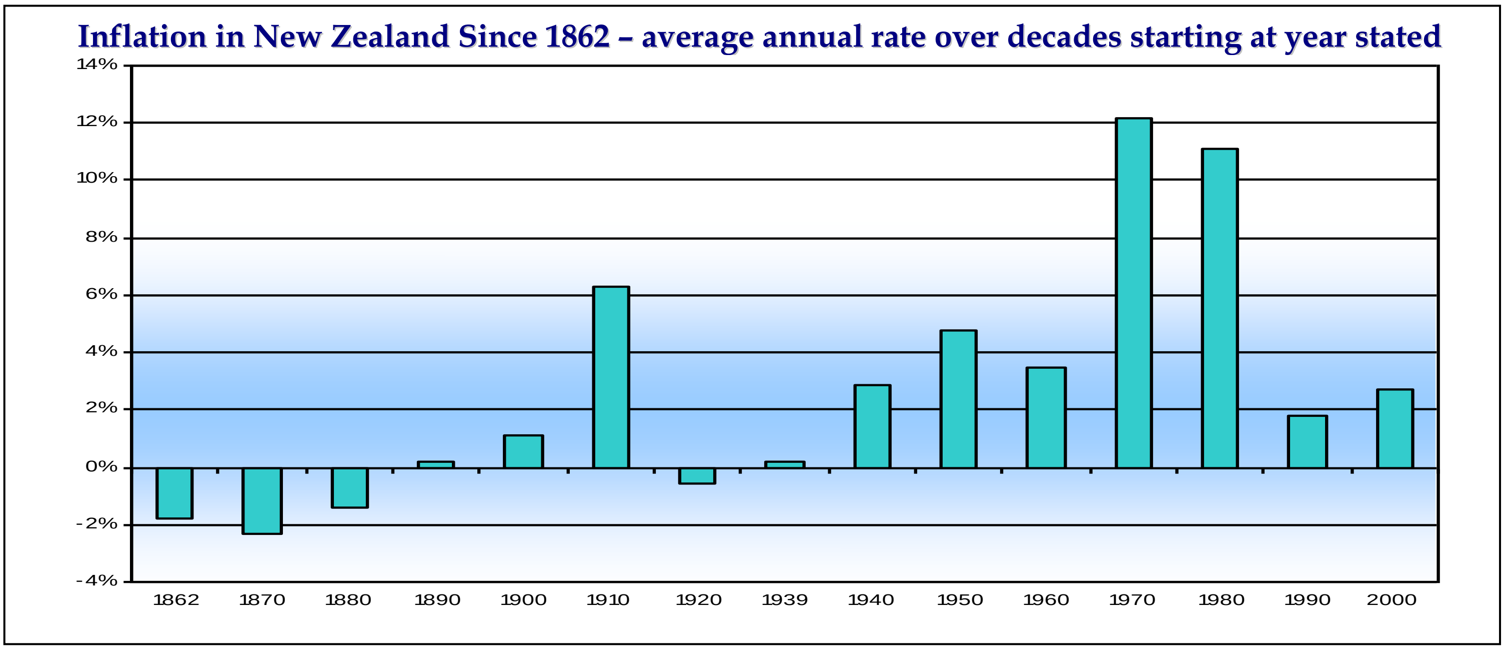
KIWISAVER – GOOD NEWS!!!

According to Terry Hall in "Viewpoint", Kiwisaver appears to be delivering on its aim of adding to the country's wealth by building savings, and the managers of many KiwiSaver schemes have begun to inject meaningful sums of money into both the share and bond markets, adding to their resilience as the economy struggles out of recession

The scale of the Kiwisaver injection became apparent recently as scheme providers started investing millions of dollars released by the Government. As much as $1bn could have been handed over by the Government on June 30 in its annual contribution to the scheme, assuming that each of the million people with a KiwiSaver account received the maximum government payment of $1,042. In reality, the actual total is unknown as not all participants invested enough to qualify for the full contribution. Also unknown is how much was invested within this country, as many schemes seek higher returns by investing in Australia and globally.

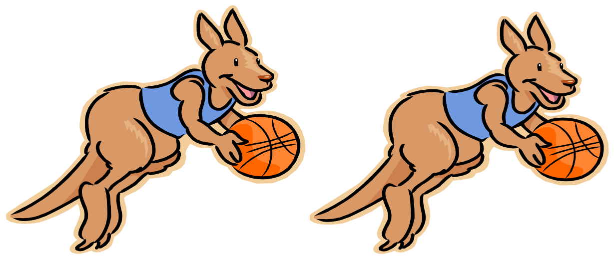
Allowing for these and other unknowns such as how well the many different schemes are performing, and assuming KiwiSaver schemes use similar asset allocation and diversification rules to old established life insurance and other funds, it is likely that around 10% of the Government's contribution, say $100m, went into New Zealand shares last month. A bigger sum would have gone into New Zealand fixed interest, including corporate bonds. In addition, many cautious people, and especially older savers who intend withdrawing their Kiwisaver money as soon as they can, will have chosen cash and other comparatively less risky schemes assuming they would perform better in a shorter time frame.

On top of the government injection, the funds receive ongoing sums from weekly and monthly contributions from investors, suggesting the financial markets are enjoying welcome new money inflows.



So far $3 billion has now gone into KiwiSaver, a welcome change from the wasted years from the mid 1980's when incentives for saving were removed and many company 'super' schemes were dismantled.

Till recently, New Zealand governments believed that people would have the sense to save for themselves. However, the tough economic times through the 1990s and into this decade showed many people were simply unable to save, having lost their jobs, while others chose investing in houses as the best option.



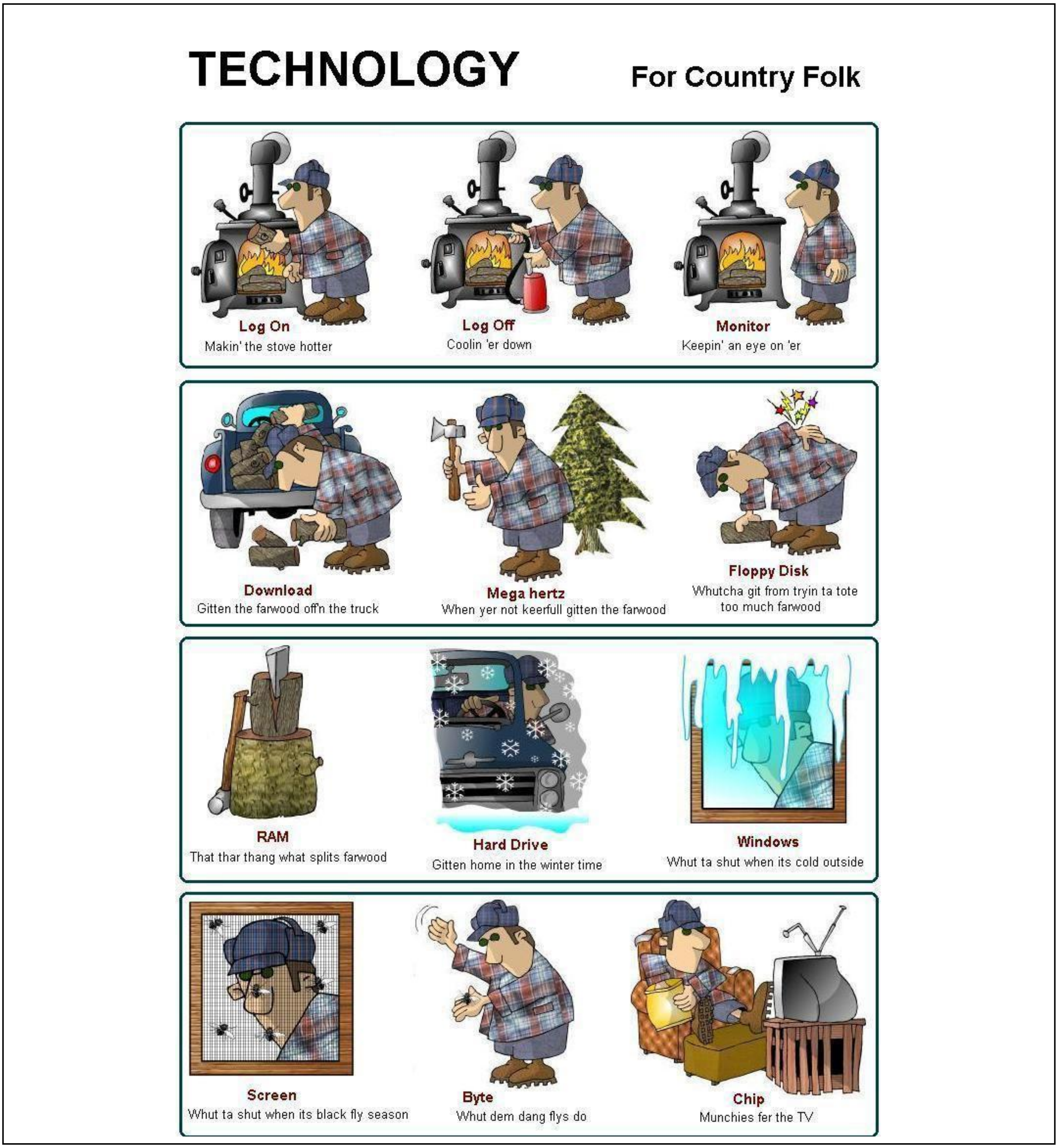
The same has not applied in Australia where the government introduced compulsory superannuation in 1991. This has been a major factor in the immense growth of investments in that country and the growing wealth gap between Australia and New Zealand. Given its comparatively small population, Australia now has the fourth largest pool of investment funds in the world and forecasters say their investment pool will more than triple to A$3.3 trillion in the next seven years.

Belatedly, New Zealand is making moves to catch up. There are major differences: Australians have much more confidence in their own country and most Aussie funds reinvest their money at home. In contrast, most Kiwi fund managers still see investing outside this country as offering the highest security and best returns. Hopefully, this attitude will also change over time.

THE 'FLATION DEBATE; INFLATION OR DEFLATION?

The debate rages on about whether we will see deflation or inflation over the coming years. It is reported by Craigs' Investment Partners in News & Views that most central banks believe inflationary pressures appear subdued at present. Unemployment is rising, cost pressures are low, there is spare capacity in the economy and credit growth is slowing. The ingredients you need for inflation are simply not present at the moment.

The question for the future however is, will the central banks have the fortitude to rein in the incredibly loose monetary stimulus that they have provided over the past 18 months fast enough to prevent another bout of inflation? Their track record has not been great in this respect in recent times!!



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