



OCTOBER 2010

USEFUL SNIPPETS

CAE rate changes

As at 1 October 2010, the flat tax rate for CAE (Casual Agriculture) employees (which includes shearers, shed hands or casual agricultural workers) changed to 19.54%. Please also ensure that you have new employees' IRD numbers as, if an IR330 is not completed with a valid IRD number, the Inland Revenue Department require tax to be deducted at the no-notification rate of 47.04 cents in the dollar which is a considerable increase.

GST Fractions

- If you have the GST exclusive price, then multiply by 1.15 to get the inclusive price.
- If you have the GST inclusive price, then divide by 1.15 to get the exclusive price

Obligations under a Service Tenancy

Where an employer provides an employee with a property to live in during their employment, the employer becomes the landlord as well as an employer under an arrangement called a Service Tenancy. Service tenancies are fully covered by the Residential Tenancies Act which states that all tenancy agreements must be recorded in writing. Moreover, an agreement is helpful in clearly defining the obligations of all parties and ensuring both the employment relationship and the landlord/tenant relationship work smoothly. An agreement which complies with the minimum requirements of the Act can be obtained from the Department of Building and Housing website www.dbh.govt.nz. Rent does not need to be payable for a service tenancy to exist – however rent may be deducted from the employee's pay by agreement and the employer/landlord may also deduct rent out of any holiday pay to cover rent during the holiday period. There are special rules covering rent paid in advance and notice to quit the tenancy as the service tenancy cannot be terminated before the employment relationship ends.

LEASES – ASSOCIATED PERSONS

Changes to the rate of Goods and Services Tax have brought into focus the lack of documentation which may exist regarding leases between associated parties. This generally involves a partnership, company or sole trader leasing land from an associated trust. The Goods and Services Tax Act requires all associated party transactions to be conducted at market value and the Income Tax Act 2007 deems an adequate rental to have been paid and correctly accounted for tax purposes.

Lease agreements should be drawn up as though they are between two separate individuals transacting at arm's length. This document should be signed by both parties (generally the same people). Where the lease involves a dwelling, the lease calculation should apportion the lease rental between the land and the GST exempt dwelling. Once the agreement and lease price have been finalized, a tax invoice must be created (a GST requirement).



The changes in GST provide an opportunity to 'get the house in order' by implementing the following recommended best practice:

- ✓ A formal lease document signed by both parties
- ✓ Documented rental calculations to verify the commercial reality of the lease amount
- ✓ A tax invoice should be created
- ✓ Rent paid monthly or quarterly by automatic payment mirrors the commercial reality of an arms' length transaction and gives an audit trail
- ✓ GST being returned on the lease as it is paid rather than at year end

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TAX TREATMENT OF CERTAIN PAYMENTS TO EMPLOYEES

Recent amendments to the Income Tax Act ensured that certain payments and allowances made by employers to their employees are **tax-free** in the hands of the employees, provided certain criteria are met.

Relocation payments



Work related relocation payments made by an employer are tax-free to the employee if these conditions apply:

1. The employee's relocation is required as a result of taking up new employment with a new employer, or taking up new duties at a new location or continuing in their current position but a new location
2. The employee's existing home is not within reasonable travelling distance of their new workplace (unless accommodation is provided as part of the job)
3. The payment is no more than the actual expenditure incurred
4. The expenditure is incurred before the end of the tax year in which the employee relocates.

Overtime meal allowances

For these payments to be tax-free all of the following conditions must be met:

1. Either the employee's employment contract specifies they are eligible for a payment for overtime hours worked, or the employer must have a policy or practice of paying an overtime meal allowance
2. The amount paid must be the actual cost incurred by the employee, with receipts/invoices for amounts of over \$20 per meal, or a reasonable estimate of the expenditure likely to be incurred
3. The employee is required to have worked at least two hours overtime on the day of the meal

Sustenance allowances

For sustenance allowances to be exempt income of the employee, all the following criteria must be met:

1. The employer must have an established policy or practice of paying sustenance allowances
2. The employee must work a minimum of seven hours on the day
3. Their employment must require them to work outdoors and away from their employment base for most of the day; and

undertake a period of long period of physical activity

4. The employer would normally provide tea, coffee, etc at their place of employment and it is not practicable for the employer to provide such on the day when the employee is working outdoors.

IRD SURVEY SAYS TAX COMPLIANCE TAKES LESS TIME!

An Inland Revenue Department survey concludes that small and medium-sized businesses are spending 17.5% less time doing their tax compliance in 2009 than they did in 2004 – that is a time saving of more than 16 hours. However, the cost of compliance is almost unchanged. The statistics have come from two paper-based surveys mailed out to 5,000 SMEs in October 2004 and September 2009 respectively.

The SMEs were put into four categories:

Nil – no employees (excluding business owners)	
Micro –	1 – 5 employees
Small –	6 – 19 employees
Medium –	20+ employees

According to the survey, stress levels associated with meeting your tax compliance requirements with IRD reduced from 3.4 points on a scale of seven points to 3.2 points!!

The average cost of compliance in 2009 over all categories was \$5,557 per annum which was down 1.3% on 2004.

But the New Zealand Institute of Chartered Accounts (NZICA), the professional body of which Graham & Dobson is a member, is not impressed. The tax director of NZICA, Craig Macalister, was reported by the Dominion Post as saying the reduction in compliance costs was 'underwhelming after a succession of government-driven initiatives aimed at reducing compliance costs'. We agree with NZICA. The Government has formed a task force to report on simplifying our tax system and rolled out strategies like tax simplification for decades now.



So apart from the IRD filling our letter boxes with mail, there is also the hidden cost of tax compliance which proportionately to turnover is likely to be higher the smaller your business is.

KIWIS MISSING OUT ON INTEREST FROM SAVINGS

Households are potentially missing out on a billion a year by not putting their spare cash in savings accounts according to RaboDirect. According to Reserve Bank figures, there is more than \$27 billion dollars of retail funding in transaction accounts which typically give no or low interest return on this money. Fifty per cent of New Zealanders tend to leave much more money than necessary to cover monthly expenses in their transaction accounts.



Mike Heath, General Manager of RaboDirect, points out that if the entire \$27 billion were to be deposited in an on-call saving account earning four per cent interest, one billion worth of interest would be earned.

Over the past four years, RaboDirect has been tracking New Zealanders' saving and investment priorities and found that the financially turbulent times have had a major impact on their choices. Just prior to the collapse of a major New Zealand finance company, many surveyed put high interest as the number one priority for most people (72%) with just 30 % considering security when investing.

However, the 2010 survey shows considerations have reversed almost entirely, with 73% ranking security of money as the first priority, high interest rate as second (52%) with fees and charges coming in third ranking.

The RaboDirect survey also evidenced that a personal savings account is by far the most popular option when saving or investing – although 20% of savers did hold term deposits. Other investment channels include bonds (8%), shares (7%) and property (7%).

Nonetheless, savings in New Zealand remain at a low level with 46% of New Zealanders not currently saving. People are paying off debt, spending, or they simply do not have any money left over at the end of each month.

DEPRECIATION BIAS

Residential landlords now have a clear message from tax officials that they will be treated more harshly than commercial landlords. Inland Revenue Department officials have just issued a policy paper proposing that commercial landlords will be able to continue to depreciate building fit-

out items that the IRD are now denying to residential landlords. An example of how inequitable the proposed change is that a lift in a multi-storey residential building will be treated as part of the building and not be depreciable but the same lift in the same sized building next door used for offices will continue to be able to be depreciated at 8%. Buy a boarding house (deemed commercial) and you can depreciate electrical and plumbing systems at 8% but if you buy a large villa for unsupervised tenants no depreciation of such items will be allowed.

The IRD's justification for favouring commercial fit-out is *"because building fit-out is likely to contain a greater portion of the value for non-residential buildings than for residential buildings. In addition, we consider that non-residential fit-out is generally less permanent than residential fit-out due to tenant-specific requirements and changes of use"*.

While that might be so in terms of internal partitioning, it is hardly credible justification for air conditioning, alarm systems, lifts, plumbing and electrical systems, all of which the commercial landlord will continue to depreciate under the proposal.

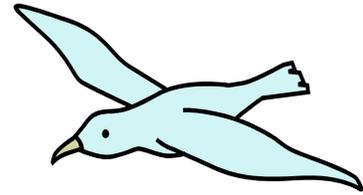
The paper says that submissions will be taken into account when making recommendations to Government. It would be interesting to pose the question as to whether the IRD is serious in suggesting that the toilet seat used in the IRD office is less permanent than the dunny seat in a dingy student flat? In fact you probably should allow 100% depreciation for the wooden toilet seats in Dunedin's Castle Street!!!

BUSINESS FORWARD NEWSLETTER

Beginning this month, we will be producing a new and informative 'Business Forward' newsletter supplement specifically targeting business issues. This will be available only through Graham & Dobson's website – if you would like to receive the email link reminder for Business Forward, please [click here](#) and complete the registration by ticking the box 'Business Forward Newsletter'.

NEWSLETTERS VIA THE WEBSITE

Thank you for viewing our newsletter online. If you are not already a subscriber and would like to receive our bi-monthly newsletter via email please [click here](#)



PIRATED!

After many years at sea, a pirate decided to retire. Since he had suffered injuries on the job, he thought he should collect on his worker's compensation insurance. He had a wooden leg, a hook where his right hand should be and a patch over his right eye. The agent assured him that he would be compensated if the injuries were work related.

"How did you get the wooden leg?" asked the agent.

"Me and me mates were on the high seas when the boom swung round and knocked me into the sea where a shark bit off me leg" was the answer.

The agent replied, "That is certainly work related. How did you lose your hand?"

"Me hearty, me and me mates were on the high seas when the boom swung about and knocked me into the sea where a shark bit off me hand," said the pirate.



"That's also work related. Now how did you lose your eye?" asked the agent.

The pirate replied, "Well matey, I was laying on the deck one balmy day catching some rays when this seagull flew by and dropped his duty right in me eye!"

"What does that have to do with the loss of your eye?" queried the agent.

"It were the first day with me hook!"