

## MARCH 2009 Newsletter

### End of Year Reminders

For those with a 31 March balance date there are a few things to be completed.

- ✍ **Count stock on hand (livestock, trading stock etc.).**
- ✍ **Write off bad debts. These must be actually written out of the debtors ledger PRIOR to 31 March 2009.**
- ✍ **Retain Interest Certificates issued by the banks**
- ✍ **Enclosed with this newsletter is our annual 'YEAR END QUESTIONNAIRE'. This is an important document for us as it gives us authority to prepare your financial statements and contains vital information we require. PLEASE ENSURE it is completed and returned when you bring in your financial papers.**

### Donations

The only limit on the amount of charitable donations you can claim for the Donations Rebate is the income you earn. The \$1,890.00 limit has been removed.

### Minimum Wage Rates

The minimum wage rate for adults has been lifted from \$12.00 per hour to \$12.50 per hour. This is effective from 1 April 2009.

### Independent Earner Tax Credit

From 1 April 2009, eligible taxpayers earning net income between \$24,000 and \$44,000 will be entitled to an extra \$10 each week. For eligible tax payers earning over \$44,000, the independent earner tax credit decreases by 13 cents for every additional dollar earned up to \$48,000.

To receive the tax credit through their pay, employees will need to choose a new tax code and let their employer know so they can deduct the right amount of tax from the employee's salary or wages. Employees can only use this new tax code for their main job or source of income.

The new tax code is ME, or ME SL for people with a student loan.

Eligible tax payers are those who do not receive;

- ✍ working for family tax credits
- ✍ an income tested benefit, including
  - domestic purposes benefit
  - emergency benefit
  - independent youth benefit
  - invalids benefit
  - sickness benefit
  - unemployment benefit
  - widows benefit
  - NZ Super
  - Veterans Pension

"Net Income" means your total income from all sources less allowable deductions or current year's losses.

Salary and wage earners your "Net Income" will be salary or wages before tax.

## Other Tax Relief for SME'S

Given tight economic conditions the Government has last week passed the Business Tax Measures Bill.

The main changes are:

- ✍ The 5% uplift business pay on Provisional Tax has been removed for the 2008-09 and 2009-10 income years.
- ✍ Raising the Provisional tax Use of Money Interest thresholds for individuals from \$35,000 to \$50,000.
- ✍ GST – The payments basis threshold will be raised from \$1.3 million turnover to \$2 million. This allows businesses to pay GST when payment of invoice has been received.
- ✍ GST registration threshold is being raised from \$40,000 to \$60,000 of GST turnover, allowing businesses that are turning over less to deregister if they wish.
- ✍ Businesses with business related legal fees of \$10,000 or less will be able to fully deduct the expense in the year it was incurred, whether it was capital in nature or not.
- ✍ Low value trading stock threshold increasing the exemption for adjustments from \$5,000 to \$10,000 (based on the value of trading stock).
- ✍ PAYE once a month filing and payment threshold will be raised from \$100,000 to \$500,000, allowing more employers to file PAYE returns once a month rather than twice a month.
- ✍ FBT annual filing threshold will be raised from \$100,000 to \$500,000 allowing more employers to file FBT returns annually rather than quarterly.
- ✍ Minor fringe benefits given to employees will be raised to \$300

## KiwiSaver changes

The introduction of the new National led government has seen swift changes to KiwiSaver and Income Tax legislation.

From 1 April 2009 some changes are being made to KiwiSaver.

- ✍ The **compulsory employer contribution (CEC)** will increase to 2% and won't increase further in future years. Employers will need to increase their contribution rate to 2% from the first full pay period after 1 April 2009 and are not required to calculate a part period at two rates.
- ✍ The minimum employee contribution rate will reduce to 2% of a member's gross pay. Existing KiwiSaver members can reduce their contribution by advising their employer in writing. New employees who sign up after 1 April 2009 and don't indicate a deduction amount will have the new default rate of 2% applied. This reduction to 2% may affect the amount of member tax credit the KiwiSaver member gets.
- ✍ The \$40 annual fee subsidy will be **removed** from 1 April 2009.
- ✍ The **ESCT employer superannuation contribution tax** exemption will be capped at the compulsory employer contributions of 2% from 1 April 2009. Any employer contributing more than 2% will have to pay ESCT.
- ✍ **The employer tax credit (ETC)** will be removed. The employer will no longer be able to claim this from the first full pay period after 1 April 2009.
- ✍ The KiwiSaver Act will be amended and the Employer Relations Act amendment relating to KiwiSaver will be repealed. This means an individual's gross pay can't be reduced if they join KiwiSaver.
- ✍ Employers should receive further information and a letter from the IRD in mid to late March.

per quarter per employee and \$22,500 a year per employer. This means fewer businesses will be required to return FBT on certain minor benefits provided to employees.

### ✍ Employers

- ✍ As mentioned in the Christmas edition of the newsletter, the personal tax rates and thresholds are changing from 1 April 2009.
  - **Employers will need to use new PAYE from the first full pay period ending on or after 1 April 2009.**

### Curtilage

We regularly encounter difficulties with farm property Sale and Purchase agreements relating to the documentation of Curtilage. Often the Agreement includes a clause along the lines “....*For all revenue purposes the value of the dwelling and curtilage is agreed to be \$190,000.....*”

That clause is very helpful for the **GST** revenue purpose because it identifies that portion of the global sale price that is GST exempt.

However the clause is totally useless in identifying the dollar amount that is to be attributed to the **dwelling** itself for the **income tax** (depreciation) revenue purpose. What we actually need is separate values for the **dwelling** and for the **curtilage**. So what is **curtilage** and how do we strike an appropriate value for it?

The current commercial usage of the term curtilage suggests that what is meant is “the house section”. That would generally take in the lawns,

Also check updates at [www.kiwisaver.govt.nz](http://www.kiwisaver.govt.nz)

There is no designated minimum or maximum area for curtilage; It depends entirely on the circumstances of each individual case and can probably best be measured on the basis of the one ordinary dictionary definition of curtilage we have been able to locate. The Concise Oxford defines curtilage as “*the area attached to a dwelling house and forming one enclosure with it.*” In other words, the house section on the farm.

We then have to find ways of assessing an apportionment value for this area in relation to the total sale value of the whole property. In a perfect world the Real Estate agent, in conjunction with vendor and purchaser will have agreed on appropriate dollar value and recorded this in the Sale and Purchase Agreement.

In the real world we might have to find a solution that overcomes the deficiency in the Agreement.

Quotable Values will provide an appropriate appointment of value for curtilage for a fee of about \$220 to \$250. Alternatively you could engage a registered valuer, though this may cost a little more.

The best solution is when we are asked to review Sale and Purchase Agreements before final signatures are completed by our clients. We then have the opportunity to tidy up any loose ends or omissions for both GST purposes and income tax purposes.

shrubbery, gardens, orchard, vehicle access, pool, barbeque area etc., and probably includes domestic outbuildings.

So what we are talking about is the **domestic** area as distinct from the **farmed** area of the property.

### **Barter Deals**

Have you ever thought about income tax and GST implications on swaps, shared labour and barter deals? These all seem to be a reasonably regular feature of rural sector life in New Zealand. These may also extend to areas such as PAYE and ACC.

It is common for farmers to assist each other with shearing, dipping and docking. These arrangements are of course (generally) tax neutral and few farmers even think about PAYE/Withholding payments.

The classic case is when a spare farmhouse, which is supplied rent free to a person or family, provided they assist the farmers with farm work or relief milking. The farmer will tend to think this is tax neutral. However the value attached to the labour should have PAYE deducted. There are no GST issues in this example as both wages and house rentals are GST exempt.

There are also situations where farmers reward their children or farm staff by giving them stock to rear for themselves.

- ✍ Livestock are trading stock and if disposed of (given away) for no consideration or for consideration that is less than the market value, they are deemed to have been disposed of at Market value.
- ✍ The supply is clearly a taxable supply on which GST must be charged and accounted for at its

Therefore, the increase in Stock on Hand is taxable income and appropriate tax liabilities must be met.

If you would like to reward staff, children through this means, please pick up the phone or make an appointment to discuss this. It could save a lot of heartache as the Income Tax and GST consequences are very severe if not dealt with in the correct manner.

---

### **Disclaimer**

*All information in this newsletter is to the best of our knowledge true and accurate. No liability is assumed for any losses suffered by any person relying directly or indirectly upon this newsletter. It is recommended that clients should consult a senior representative of the firm before acting upon the information outlined in this newsletter.*

---

open market value.

For the recipient, the receipt of livestock is deemed to be a purchase (at market value) so in the hands of the child or worker the reward is tax neutral, but at year-end the livestock has to be brought to account as Livestock on Hand.

**MARCH NEWSLETTER**

**MARCH 2009**