# Withers & Co Ltd

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# Newsletter

**20 February 2008**

## CONTENTS



*We give the best of services to our clients.*
*3 Directors (2 CA qualified) and 8 staff (1 also CA qualified) are ready to assist you.*

## Present Tax rates

Tax planning, to change the entity earning the income, is based around the tax rates – to shift income from highest rates to lower, in a correct way that cannot be challenged by Inland Revenue.

The main change is the company rate REDUCED from 1.4.08 from 33% to 30%.

| | |
|---|---|
| | <u>For 2008-09</u> |
| Personal Rates | No change |
| | |
| <u>Income</u> | <u>Rate</u> |
| 0 - $38,000 | 19.5% |
| $38,001 - $60,000 | 33% |
| Over $60,000 | 39% |

Due to a low income earner rebate, tax on income <u>under</u> $9,500 is taxed at 15%.

| | |
|---|---|
| Corporate rate – for companies | |
| 2008 tax year to 31.3.08 | 33% Flat rate |
| 2009 tax year from 1.4.08 | 30% |
| <u>Trusts</u> – no change | |
| on retained Trust income | 33% Flat rate |

**Late Payment Penalties**

If tax is not paid on time an initial late payment penalty of 1% is charged. If unpaid after 6 days a 4% penalty is charged and added. Every month, a further 1% penalty is then imposed - to be avoided!

**Interest to Inland Revenue Department**

(Use of Money Interest) is also charged to all companies, trusts with Terminal tax to pay, backdated to the first Provisional tax payment date (full Provisional tax has to be paid with each instalment, and often estimated) and to individuals – only if Terminal tax to pay exceeds $35,000 or Provisional tax was under-estimated, and reduced.

## Provisional Tax changes and the effects

For the 2008/09 tax year onward there are a large number of changes to the provisional tax payment due dates. These have been introduced by the IRD in the intention to "simplify" and reduce tax compliance costs?

We have attached a separate sheet of the new dates. The start date is 28 August – replacing 7 July.

You should study these changed payment dates.

Terminal tax is unchanged – due 7 April. The Provisional tax dates are actually a cash flow improvement - the payments are due later – ie

| Balance date | | | |
|---|---|---|---|
| 31 March | 7 July | - now 28 August | (1 month + 21 days) |
| | 7 Nov | - now 15 January | (2 months + 8 days) |
| | 7 Mar | - now 7 May | (2 months) |
| 31 May | 7 Sept | - now 28 October | (1 month + 21 days) |
| | 7 Jan | - now 28 February | (1 month + 21 days) |
| | 7 May | - now 28 June | (1 month + 21 days) |

If you are registered six monthly GST it is even better with two payments due only.
ie 31 March balance date – due now 28 October, 7 May instead of 7 July, 7 November, 7 March. As usual, we will look after you, you will get advice of what to pay before each due date, to avoid those late payment penalties.

## Our views of the economy

(a) Interest rates high for next six months – more property pain, sluggish sales. Interest rates now falling rapidly overseas – we will gradually follow.

(b) See Marac Deposit Rates – this is one of the strongest finance companies.

(c) Nervous investors will cause another finance company to fail.

(d) Fair gamble to fix for 12 months your mortgage interest rate – then fix for 4-5 years in 12 months time – when rates expected to be less.

(e) Our currency will fall as interest rates fall, and US $ remains weak.

(f) Commercial property values expected to weaken in medium term (12 months).

Rental yields - $\frac{\text{Annual Rent}}{\text{Market Value}}$ %

- are below present interest rates.

Yields 6% (Warkworth) to 8% and interest rates for commercial borrowing 9.5% → 12%.

This yield – interest gap must narrow, with falls in building values and interest % rates.

We used to have for many years –

Rent yields 10-11%, interest rates 6.5 – 7.5% = NO deposit needed.

(g) Home Values – don't buy now, values are falling in most areas, for first home buyers. Rent instead, raise your nett worth (equity) and buy when interest rates, house values have both fallen.

## Equity partnerships & BNZ Agri Capital

Dairy farm businesses are now very capital intensive, for land and buildings, Fonterra Share Capital, milking plant, vehicles and cows.

A high equity is a must, with borrowings no more than 40% of total assets.

Look at equity partnerships – either from a silent partner – or an active participant ie herd manager or sharemilker, with cows and capital. Banks who are lenders to farming are familiar with these agreements and funding and often find the equity partner.

BNZ Agri-Capital has been formed, as a unique approach to finance an Agri project. They are prepared to take an equity position, rather than entirely debt. Usual in farm purchase of $5M and up, with farmer client with $1M and up. BNZ will remain an equity partner for say five years, and then sell their share. Very suitable for a dairy conversion, or irrigation project, where the ability to grow the value of the asset quickly is the key.
Contact Jennifer_Dahl@bnz.co.nz

## Inland Revenue drought relief for farmers

Unusual drought conditions this year are causing financial issues for many farmers, and are likely to affect income for the 2008 year and later years. The pattern may be higher income in 2008 from extra livestock sales and lower income in later years, though this may vary with types of farming.

Inland Revenue is already able to accept later deposits to the Income Equalisation Scheme than usual. Section EH 4(4) of the Income Tax Act 2004 allows Inland Revenue to determine a "class of cases" that qualify for deposits made after the end of
the specified period. Standard Practice Statement 05/09 Income equalisation deposits and refunds states that deposits applicable to the previous income year will be accepted if made after the end of the specified period, if the deposit is made by the earlier of:

§ One month from the date of filing the tax return for that year, and
§ One month from the date that the relevant tax return is due to be filed.

Now, for drought-affected farmers, the Commissioner has relaxed these rules by allowing late deposits for the 2008 income year to be made up to 30 April 2009, regardless of when the return is filed, or the due date for filing the tax return.

The relaxation in the rules will apply where:

§ The person is a pastoral farmer who has been adversely affected by the current drought

- Evidence of the adverse event is submitted with the deposit – a statement to the effect that the farmer has been adversely affected signed by the farmer or farmer's tax agent is the minimum criteria
- The deposit is received by 30 April 2009
- The notice with the deposit indicates that:
  - The deposit is for the main income equalisation deposit scheme
  - That it is to apply for the 2008 tax year, and
  - That the criteria in this notice are to apply.

Normally income equalisation deposits are not available for refund until 12 months after the deposit is made. However, section EH 15(3) provides Inland Revenue discretion to allow early refunds, particularly in the case of "adverse events" and when the person is suffering serious hardship. Inland Revenue also has the ability to determine a "class of cases" that qualify for an early refund.

Inland Revenue will allow those farmers who qualify as above to make early withdrawals. This will also apply to amounts that have been deposited previously but have been in the scheme for less than a year.

All applications for an early refund must be in writing and will take approximately 20 days to be processed. The refund will be treated as income in the year the application is made unless it is elected to treat the refund as income in the prior income year (where the application for refund is made in the specified period).

Adverse event income equalisation deposits may also be used by some farmers who sell livestock and do not replace it because of a self-assessed adverse event. This mechanism has no time restrictions for requesting refunds, but after one year the deposit is transferred to the main scheme. It requires the farmer to make a statutory declaration to the Commissioner that the event materially affects their business.

We have past experience in these applications to Inland Revenue if you have been affected in a drought area.

Real cash and tax savings can be made if you apply correctly to freeze sales made early due to the drought, and repaid when replacement stock are purchased. See us if you are affected.

## Paying wages to children – with Nil PAYE

Due to the increase in the child rebate, from $156 to $351 per child, the limit to pay wages – with no PAYE – has increased from $1040 pa to $2340 ($45 per week). Very valuable, if your children do help in your business. It is well known bringing up children is expensive – if $45 per week can be claimed as a tax deduction about $750 can be saved pa for each child, with tax savings.

## Changes in the Charities Act and donation limits

From the 2009 tax year, which starts on 1 April 2008, there is now no limit to amount of donations that qualify for the 33% tax refund, rebate. It used to be $1890 for a $630 rebate per person.

Now there is NO LIMIT.

Make sure the organisation you gift to is registered with the Charities Commission. You should ask for a copy of their qualifying certificate.

From 1 July 2008, you must now register with the Charities Commission in Wellington – www.charities.govt.nz or phone 0508 242 748 – to be eligible for TAX EXEMPT STATUS based on the grounds of charitable purposes. This applies even if you already have a letter from Inland Revenue confirming your entitlement to tax exemptions.

- From income tax – for non-business income
- Exempt from gift duty for gifts to your charity
- From business income derived by or in support of charities.

## ACC – nil levies payable – but still covered – how?

*"I want ACC cover without paying a levy – how is it possible?"*

It is possible.

It is not easy to find out how, but if you are self-employed, with no physical effort required to earn your income, ACC say you qualify for the Passive Exemption, such as:

One partner, in a partnership, receives a share of the taxable income, through ownership, but is not physically involved, ie

(1) A 50:50 sharemilker operates the dairy farm owned by the partnership
(2) There is an employed manager living on the farm, you live elsewhere
(3) You have a salary from your company that owns a dairy farm with employees or 50:50 sharemilkers – the levy is not at the dairy farm rate, but at the Low Management Rate.

We have a direct link to ACC to reverse to Nil such levy invoices – or get them reduced.

See us, if you are affected.

## Farmers – be aware of Accrual Expenditure

If the cost of consumable supplies on hand at Balance Date exceeds $58,000, you must record this value, resulting in lowered expenses = extra income.

This limit was $50,000, in 1986, lifted to $58,000 on 1 April 1990. No change since.

This includes fencing, fuel, timber, piping, all supplementary feed, drenches etc. Larger dairy farms – beware, this does exist.

In practise, it will be like a voluntary disclosure of income admitted to Inland Revenue, claimable in a later year, when supplies are less than this figure. We do not see how IRD can police this, or even enforce it – but it does exist.

## Withholding Payments – farming and horticulture

If you employ an agricultural contractor, who trades as sole trader, partnership or trust, there is a requirement to deduct withholding tax, ie gross + GST – 20% on gross as PAYE. Waived if they have an IRD Tax Exemption Certificate. Companies are exempt. A company also needs an exemption for specified agricultural, horticultural, or viticulture where the service is
(a) pruning of fruit trees or vines
(b) thinning of fruit trees or vines
(c) picking of fruit or grapes
(d) packing of fruit or grapes.

We can obtain these exempt certificates on application to IRD.

## The new NZ Bloodstock tax regime

There are now first class tax incentives for horse breeding – effective from 1 August 2006. There is an opportunity available here, which only very few of our clients are taking advantage of.

For higher income earners, here are the facts that should interest you.

The tax deductions are in write-downs (depreciation) from cost of mares and stallions.

**Broodmares**
(a) written off from cost to $1 by age 9 years.
(b) write down starts at 2 years of age.
(c) fillies, mares can be written down to $1 in 6 years.
(d) broodmares that are purchased at age 8, can be written down in full that year.
(e) the annual rate from 2 years old, is 31.25% DV, these rates apply even if a share is purchased in the mare.

**Stallions**
(a) Write-down period is two years for new stallions, 5 years for old stallions.
(b) The rate is 50% over 2 years – or 75% for each year, from cost, even in a share of a stallion.

Stallions are used for breeding until over 20 years, ie Volksraad, is now 19 years, service fee is $27,500, for 100 mares per year. Zabeel fee is $100,000 per live foal (a Sir Tristram son).

The service fee, plus mares write-down for a live foal produced, is that foal's book value (ie cost) and is claimed from 2 year old, as a broodmare at 31.25% or against sale price as a yearling. A mare bought in foal, the service fee is apportioned to the foal, as its book value and the balance to the mare.

All race winnings, and sales of race horses, remain tax free - not taxable – and likewise race costs are not claimable.

These new write down rates have stimulated the values of breeding stock, and the Karaka yearling sales values, combined with large reductions in rates of tax payable by the racing clubs.

**Example on Tax Savings**

Your personal income is $400,000, payable tax rate is 39% (from $340,000).

A 9 year broodmare in foal is bought for $350,000 June 2007.

The service fee to Volksraad $27,500.

At 31 March 2008 – mare BV Nil

Tax claim $350,000 - $27,500 = $322,500.

Tax saving $322,500 x 39% = $125,775 instead of paying $340,000 income @ 39% = $132,600.

You will pay $132,600 - $125,775 = $6,825 only. You have the foal, to either sell as a yearling, or retain for breeding/racing.

## A special year for Withers & Co Ltd as Public Accountants

This year we celebrate forty years as Accountants in Warkworth – Simon Withers, founding Director of Withers & Co Ltd has practised for 40 years, and at age 67 years, is still hands on – daily.

We have Withers & Co Ltd Promotional Caps to give away when you call to our office.

Yes – give away to clients!

Ask Gemma/Jenni at reception.

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