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Client Newsletter

February 2010

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

Tax rates

Current tax rates for 2009-2010 tax year

Income Threshold	**Tax rate**
Personal	
\$0 - \$14,000	12.5% (new low income rate)
\$14,001 - \$48,000	21%
\$48,001 - \$70,000	33%
\$70,000 and over	38%
Companies	30% all income
Trusts	33% all income
Non-notification rate (with no IRD No)	38%

Changes to RWT (resident withholding tax) rates on interest from 1 April 2010

From 1 April 2010 interest payers have the option to withhold RWT for companies at the rate of 30%. Interest payers are required to withhold RWT for companies at 30% from 1 April 2011.

If you are currently receiving interest which has RWT deducted at the rate of 19.5% you will be automatically moved to the new 21% rate from 1 April 2010. If you expect your annual taxable income to be under \$14,000 or less, or over \$48,000 from April 2010 you can change your RWT rate to 12.5% - or 33% if over \$48,001.

The main change is 12.5% available for income to \$14,000 (which includes National Super).

The 19.5% rate will change to 21.0% - unless you advise your bank etc – before 1 April 2010.

GST – threshold changes

From 1/4/09 –

1) The threshold below which GST may be accounted for on a cash or payments basis was raised from $1.3m to $2.0m.
2) The GST registration threshold increased from $40,000 to $60,000 of annual sales.

You can still voluntarily register for GST under this limit – especially worthwhile if you expect costs to exceed income initially, resulting in GST refund claims.

Livestock Values

2009 Herd Scheme (Market Values) of Dairy Stock crashed from the high of 2008 levels – it was the return of Beef Cattle and Sheep to record increases.

Examples from 2009 (HS) Values

		$	Value decrease/increase Dr Cr
Dairy (Friesian)	Cows	1312	- 838
	R2 yr Heifers	1083	- 773
	R1 yr Heifers	511	- 526
Beef	Cows	770	+ 132
	R2 yr Heifers	663	116
	R1 yr Heifers	429	96
Sheep	MA Ewes	99	+ 49
	2th Ewes	116	+ 56
	Ewe Lambs	94	+ 42

What values predicted for 2010?

Thanks to dismal meat values, in 2010, and lamb values back to 2008 levels, we expect

		+	-
Dairy Cows	1250		62
Beef Cows	800	30	
MA Ewes	88		11
Ewe Lambs	68		26

The NSC values (average cost of production) just announced reflect reductions, and Herd Scheme values we expect to follow these for 2010.

NSC Values		**2010**	**2009**
Sheep	Lambs	24.20	26.00
Dairy Cattle	1 yr Heifers	428.00	787.60
Beef Cattle	R1 yr	242.20	261.60
Deer	1 yr	78.30	91.80

Tax Working Group (TWG) final report and our comments

They have made 13 recommendations – in order:

1. *The company, top personal and trust tax rates should all be aligned to improve the system's integrity.*
2. *New Zealand's company tax rate needs to be competitive with other countries' company tax rates, particularly that in Australia.*
3. *The imputation system should be retained.*
4. *The top personal tax rates of 38% and 33% should be reduced as part of an alignment strategy and to better position the tax system for growth.*
5. *Base-broadening is required to address some of the existing biases in the tax system and to improve its efficiency and sustainability*
6. *Most members of the TWG have significant concerns over the practical challenges arising from a comprehensive CGT*
7. *The majority of the TWG support detailed consideration of taxing returns from capital invested in residential rental properties on the basis of a deemed notional return calculated using a risk-free rate.*
8. *Most members of the TWG support the introduction of a low-rate land tax as a means of funding other tax rate reductions.*
9. *The following targeted options for base-broadening should be considered for introduction relatively quickly:*
   - *i. Removing the 20% depreciation loading on new plant and equipment*
   - *ii. Removing tax depreciation on buildings (or certain categories of buildings) if empirical evidence shows that they do not depreciate in value*
   - *iii. Changing the thin capitalisation rules by lowering the safe harbour threshold to 60% or by reviewing the base for calculating this measure.*
10. *GST should continue to apply broadly. There should be no exemptions.*
11. *Most members of the Group consider that increasing the GST rate to 15% would have merit on efficiency grounds because it would result in reducing the taxation bias against saving and investment.*
12. *There should be a comprehensive review of welfare policy and how it interacts with the tax system, with an objective being to reduce high effective marginal tax rates.*
13. *Government should introduce institutional arrangements to ensure there is a stronger focus on achieving and sustaining efficiency, fairness, coherence and integrity of the tax system when tax changes are proposed.*

Our bets for the final tax choices will be:

1 A GST increase to 15%.

2 A further drop in low income rates, to compensate, OR nil tax up to say $10,000 of income.

3 No depreciation claims on buildings and reduced rates for vehicles, plant.
This will reduce dividends paid by property owning companies, and their share values – and tax losses reduced for residential property owners, causing reduced sale values, when landlords try to reduce property ownership, or more rental increases for tenants.

4 A land tax, of say 0.5% of land values, with exceptions for your own occupied residence or farm, up to a certain maximum value. Easy to collect by IRD, or rating councils, and unavoidable.

Commercial leases will need to change to load this tax onto tenants – old leases, with no clause for this recovery, will lower the sale value of these buildings.

The IRD wins annually with no tax rebate for inflation, ie commercial building – cost in 1990 $300,000

Depreciated at 2% pa = 6000 x 20 =	$120,000
Cost to build in 2010 =	$950,000
Sale value now	$900,000
<u>Taxable</u> Depreciation Recovery	<u>$120,000</u>

Tax pay	Company	- 30%	$36,000
	Trust	- 33%	$40,000
	Individual	- 38%	$45,600

If the $6000 depreciation is reduced to nil, each year's tax will increase –

Company	$1800
Trust	$2000
Individual	$2280

- but NO final recovery on sale.

5 Trust rate aligned to company of 30% (a maybe), and perhaps a drop in personal tax rates to the same rate (from 38%).

The double charge of nil depreciation and a Land Tax would have an immediate reduction in rental house prices – a 1% land tax would cause a 17% price reduction, and if phased in over 20 years – an 11.5% reduction.

The average land value for residential property is NZ$215,000 – or $2150 if a 1% land tax cost.

A 1% rate is expected to raise NZ$4.6 billion, equivalent to 20% of income tax.

We await with interest the Government final decisions, expected in May 2010 budget.

Addendum *– We got it all right except for Land Tax!*

Current Tax Avoidance

IRD have efficient systems in place to check on property traders.

IRD has identified 2,000 people who have bought and sold six or more properties over a period of four years. Of this group, 312 people appear to have bought and sold 20 or more properties (and should therefore have paid tax on trading profits) and owe up to NZ$214 million in tax.

There is another 5,112 people who have bought and sold three to five properties during the same period.

IRD has asked for more funding, from June 2010 as they can prove they raise $400 million extra tax, from $100 million they have spent.

Tax avoiders – and evaders – beware!!

Legal fees

To apply for the 2009/2010 financial year. All business related legal expenditure up to $10,000 is now fully deductible.

If, however, the legal expenditure exceeds $10,000 then normal tax rules will apply and capital and revenue amounts must be separately identified for the full amount of the legal fees.

Low value trading stock on hand

Where the reasonable estimate of the true value of closing stock is less than $10,000 and turnover does not exceed $1.3m the value of opening and closing stock can be the same
ie a stocktake is not required at balance date.

IRD Interest Charge (UOMI)

If full provisional tax is not paid in advance, as income is earned during the financial year, IRD have an interest charge (now 8.91%) on terminal tax, back dated to when each provisional tax should have been paid. It can be expensive with a large increase in taxable income.

Charged on all terminal tax for companies and trusts.

Individuals – a small concession from 2009/10, now on terminal tax from $50,000, replacing $35,000.

It is a smart move to advise us, to re-estimate your provisional tax when you know there has been a lift in taxable income – ie a commercial building has sold, with high depreciation recovery, or a legal claim of disputed income settled.

Tax Credits (Rebates)

Child rebates

For 2010 the rate of the tax credit reduces to 12.5% and the maximum credit reduces to $292.50. This is to align the credit with lower tax rates.

A child can earn $2340 ($45/week) (not including interest and dividends) a year tax-free.

Very effective to pay your children this as wages – up to 16 years for assistance, like farm help.

Independent Earner Tax Credit (IETC)

- This is worth a maximum of $520 per year for 2010, ie $10 per week – per child.
- The $520 is claimable for income between $24000 and $44000.
- For those earning over $44000 the credit reduces by 13¢ for each additional dollar earned and ceases at earnings of $48000.
- In 2011 the IETC will increase to a maximum of $15 per week (or $780).
- If the individual works for salary and wages they will receive the IETC through reduced PAYE. To do this they will need to choose a new tax code – either ME or MESL (if they have a student loan) by completing a new tax code declaration form (IR330).
- If self-employed, we claim the IETC when we calculate your tax payable.

IRD Tax Penalties – how to reduce these

These are:
1% late payment penalty, starts the day after due date.
4% further penalty if unpaid seven days later.
Every month, an extra 1% charged.
Interest is charged on amounts over $100.

Late filing penalties, for income tax returns, Employer Monthly Schedule (PAYE) and GST returns –
$50 - $500, depending on your net income.
$250 for late PAYE Monthly Schedule.

How to reduce these:

(a) Ask for an extension of time – phone 0800 377 771 – or write to IRD.
(b) Apply for penalty remission over the phone or in writing, after paying the tax. There must be a reasonable cause.
(c) Ask for an instalment arrangement – by phone, or writing – before the tax is due.

If you keep the monthly payments, the only charge is the initial 1%.

Associated Persons

New rules to define associated persons came into force from 6 October 2009 and are contained in subpart YB of the Income Tax Act 2007. They result in a substantial expression of the associated persons rules as they apply to the taxation of land transactions.

These new and much wider associated persons rules are very wide reaching and result in full tax liability of what were previously capital gains, especially for land sales.

Our full analysis of this tax change is available from us on request – a must before you plan your land sales.

Our partners and staff team

	Years of Service
Simon Withers	42
Grant Blackbourn	23
Grant Dixon	23
Cheryl Edwards	14
Lynley Preston	9
Sue Pallett	36
Davina Connolly	13
Mina Sharp	11
Jenni Vipond	20
Sue Bigwood	8
Gemma Barton	5
Krissy Letcher	2

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