

2013
BUDGET

TAXTALK

Focus on Budget 2013

The newly announced Budget 2013 continues the Government's focus on further strengthening the tax system and improving public services to help provide an environment that supports business.

One key feature of the 2013 budget is the large Government investments from the "Future Investment Fund".

This fund was formed with capital raised through the sale of shares in Government-owned companies. The money will mainly be used for the Canterbury rebuild project. The total capital cost of the Canterbury Earthquake is now estimated at \$40 billion, a huge amount of money for a small economy like NZ.

Tax reform of major consequence did not form a significant part of this year's budget. Instead, there are only a few comparatively minor adjustments that have been signalled.

To help encourage and make it easier for internationally competitive businesses, the government has signalled:

- a proposal to allow tax losses arising from research and development (R & D) expenditure to be refunded, up to a certain limit
- a proposal to provide tax relief for specific areas of "black hole" expenditure
- proposed changes to the thin capitalisation rules to overcome structures that are not currently caught by the rules, and
- a proposal to clarify the "date of acquisition" of land with regard to taxpayers who acquire land to re-sell it.

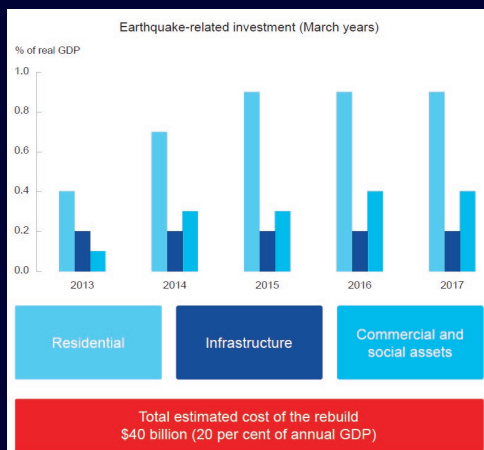
The "black hole" expenditure refers to parts of the cost of Intellectual Property, Resource Consents and Company administration costs. This mainly clears up areas that have been confusing in the past and adds a few new benefits for businesses.

The proposed changes to the "thin capitalisation" rules is to "help to ensure that multinational companies investing in New Zealand contribute their fair share of tax."

Continued on Page 2...

in this issue >>>

- Focus on Budget 2013
- Paying bonuses and deducting the right amount of tax
- Redundancy Decisions
- Using your own vehicle for your business



Focus on Budget 2013 *Continued from Page 1...*

Taxation of property investments

The government is still obviously sure that the property investment sector still includes a significant group of people who aren't aware of their tax obligations or choose not to comply with them.

The budget provides a permanent \$6.65 million increase in annual funding for Inland Revenue to pursue property investment tax compliance, which is expected to return about \$45 million a year, Revenue Minister Peter Dunne has said. This additional funding will begin in the 2014/15 financial year.

Cuts to ACC Levies

ACC levies add another 1.7% to personal tax rates and yet they are an often overlooked cost for households and businesses. They also add couple hundred dollars to annual motor vehicle registration.

The minister, in delivering the budget speech, told us that "The government is now satisfied there is scope for significant and sustainable reductions in ACC levies." The allowance has been made for a reduction of around \$300 million in the 2014/15, increasing to a reduction of around \$1 billion in 2015/16.

This will be a welcomed across the board and follows the \$630 million reduction in levies for households and businesses in 2012/13.

Tax losses for R & D expenditure

The Government proposes to allow losses arising from R & D expenditure to be refunded to the taxpayer up to a certain, as yet undecided, limit. This proposal will be targeted at R & D intensive start-up firms. A public consultation paper will be released in June to refine the details of this proposal.

The Minister of Revenue, Peter Dunne, explains; "Small, innovative businesses that invest heavily in research and development are doing the right thing and we want more of

them. However, that expenditure can be crippling for small ventures, given their capital constraints. With this proposal, we are effectively recognising that and looking to make sure these small companies are not disadvantaged," he says.

'Black hole' expenditure

Relief is provided in the budget for certain types of 'black hole' expenditure. The two areas most likely to affect our clients are:

1. Immediate deductibility for capitalised expenditure on legal and administrative fees incurred in applying for a patent or plant variety rights, but where no depreciable asset is recognised for tax purposes.
2. Making expenditure immediately tax deductible if it is incurred on resource consent applications that are abandoned, rather than requiring the application to be lodged in order to be tax deductible.

Support for low-income families

Budget 2013 includes a number of initiatives for low-income families, including:

1. A white-ware procurement program to enable beneficiaries to purchase new appliances under warranty using Ministry of Social Development repayable grants,
2. exploring options for low- and no-interest loans through microfinancing. The Government wants to work in partnership with financial institutions and non-government organisations to explore alternative sources of finance for those on low incomes,
3. extra funding for Budgeting Services helping people to manage on low incomes,
4. \$100 million over three years for the *Warm Up New Zealand: Healthy Homes* program, for home insulation.

Redundancy Decisions

In the recent Court case of *Totara Hills Farm v Davidson*, the Court has found that although it is not for the Court to substitute its decision for that of the employer, the Court must determine whether what was done, and how it was done, were what a fair and reasonable employer could have done in all the circumstances at the time.

This necessarily requires an examination of the reasons and justification behind the restructure and if those reasons are found wanting the Court may determine the employer has acted unjustifiably, irrespective of whether the employee has established that the employer was motivated by ulterior factors. In the case of *Totara Hills*, Mr Davidson was employed as a manager. In 2010, the owner of the farm talked to staff about ways of reducing cost. The discussion arose as a result of several years of drought and poor prices. After a number of

meetings with staff, the employer decided to make one of the two managers redundant as a means to save cost. It was proposed to replace him with a junior shepherd.

Mr Davidson claimed his redundancy was unjustified because the real reasons behind it were performance concerns and his poor relationship with his employer.

The Court found that there was no evidence to support the alleged cost savings of 10% as a result of the redundancy. On that basis, the decision was held not to be fair and reasonable and accordingly, it was unjustified.

How it affects you

Make sure you give adequate consideration to your employment obligations if you are looking to make a staff member redundant. If unsure, please contact your advisor.

- From WHK's Sharp-As Tax

Paying bonuses and deducting the right amount of tax

Bonuses or lump sum payments can include annual or special bonuses, cashed-in annual leave, backpay and retiring or redundancy payments. Overtime or any regular payments aren't lump sum payments.

Follow these steps to find out what tax rate to use for a lump sum payment:

1. Work out what your employee has earned (before tax) over the past four weeks.
2. Multiply this figure by 13.
3. Add the lump sum payment to the figure in step 2.
4. Use the table below to work out what income bracket your employee is in.
5. Tax the lump sum payment at the tax rate shown in the right-hand column for that income bracket.

Income bracket	Tax rate to use (including ACC earners' levy)
\$14,000 or less	12.20%
From \$14,001 to \$48,000	19.20%
From \$48,001 to \$70,000	31.70%
Greater than \$70,000 but less than the ACC earners' levy maximum threshold to \$116,089 (for the 2014 tax year)	34.70%
Greater than \$116,089	33.00% (excludes ACC)

You can also apply the rate of PAYE at 34.70 cents in the dollar if the employee asks you to use this rate.

You will also need to calculate student loan, KiwiSaver employee deductions and KiwiSaver employer contributions on lump sum payments (where applicable to the employee). You don't pay ACC earners' levy on redundancy payments and retiring allowances. In these cases, you'll need to reduce the above rates by 1.70%. Redundancy payments and retiring allowances are exempt from KiwiSaver employee deductions and KiwiSaver employer contributions.

If you tax your employee using a secondary tax code (SB, S, SH or ST), you'll need to use a tax rate to allow for the low threshold limit applicable to that tax code.

question time >>

Q: Can I claim a Donation Rebate?

A: You might be able to...

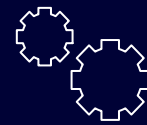
To be able to claim a Donation rebate you need to meet the following criteria:

1. Have made a Donation to Donee Organisation and hold a valid receipt from that organisation

2. Have had taxable income in the year you wish to make the rebate claim

Re the first point the IRD has a list of Donee Organisations on it's website for you to check to make sure that you are giving to a Donee Organisation. This is important as not all organisations you may donate money to have the required Donee status.

Re the second point, if you have made a loss or have losses carried forward so that your taxable income for the year is less than zero then you will not be able to claim a third back of donations made to donee organisations.



GST SOLUTIONS

Are you finding it a hassle to do your own GST Returns? We have a solution for you. We can save you time and money and a lot of stress by doing your GST returns for you.

Our services includes sending you a reminder letter when your GST return is due so that you can get your records to us in time and ensure your GST Return is filed on time in order to have you avoid being charged late penalties. Contact us today for more



WEB SOLUTIONS

Did you know that you can create your own on-line surveys for free? Go to www.surveymonkey.com and you will find you can create surveys which you can send to your customers to get feed-back from them. Customer feedback is very important for your business as it allows you to find out what your customers may think of your products or services. It also allows you to probe your customers for new ideas on what other types of products they may be looking for. It also gives your customers the opportunity to help you provide them better service by giving them a chance to tell you what they think of your business



PROHUB SOLUTIONS

Do you record all of the phone calls that come into your business? If you don't you should as often potential sales leads are lost due to simple forgetfulness to record an enquiry properly. You need a customer database where you can keep a record of all enquiries made and then make sure that each enquiry is allocated to a team member for further follow-up. Even if an enquiry is made that isn't a sales lead it's good to keep a record of it and so when you are looking back at a customer's contacts history you can see the reasons why they contacted your business. This allows you to tailor your sales approach to this customer based on what has happened in the past. Contact us today for more information on how this program could help your business

Using your own vehicle **for your business**

If you're a sole trader or in a partnership and you use your own vehicle in the business, you can claim the running costs for income tax

If you use your own vehicle for both personal and business use, you'll need to make an adjustment to claim the business-use portion for income tax. If you use the vehicle strictly for business only, you can claim the full running costs, without making any adjustments. If you use the vehicle to travel between home and work, or any personal travel, you'll need to separate the running costs of your vehicle between business and private use. There are three options you can use - a vehicle logbook, a set mileage rate or using the actual cost.

Logbook

If you decide to use a logbook, you must keep it for at least three months every three years to work out the business share of your running costs. You'll need to record the distance, date and reason for the trip in the logbook. You can use the difference between the odometer readings at the start and end of the three months to work out the percentage of vehicle expenses you can claim.

You can use the result of your three months' recording to claim the business share of your vehicle expenses over the next three years, provided your business use of the vehicle does not change by more than 20%.

You should still keep records of the total vehicle

running costs and record the total distance travelled for the income tax year.

Mileage Rates

Alternatively, if you travel 5,000 km or less for business use in an income year, you may use Inland Revenue's mileage rate of 77 cents a kilometre to make a claim on your vehicle.

Actual Expenditure

Instead of using the above mileage rate or logbook, you may claim deductions for the actual expenditure you incur. If you do this you must keep accurate records to work out the share of business use. Your records will need to show the reasons for the trip and the distance.

If you don't keep a vehicle logbook, qualify to use the mileage rate or maintain actual expenditure records, you may claim the lesser of actual use or 25% of the vehicle running costs as a business expense. You could be asked to prove the percentage claimed.

Note

When a company owns a car, it claims all the expenses without making a private-use adjustment. The company must pay fringe benefit tax if a vehicle is available for private use by employees or shareholder-employees.

Quick Quote

Driving a brand new car feels like driving around in an open billfold with the dollars flapping by your ears as they fly out the window.
~ Grey Livingston



Stephen Larsen and Co

TAX AND BUSINESS ACCOUNTANTS

Important: This is not advice. Clients should not act solely on the basis of the material contained in the Tax Talk Newsletter. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Tax Talk Newsletter is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.

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We care about your Business Prosperity