

## Autumn Wilco 2012

**Williamson & Co** *WOW!*  
**Chartered Accountants**  
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### Remuneration of shareholder employees

The *Penny and Hooper* decision is a landmark tax avoidance case that has implications for small businesses operating through a company or trust. Essentially, the Supreme Court decided in favour of Inland Revenue, concluding that setting artificially low salaries amounted to tax avoidance.

Penny and Hooper were two orthopaedic surgeons, each earning taxable income of between \$600k and \$850k a year. They restructured their businesses into companies with a family trust owning most of the shares. They provided their services to the companies in return for salaries of \$100k - \$120k each year. The balance of the company's income was declared as dividends to the family trust which the surgeons drew from regularly.

Each year tax of between \$20k and \$30k was saved by having the profits after salaries taxed at the trustee rate rather than at the surgeons' individual top personal tax rates. The court found these savings a 'more than merely incidental' reason for their low salaries.

The IRD has put businesses on alert and is actively reviewing those operating through a company or trust where the income



## Risk and Reward

is generated from services provided by an individual, and the individual's salary is unreasonably low. Although there may be good reasons for setting the salary low in a particular year, e.g. adverse business conditions, or a planned expansion of the business, in some cases the sole reason for the salary level is to take advantage of the lower tax rate that applies to companies.

The IRD is entitled to go back four years into a business' records, but have publicly confirmed that where a 'voluntary disclosure' is made, only the last two income tax returns will be reassessed. A voluntary disclosure might significantly reduce IRD penalties or avoid them entirely.

Whenever we're discussing your business we'll look at this for you. In the meantime, if you are concerned and would like to discuss this with us, please do contact us.

### ACC changes self-employed invoicing

ACC has recently changed the way it invoices self-employed clients with regard to their full or part-time status, dependent on whether you work 30 hours or more a week.

Information on your full or part-time status no longer flows through to ACC's database on the IRD IR3 form. If you held part-time status last year and this year your earnings crossed the threshold you will receive a letter from ACC automatically confirming your change to full-time status. In all other scenarios it is up to you to formally confirm a change of status with ACC.

It would pay to check your invoice this year and call us if there's any confusion. Clients could get stung, for instance, if they have been paying levies on the basis of part-time status, have an accident, and then declare full-time status. In such a case ACC may query it and can backdate levies up to four years.

We provide an ongoing ACC administration and advisory service to our clients on an agreed annual fee basis. Being recognised by ACC as your online agent gives us secure online access to your levy information, your cover status and invoices, allowing us to



work directly with ACC. A simple signed authority from you and we'd be happy to review your cover structure and premiums, to ensure your cover is appropriate and levies are minimised.

# Tax Talk

## Working For Families

From April 1 2012 many of the small changes to Working For Families signalled last year come into effect:

- The family tax credit amount for children under 16 will rise for inflation:

Qualifying Child	Current amount	New amount
First child under 16	\$4,578	<b>\$4,822</b>
Second child if under 13	\$3,182	<b>\$3,351</b>
Second child if 13 - 15	\$3,629	<b>\$3,822</b>

- The net income level guaranteed by the minimum family tax credit will rise from \$22,204 to \$22,568
- The abatement rate will increase from 20 to 21.25 cents in the dollar
- The abatement threshold will decrease from \$36,827 to \$36,350

## KiwiSaver

As of 1 April 2012 employer contributions will no longer be tax free. Employer Superannuation Contribution Tax will apply at the employee's marginal tax rate.

## Minimum wage

As of 1 April 2012 the minimum wage will increase from \$13.00 per hour to \$13.50 per hour.

Training and new entrants' minimum wages will increase from \$10.40 to \$10.80 - 80 percent of the adult minimum wage.

## New GST rules for multi-use assets

New rules came into effect 1 April last year replacing the old change-in-use rules by apportioning input tax deductions in line with the actual use of the goods and services. As the 2012 financial year closes, the new rules will be applied for goods and services acquired on or after 1 April 2011. In subsequent periods, when a change to the actual taxable use occurs, from what was first intended, a GST adjustment within an adjustment period must be made (a number of exemptions may apply).

There is a maximum number of adjustment periods according to the asset's value or estimated useful life and special 'wash-up' rules apply when goods and services that have been subject to the apportionment rules are sold or the person deregisters.



## Tax pooling

You can easily save more than 25% of IRD's interest cost on your provisional tax. All with the seal of approval of the IRD.

If you don't pay the correct amount of tax on time the IRD charge you interest. The current rate is 8.89%.

Tax pooling is a service introduced by Inland Revenue in 2003 that allows provisional taxpayers to reduce their exposure to IRD interest costs.

**How it works:** When we have finished your income tax return, we will inform you whether you owe any further tax to IRD. In many cases, you will also owe IRD interest.

Tax pooling allows you to buy tax credits that other taxpayers do not need. These tax credits have already been paid to IRD, but through the tax pool can be transferred from the seller to you. The cost of buying those credits is substantially less than paying IRD interest.

The table below shows the savings you can make on 2011 underpaid provisional tax if purchased in March 2012.

Underpaid Provisional Tax	Estimated Savings
\$10,000	\$268
\$20,000	\$536
\$30,000	\$803
\$50,000	\$1,338
\$100,000	\$2,675

We can quickly arrange a tax purchase on your behalf as we work closely with NZ's leading tax pooling company, Tax Management NZ. They've assisted thousands of NZ companies and individual provisional taxpayers in saving money.



*Death and taxes may be inevitable, but they shouldn't be related. J.C. Watts, Jr.*

## ✓ Financial New Year Checklist!

## Business Perspective

Take the time to consider ways to minimise tax and maximise cash surpluses for the coming year.

### Will the company make a loss?

File loss offset elections and make subvention payments for the 2011 income year by 31 March 2012.

### Can you pre-pay expenses?

Many items can be prepaid and claimed as a tax deduction in the year to 31 March 2012.

### Are you committed to employee expenses?

Amounts owing for holiday pay, bonuses, redundancy payments, long service leave etc. can be claimed, if the employer is committed to them at year end and they're paid within 63 days.

### Have you scheduled a stock take?

Dispose of obsolete trading stock by 31 March or alternatively write it down to its net realisable value, the lesser of cost or market value.

### Have you reviewed fixed assets?

If you have assets no longer in use, the book value can be written off - provided the cost of disposal is expected to outweigh the proceeds from its sale, e.g. the keyboard you spilt coffee on.

### Are repairs and maintenance due?

Consider undertaking repairs and maintenance to key assets before 31 March to ensure a full tax deduction.

### Do you discount for prompt payment?

You may claim deductions for a discount reserve. In the first year a deduction for the actual discount percentage is allowed. Subsequently the amount is calculated at a percentage level. Different rules apply if credit extended to customers exceeds 93 days.

### Have you talked to us about the ICA and dividends?

The imputation credit account must balance so there is no debit balance at year end. If you have imputation debit balance, we'll contact you to discuss further.

### Have you reviewed your debtors' ledger?

To claim a deduction you need to physically write off bad debts in your debtors' ledger before 31 March. You must have taken reasonable steps to recover the debt first.

### Have you reviewed all contracts?

Have you invoiced retentions that are not due and payable for another year? If they are payable in the current year they need to be declared as income but if not, the income will be deferred to a subsequent year.

### Have you reviewed all credit notes?

Review credit notes issued to customers after 31 March which might be applied to the previous year, potentially reducing the current year's taxable income.

## Get your docs in a row...

We aim to prepare your financial statements and tax returns in good time. To do this we need your completed annual questionnaires with full supporting documentation. Minimise costly delays by keeping in mind likely supporting documents for:

- ✓ **New Bank Loans**, balance outstanding at year end, security, interest rate, loan term
- ✓ **Fresh Hire Purchases Items**, interest rate, term and repayment plan
- ✓ **Vehicle/Plant & equipment purchases**, agreements. Was finance obtained?
- ✓ **Closing Stock and WIP (Work in Progress)**. Stock on hand at year end? Any un-billed work in progress?
- ✓ **Income**, include details of Wage or Employer Subsidies, additional income as defined for Working for Families

- ✓ **Bank Statements**. If you use MYOB or a similar system, copies of final bank and credit card statements let us check the reconciled balance
- ✓ **Property/Business Sales/Purchases**, agreements and settlement statements
- ✓ **Debtors and Creditors**. What is owed **by** or **to** your business, including whether amounts are GST inclusive or exclusive?
- ✓ **Donations/school fees?** Receipts needed please
- ✓ **Interest, dividends and rebates?** Provide details



# Human Resources

## Workplace Bullying

Everyone has a responsibility to create a safe environment and be treated fairly and with respect.

The cost to a business of Workplace Bullying can be insurmountable. Frequent cases in NZ have repeatedly shown that the response of the employee who is being bullied is usually to shut down, stop communicating, and appear unhappy in their work creating reduced productivity.

### Workplace Harassment is a Health & Safety issue

Harassment is regarded as a significant health and safety risk because it has the potential to cause harm. It can undermine the employer/employee relationship and damage trust and confidence. Health and Safety legislation has long required employers systematically to identify hazards in the working environment. Bullying and harassment are stressors that can lead to reports of stress, and may constitute hazards under the Health and Safety in Employment Act 1992. Failure to take all practical steps to manage stress in the workplace leaves the employer susceptible to prosecution or other action under the Act.

### Keep a record

If you are being subjected to harassment or bullying, it is advised that you keep a record of incidents you find offensive. It is a good idea to note down what was said and/or done, when and where it happened, the name of anyone else who was around at the time and the effect it had on you.

Talk it over with someone you trust who will keep it confidential. This may help you clarify a best course of action. You could also confront the person who is harassing you and ask them to stop, or you will complain.

If it is confirmed there is Harassment occurring, a full investigation is required to ensure all parties involved are given a fair hearing.

There are several elements that have to be present to be considered Harassment under the Human Rights Act, including :

1. The behaviour is **Unwelcome**
2. The behaviour is **Repetitive**
3. The behaviour is **Significant** enough to cause *detriment*

### Responsibilities as an Employer:

Be sure to check that you have a clause in your Individual Employment Contracts that covers harassment. It is also advised that you have or introduce an Anti-Harassment Policy in your workplace.

For assistance with this or any other Human Resources topic, call Brenda on (09) 237 0021.

## Williamson & Co New Staff Placements



We are pleased to welcome the following new staff members:

- Ann-Maree Kingi – Senior Accountant. Ann-Maree has recently made the move to Pukekohe from the Bay of Islands. She looks forward to becoming a qualified Chartered Accountant in the near future.
- Paul Holland – Junior Accounting Technician. Paul has finished his studies and is here to test the waters practising Accounting.
- Dee McFarlane – Data Processing/IT Team Member. Dee has come on board to support our Accounting Team and take over from Wendy when she goes on Maternity Leave in April.

All of our other Staff continue to provide you with their expert knowledge as usual and look forward to assisting in the new Financial year.

## OFFICE OPEN

The Williamson & Co office at 42 Ormiston Road, East Tamaki will now be open Monday – Friday 9am – 4.30pm.

### Disclaimer:

*This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.*

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# WOW!

## Williamson & Co.

# Client Networking Opportunities:



Welcome to MacWeld, a family run business in Drury that prides its self in providing our customers with quality service and products that are finished to the highest standard.

The two owners of the company David and Jason have been working on creating a business that can be your one stop shop for all repairs and new fabrications but at the same time doing our best to exceed our customer's expectations on quality, price and our ability to finish jobs on time.

To achieve and maintain this high standard we have split our shop into two divisions.

One that concentrates on the repair and reclaim of broken or worn out parts and one that concentrates on working with our customers to help design and build new fabrications. Our repair shop has a growing reputation for being one of the best in the business for repairing anything from damage to alloy boats right through to reclaiming bearing and seal diameters on various shafts and housings.

We are particularly proud of our alloy wheel repair shop. It has grown a lot since we first opened and we are constantly amazing people with how good our repairs are and how competitive our pricing is. It's great to be able to tell a customer that just because their wheel is cracked or dented doesn't mean that it is unrepairable.

Our new fabrication shop has done a great job of putting together a group of guys with a broad range of skills so we can become our customers first and last stop for all fabrications. Our guys can do anything from structural steel, stainless handrails, right through to flashings, pool fences and gates.

Here at MacWeld we have done our best to strengthen all of our operations equally, so that in addition to using qualified staff and the latest equipment, we have kept well structured management and production processes.

If there is a project you are looking at getting done please feel free to contact us. Whether it be for a quote or just some advice on how to tackle your job.



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