Gyde Wansbone
Chartered Accountants Limited

Trial Balance

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NZ CA
An Association of Independent Chartered Accountants

Minimum Wage to Increase

RECENTLY THE Government has announced that the minimum adult and youth wage rates are to increase.

Effective from 1 April 2007 the adult rate (which affects anyone 18 years of age and over) will increase to $11.25 per hour – up from $10.25. The youth rate will increase to $9.00 per hour, this applies to workers who are 16 and 17 years of age.

The minimum wage rates are reviewed annually by the Minister of Labour, who aims to have the minimum adult wage at $12.00 per hour by 2008.

Note that if you have an employee in an industry recognised training programme, in most cases they are exempt from the minimum adult wage rate (if over the age of 18).

Source : Prince & Partners RSM

Delight the Customer

A CLIENT CONTACTED Amazon and purchased a book. It was to be sent by fast mail and would take two or three days. The book took two weeks to arrive. The client contacted Amazon and complained. Without hesitation, the company apologised and cancelled all charges. He thinks Amazon is wonderful and is telling his friends about the excellent way they handled his complaint. If you mess things up, make sure your customer is *delighted* with the way you handle the situation. Be generous.

Should Employees Get A "Share" in the Business?

THAT IS A QUESTION that is often asked – usually when a business is doing well, and employers would like to reward some key staff members for their efforts in contributing to the business' success.

The most common scenario is for a company to allow employees to have equity shares in the company. An employee share scheme ("employee scheme") that is structured properly can have benefits for both the company and staff.

An employee scheme can provide employees with a sense of ownership and also engender a feeling that their efforts have a direct correlation with the outcomes of the business. Such schemes are seen as a good way to retain key staff. An employee scheme can also be used as an incentive to attract new employees who may be looking for a more stable future and career. The opportunity to participate in an employee scheme could be seen as an investment in their future.

Companies can also use employee schemes to boost a remuneration package, or link directly to performance measures.

One of the things that employers will need to consider is whether the employee scheme is open to all staff, or for selected staff only.

On the downside for employees is the possibility that their equity in the company may be affected if the company suffers downturns, regardless of whether those downturns are within or outside the control of the company.

This, of course, could be seen as a normal risk of participating in business. The employer should note that there are various set-up and administration costs to consider, including compliance costs to meet requirements under the Securities legislation.

Before employers embark on such a scheme, there are various issues that require consideration, for example:

- Legal requirements, including those under the Securities legislation;
- Tax implications of the scheme for both the company and employees;
- The possible need to create another class of employee shares;
- The proportion of the company that will be held by staff;
- The voting rights attached to the shares issued under the employee scheme;
- The transferability of the shares.

The issues for consideration are important, but the need to consider them should not deter employers, if such a scheme will be advantageous to the business.

The most important point is that employers should approach this with a clear idea of what the scheme is meant to achieve and how it will fit in with the business' objectives.

Take Director Responsibilities Seriously

AN ASPECT OF owning and operating a business that is often not given enough attention by those engaged in a small business is the legal responsibilities of being a director.

These legal responsibilities fall into two distinct categories.

The first is the ongoing cycle of records, registers and returns that must be supplied to various Government agencies, and many directors involve their accountants in keeping these up to date. Providing you are methodical in processing this data, meeting this responsibility will be relatively routine and should not be seen as a major issue.

Of more potential concern is complying with your legal duties as a director. Regardless of whether you take an active interest in the day-to-day affairs of the company, if you are named as a director you run the risk of being held accountable, either by the Government agencies, creditors or shareholders if the company fails to meet its responsibilities. In some circumstances, a director can be personally liable to creditors.

Duties all directors should have a working understanding of:

Duty of Good Faith

It is a director's responsibility to act in the best interests of all shareholders. If a conflict of interest arises in terms of the company and your personal position, at the very minimum you should ensure that the minutes of the meeting record you have acknowledged the conflict of interest. It would not be unusual for a director to abstain from participating and voting on such a topic (with the abstention being noted in the minute book).

Duty to avoid reckless trading

You are not permitted to continue to incur debt, take on projects or trade if there is a real possibility that in doing so you will cause others to lose money. There is a fine line between attempting to trade your way out of difficulty or temporary cash flow challenges, and an unwillingness to face up to reality. In such circumstances the early involvement of professional assistance is imperative.

Duty of care, diligence and skill

While something of a grey area, the general rule of thumb is that you are expected to apply the care, diligence and skill that can be reasonably expected of a person of your experience and expertise. This will differ widely between individuals, and whether you sought or followed expert advice.

Source: Campbell Tyson Cooper White Limited

KiwiSaver Act 2006

THE KIWISAVER ACT 2006 is a significant new development for employers and employees because it introduces a new voluntary work-based savings scheme. The KiwiSaver scheme comes into effect on 1 July 2007 and will be facilitated principally through the workplace.

All employers have to offer access to a KiwiSaver scheme to all new employees. Contributions are deducted from the employee's pay and passed to the Inland Revenue Department (IRD) through the PAYE system, which allocates it to the nominated KiwiSaver scheme.

Overview of how KiwiSaver 2006 works

- KiwiSaver is open to all New Zealand residents who are under the age of eligibility for New Zealand Superannuation (currently 65 years).
- Members contribute either 4% or 8% of their salary each pay period, with contributions being "locked in" until retirement unless there is serious financial hardship, serious illness, or permanent emigration.
- Employers can voluntarily make contributions on behalf of employees. These contributions can count towards the employees minimum contribution of 4%.
- An employer's contributions to a KiwiSaver scheme or to an approved super scheme on behalf of an employee will be exempt from specified superannuation contribution withholding tax up to a maximum of 4% of the employee's salary or wages.
- New employees are auto-matically enrolled, and the employer is responsible for deducting the employee's contributions via the PAYE system. New employees will have eight weeks to decide if KiwiSaver is right for them. If they decide to opt out, they will need to fill in the opt out form in the information pack you give them. Alternatively, they will be able to opt out on the KiwiSaver website from July 2007.
- Current employees may elect to join KiwiSaver.
- Self employed people can also join but they need to make payments directly to Inland Revenue for their scheme.
- After three years in the scheme, first home buyers may be able to make a one-off withdrawal, subject to certain criteria.
- After 12 months of contributions, all individuals can stop contributions for up to five years at a time ("contributions holiday").
- If the scheme provider offers mortgage diversion, up to half of the member's contributions (but not any employer or government contributions) may be diverted to repay a mortgage over the employee's own family home after 12 months of contributions.
- The Government will contribute $1,000 to every member, which is locked in until retirement.

Employers With Existing Superannuation Schemes

IF YOU ARE an employer who already offers access to a registered superannuation scheme, you and your scheme trustees may want to give some thought to the impact of KiwiSaver.

There are several options you can choose from:

- Convert your existing scheme to a KiwiSaver scheme.
- Add KiwiSaver to your existing scheme.
- Establish a KiwiSaver scheme under an umbrella trust deed.
- Apply for an exemption from the automatic enrolment requirements of KiwiSaver because you offer membership of another superannuation scheme.

Employer contributions to other registered superannuation schemes that meets IRD approval will also be exempt from SSCWT.

Source : Prince & Partners RSM

Considering Year End Tax Implications

THERE ARE A NUMBER of issues that need to be considered when preparing year end financial statements. The timing and treatment of certain expense items can have tax implications, and in some cases the accounting treatments applied can result in tax efficiencies.

Typically accountants, in conjunction with the business owners, need to consider the treatment of certain expenditure in particular whether it can be brought forward into the current period. The general rule is that business expenditure is deductible in the tax year that it is incurred.

Repairs and Maintenance

If carried out before year end then the amount will be deductible in the current year.

The total cost of a service contract is deductible if it has less than three months to run at balance date and costs less than $23,000 for a full year.

If purchasing a fixed asset and there is a warranty or service contract, ensure the warranty or service contract is separately identified, as these are deductible.

Stationery

If re-stocking is about to occur in April or May, consider moving this forward to March.

Travel and Accommodation

Advance bookings for business related travel and hotel or motel accommodation are deductible provided it is not more than six months in advance and does not exceed $12,000.

Subscriptions

Newspapers, journals and periodicals are deductible without adding back unexpired amounts. Association memberships are tax deductible provided they extend no more than 12 months after balance date and the subscription does not exceed $6,000.

Insurance

Insurance premiums are deductible provided they are not prepaid for more than 12 months and the total amount of such expenditure incurred in the income year in respect of the contract does not exceed $12,000.

Advertising

If the period of the advertising relates to no more than six months after balance date and the advance portion is less than $12,000, then it is fully deductible in the current year.

Rent

Prepaid rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than $23,000.

Consumables

Consumables used in conjunction with but not forming part of the final product can be deducted in the year of purchase, provided total stocks at year end do not exceed $58,000.

Warranty and Discount Provisions

If warranty income is received, the unexpired portion can be deferred. If prompt payment discount is offered to debtors, then a provision for the potential discount can be made and claimed at balance date.

Leave Provisions/ Bonuses

Amounts owing at balance date for holiday pay and long service leave is only deductible if paid out within 63 days of year end. If you want to pay staff bonuses relating to the 2007 year, they must be paid within 63 days of the business's tax balance date to be claimable for that year.

Bad Debts

Bad debts are deductible, but only in the year that they are written off. Bad Debts must be written off before balance date.

Other Items to Consider at Balance Date:

Accounts Receivable

Every year we have clients who do not understand they must pay tax on all their earnings, including money not yet received. April invoices for March work are part of March year-end income.

Use of Money Interest

If you expect your business income, after deducting expenses, will exceed $112,000, you might have to pay Use of Money Interest (UOMI). Ring us now if you have not previously been affected by UOMI.

Stock and Work in Progress

You must count and value your trading stock at balance date, unless it is less than $5000. Keep your stock sheets to show Inland Revenue if they ask for them. Dispose of dead stock now as it must be valued at its cost, unless you can prove it has a lower market price. A guess is not acceptable. You have to find evidence to support the price. This can be difficult. Work in progress must be valued unless your business is only providing services which cannot yet be billed.

Company Dividends

If you plan to pay a company dividend, you might be able to get a tax refund for a person whose income is less than $38,000, if the dividend is declared by 31 March. If a family trust owns shares, you might be able to allocate the dividend to a low-income member of the family. The law is complicated, so check with us.

Annual Holidays – Four Weeks

THE MAJORITY OF the Holidays Act came into force on 1 April 2004. However, from 1 April 2007 all employees will become eligible for four weeks annual holidays on the date they next become entitled to annual holidays.

This is a minimum entitlement and will not mean that all employees who currently have four or more weeks' annual holidays will qualify for an extra week. Whether the employee will receive an additional week above the minimum requirement is a matter for negotiation between the employer and the employee.

An employee who finishes with their employer after 1 April 2007, but before their next entitlement date, will be entitled to the following:

Payment for any annual holidays that may have previously accrued at the greater of average or ordinary earnings; and

Payment at 8% of gross earnings for the period between the last time they became entitled to annual holidays and their termination date.

Employers need to plan ahead to determine how the introduction of four weeks annual holiday will impact on their business.

Source : Prince & Partners RSM

Australian Temporary Residents Exemption

AUSTRALIA HAS RECENTLY introduced a tax break for Australian temporary residents who will now be exempt from Australian tax on most of their foreign sourced income, except for employment income or income relating to services the residents have performed. Temporary residents will also be exempt from Australian capital gains tax relating to foreign sourced capital gains.

A temporary resident is an individual who enters Australia under a temporary visa granted under the Australian Migration Act 1958 (a special category visa holder), is not an Australian resident, and does not receive any benefit under the Social Security Act.

A New Zealander who resides temporarily in Australia but is not an Australian citizen and does not hold a permanent visa will generally qualify as a temporary resident. Therefore, as long as the individual has not lived in Australia before 26 February 2001 and does not receive social security payments, the individual will qualify as a special category visa holder.

We understand that in most cases a New Zealand citizen is automatically granted a special category visa when they enter Australia on a valid New Zealand passport.

What this means is that New Zealanders can remain in Australia on a special category visa for a number of years and enjoy the tax benefits of being a temporary resident which present them with the opportunity to leave non-Australian assets outside the Australian capital gains tax net.

The recent change will impact on what outbound New Zealanders can or should do with New Zealand trusts of which the individuals may be settlors, trustees or beneficiaries.

The Australian resident trust estate/transferor trust rules are notoriously complex, and various exemptions may or may not apply. It should be possible to structure the trust so that it is outside the Australian trust taxation net whilst the individuals are Australian temporary residents. We do however recommend consultation with New Zealand and Australian tax specialists, as each trust situation needs to be considered on its own facts.

Source: NSA Limited

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NZ CA Limited is an association of independent chartered accountants' practices with members located throughout New Zealand. There are 27 firms practising in 37 locations.

NZ CA members have agreed to co-operate together to develop a national working relationship. Membership enables firms to access one another's skills and information whilst maintaining client confidentiality.

NZ CA Limited is associated with NZ LAW Limited, an association of independent legal practices. NZ LAW has 52 member firms practising in 76 locations throughout the country.

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He Wrote It Down

OTTO LOEWI had an amazing dream. He woke in the middle of the night and immediately wrote a description of his vision. In the morning he could not read his writing and spent all day trying to decipher it. Luck was with him. The dream came again the next night, but this time instead of trying to record the event he went straight to his laboratory and did the experiment. He had discovered that chemicals are responsible for transferring information between nerve endings. He was awarded the 1936 Nobel Prize. If you have a good idea, write it down NOW. But make sure you can read it. You might not have the luck of Otto Loewi.

Changes in Particulars

Please remember to let us know of any changes in:
* Physical address * E-mail address * Phone and/or fax numbers * Shareholdings * Directorships * Trustees
Or anything else that may be relevant.

Disclaimer