

CHARTERED ACCOUNTANTS

SEASONS GREETINGS

The Principals and the team at YRW take this opportunity to extend Christmas Greetings to our clients and business associates, with best wishes for a happy holiday season and a prosperous New Year.

Our office hours over the festive season will be as follows:

Closing **Thursday 23rd December** at Midday

Opening **Wednesday 12th January** (skeleton staff)

Monday 17th January (all staff)

If you have a situation arise during the holiday period that needs our immediate attention, please call

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Principal

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THE LAQC IS DEAD. LONG LIVE THE LTC?



You will recall from budget night back in May that reforms to the LAQC regime were to take place. Finally, details of the changes have been released that will see the end of LAQC's and the introduction of yet another new entity type – the LTC or Look-Through Company.

Briefly, a LTC is taxed as a transparent entity. That is, income, expenses, tax credits, rebates, gains and losses are all flowed through to the shareholder's personal tax return, in proportion to their shareholding and, where assessable, taxed at the shareholder's own marginal tax rate.

Government introduced this change after expressing concern the LAQC regime in some cases allowed losses to enjoy a higher marginal tax rate than profits. To address this situation, as from the 1 April next year, LAQC's will no longer exist and taxpayers will need to consider a number of alternatives. These are;

1. Continue as a QC (Qualifying Company)
2. Elect to be taxed as an ordinary Company
3. Restructure to become a Limited Partnership, ordinary Partnership or Sole Trader.
4. Elect to become a LTC (Look-Through Company)

Continuing as a QC is the default position if you make no other election. Effectively, you still get to utilise all of the provisions of the LAQC regime except that you can no longer attribute losses. This means capital gains can still be distributed through tax exempt dividends, however, it should also be noted that Government is undertaking a review of the dividend rules.

Alternatively, you could elect to become an ordinary Company by revoking your LAQC election. You would then be able to take advantage of the 28% Company tax rate and any new losses would be used by the Company rather than the shareholders. All dividends would then be taxable to shareholders, including those declared from

"In respect of restructuring, special rules will be introduced to allow you to transition into a limited partnership, partnership, or sole trader without tax cost such as that arising from depreciation recovery being triggered."

capital gains. From then on the only way to extract capital gains tax free would be to liquidate the Company, which can be problematic in some instances.

Electing to become a LTC allows losses to again be passed to its shareholders. But there are important distinctions to the current LAQC model to first consider before choosing this path. Of important note are;

1. Loss limitation rules are introduced to prevent tax losses being claimed in excess of a shareholders economic loss. While in most cases this is unlikely to be an issue, the compliance involved in demonstrating this by annually tracking the 'membership basis' is likely to add costs.
2. If LTC status is lost through a breach of the eligibility criteria, there is a stand down period of two years

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before it can again use the LTC rules. LAQC's had a one year stand down period.

3. Losing LTC status will trigger depreciation recovery, which is not the case for LAQC's.
4. The rules surrounding allocation of shareholder salaries have been tightened to include the need for a formal contract and deduction of PAYE.
5. One positive to the LTC model is that Trustees are not obligated to allocate LTC income as beneficiary income. Therefore, Trusts are now more likely to be included as shareholders.

If the LTC model doesn't appeal and QC's don't allow attribution of losses, restructuring to one of the alternative entities may provide the best answer. However, this could involve selling properties and/or other assets, re-documenting mortgages, factoring in any cost of breaking fixed rate loan

agreements and ensuring the Company is non-active, all within the transition year. Transition is therefore likely to be both complex and costly.

Where LAQC's have been used for property ownership, don't forget with the removal of depreciation on buildings, many Companies will transition from a tax loss to profit, and current shareholding arrangements may be less tax effective.

Given all the complexities outlined, careful consideration of your particular situation is required. To obtain the best solution, you will need to consult and involve both your lawyer and ourselves well before 1 April. We will be communicating directly with all our clients who have LAQC's early in the new year.

BIG LEGISLATIVE CHANGES AHEAD IN A NUMBER OF AREAS

Abolition of Gift Duty

In a November media statement the Government confirmed its intention to abolish gift duty. While no specific details are available at time of going to print, the legislation is underway and it is expected that the changes will be effective from 1 October 2011.

Family Trusts under the Microscope

The Law Commission is reviewing the law of Trusts in three stages:

- Stage 1 will consider the Trustee Act 1956 and the Perpetuities Act 1961
- Stage 2 will consider the Charitable Trusts Act 1957
- Stage 3 will consider the trustee companies legislation

The first issues paper is due for release in November 2010 and this is expected to recommend an overhaul of Trust regulation and create a Trust compliance regime similar to that which operates for Companies.

“we place strong emphasis on ensuring our clients' Trusts are responsibly managed”

Some of the options likely to be considered include creating a register of Trusts, appointing a Trusts Ombudsman paid for by an annual levy on Trusts, statutory duties for Trustees similar to those currently imposed on Company Directors, and rules to enable non-performing Trustees to be removed by beneficiaries.

At YRW we place strong emphasis on ensuring our clients' Trusts are responsibly managed and transactions correctly documented and we encourage our clients to understand their responsibilities as Trustees. However, the Government is concerned that many NZ Trusts are poorly administered, giving rise to serious issues for Trustees and beneficiaries.

New Employment Relations Bill

There has been much discussion in the media around changes recently introduced to Parliament which, if enacted, will see the most far-reaching labour reform in many years. Possible changes include:

- Removal of fixed breaks, allowing workplace flexibility in this area
- Extension to all employers of the optional 90 day trial for new employees
- Removal of compensation for dismissal where the employer has made 'minor or technical' errors
- Allowing employees to exchange their fourth week annual leave for cash
- Allowing public holidays to be transferred by agreement to other days

Have we got the right information? A reminder about Foreign Investments

We operate increasingly in a global environment and this often brings an extra level of complexity to income tax issues.

The IRD has announced in a press release that they are now targeting New Zealand tax residents who have undeclared foreign income and investments. In particular, the IRD says it is targeting overseas life insurance policies, superannuation funds, the use of foreign bank cards and the non-disclosure of offshore bank accounts.

If you are unsure whether we have full details of your overseas investments, please contact your adviser at YRW so that we can review the position and ensure that you are compliant with the NZ tax requirements.



PERSONAL AND COMPANY TAX RATES – DOWN THEY GO

A REMINDER THAT PERSONAL INCOME TAX RATES HAVE BEEN REDUCED FROM 1 OCTOBER 2010 AS SUMMARISED IN THE FOLLOWING TABLE:

Current and New Personal Tax Rates

Taxable Income	2009/2010	2010/2011*	2011/2012
0 – 14,000	12.5%	11.5%	10.5%
14,001 – 48,000	21.0%	19.25%	17.5%
48,001 – 70,000	33.0%	31.5%	30.0%
Over 70,000	38.0%	35.5%	33.0%

* In 2010/2011 the rates are composite rates

The Company income tax rate decreases from 30% to 28% effective from the start of the 2011/2012 tax year i.e. 1 April 2011 for most companies.

YRW CONTINUES TO SUPPORT THE TAURANGA BUSINESS COMMUNITY

SOME OF THE MOST NOTEWORTHY HIGHLIGHTS OF THE 2010 YEAR IN REVIEW...



▲ Pictured from left: Dave Ensor, Philip Holland & Sally Guest

Rocket Young Professionals Ball

We are proud to have again sponsored the YRW Young Employee of the Year and YRW Young Business Owner of the year awards. This annual event celebrates and encourages the Bay of Plenty's younger business people.

Our only regret is that because Eric Woudberg is on the judging panel, YRW's outstanding employees are not eligible for the awards!

Westpac Business Excellence Awards

Steve Read has continued his involvement as one of the judges for this valuable celebration of local business success and YRW again hosted a table at the Awards ceremony. We take pleasure in congratulating all the winners and acknowledging the high standard of all finalists.

Chamber of Commerce

We are delighted to announce that Dave Ensor has again been elected to the Board. Well done Dave!

Regional Business Women's Conference

YRW continued its support as a partner sponsor of this annual event, and we were pleased that a number of our clients and team members were able to attend. Raimarie Pointon took part in a panel discussion on Mentoring, an area of particular interest for its relevance to the conference theme of 'Wavemakers – creating impetus for business, for life'.

Careers Expo

Dave Ensor and Natalie Milne represented YRW at the Tauranga Rotary Careers Expo, encouraging high school students to consider a career within the accounting industry.

ONLINE RESOURCES

WE CONTINUE TO RECOMMEND A NUMBER OF ONLINE RESOURCES TO OUR CLIENTS AND THE NEW BUSINESS WEBSITE RELEASED BY THE GOVERNMENT IS EXCELLENT. WE SUGGEST YOU TAKE A FEW MINUTES TO CHECK IT OUT AT WWW.BUSINESS.GOVT.NZ.

An easy to follow structure allows you to access tabs covering various stages of business - Starting Up / Managing / Growing / Exiting / Compliance / and a Do it Online function.

SOME TIPS FOR GROWING AND DEVELOPING YOUR BUSINESS:

INCENTIVISING EMPLOYEES

The difficult economic environment is encouraging businesses to review a number of their policies and processes. One topic that often comes up for discussion is how to incentivise and reward team members.

If this is an issue for you, remember the SMART acronym –

- Specific
- Measurable
- Achievable
- Realistic
- Time bound

THE BALANCED SCORECARD

Take time to review your business from every angle and consider how it can be improved by marking it alongside a balanced scorecard –

CUSTOMER

- Delivery times
- Customer satisfaction
- Defect rates
- No. of returns
- Warranty claims

PEOPLE

- Employee satisfaction
- Employee turnover
- % of employee suggestions implemented

OPERATIONS

- Cycle time
- Quality performance
- Productivity
- Post-sales service

FINANCE

- Profitability
- Growth
- Shareholder value
- Cash flow



Staff Notice Board

We are thrilled to announce that Kirsty Shaw has returned from the UK to join us at YRW. Kirsty brings with her a depth of experience both from her previous employment within the local CA environment, and also from her recent time working overseas on commercial contracts. Kirsty is a very welcome addition to the senior team at YRW and we look forward to having the opportunity of introducing her to our clients.

Unfortunately there is a farewell too -

Rachel Shannon is departing YRW after several years working in our accounting team. We know that Rachel's clients will join with us in wishing Rachel and husband Dion well for the future.

And the baby news continues...

Dave and Charlie are the proud parents of Ruby Renee, a little sister for Lachie.

Fiona and Kerry's family has been joined by Hannah, a second daughter and sister for Michael and Rebecca.



Kirsty Shaw

Mid-Winter Festivities

Not rugby this year, but a cooking school! A great time was had by everyone as they observed and then ate the results at Somerset Cottage!



Advance Notice

YRW's new website is due to be launched early in the New Year!

Social Sports Teams

YRW's competitive edge has continued to be demonstrated by our Beach Volley Ball team.



Exams

This time of year sees added stress at YRW as many of our staff cope with year end assignments and exams. Our congratulations go to all, with particular mention of Natalie Milne and Amanda Sutcliffe who have just sat their final qualifying exam PCEII for full CA membership of NZICA. This is an enormous achievement and we are extremely proud of the high professional calibre of our YRW team.

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VISIT US:

Carparking

We have six client carparks available underneath our building with entry from Anson Street. Please feel free to use them when visiting our office.



IMPORTANT:

This newsletter is intended to be of a general nature only and should not be relied on in making business or personal decisions without first seeking advice from this office.