MINIMUM WAGE

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

Training and new entrants' minimum wages increased from $10.40 to $10.80 (80% of the adult minimum wage).

BODY CORPORATES AND GST

The IRD is not accepting new applications for GST registration by Body Corporates pending review of this area.

The IRD has for some time maintained that Body Corporates do not carry out a GST taxable activity even when they are administered by professional organisations or external parties.

In most cases the end result will be neutral i.e. it will be the GST inclusive costs that are passed on to owners for payment. However there may be some instances when Body Corporates could be disadvantaged if they are unable to claim GST on supplies, for example, when carrying out large remedial projects for weather tightness paid for by accumulated reserves.

We will continue to monitor this situation. However if you have any queries in the meantime, please feel free to telephone Raimarie Pointon on Extn 711 to discuss.

SOME ACRYNOMS FOR SUCCESS

Face
Accept
Choose the way forward
Take action

Do
One
Thing

Specific
Measurable
Achievable
Realistic
Timebound

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.

ACC has the ability to backdate levies for up to four years. For example, in the event that a taxpayer had been paying levies on the basis of part-time status, then had an accident and declared full-time status.

It would pay to check your invoice this year and call us if there's any confusion. Remember, clients of YRW now have the added benefit of our online access to ACC services. For specialist advice in this area, please phone Jan Hobson on Extn 719.

YRW IN THE COMMUNITY

Westpac Business Excellence Awards

Steve Read has stepped aside after 4 years as one of the judges for the Westpac Business Awards. His considerable input of both time and experience was acknowledged at the launch of this year's Awards.

Raimarie Pointon has replaced Steve on the panel of judges and she is delighted to continue YRW's involvement with this important recognition and celebration of local business success.

Tauranga Riding for the Disabled Arena Charitable Trust

YRW congratulates the Tauranga Riding for the Disabled Arena Charitable Trust on the successful conclusion of the project to build an all weather riding arena for the Tauranga Riding for the Disabled Association. We were proud to support Debbie Read in her position as Treasurer and to provide the Board with accounting and tax services.

Pictured below at the opening of the arena is one of Raimarie's clients, Roger Lindsay, a volunteer for this worthy cause.

Priority 1

Raimarie Pointon represented YRW at the recent Shaping our Future Business Summit 2012. This was held at the TECT Arena, Bay Park and was well supported by local business leaders. Chaired by Rod Oram, the business summit brought into sharper focus opportunities to help shape the region's future economy and to add strength and perspective to 'The Tauranga Business Case' campaign. Our congratulations go to Andrew Coker and his team for their work and vision in putting together this excellent event.

YRW continues its outstanding commitment to the Tauranga Chamber of Commerce

Dave Ensor was re-elected to the Board for a third term, and this year Natalie Milne has been appointed to the Board of the Business Women's Network and Amanda Sutcliffe to the Board of Rocket. Well done team!

Staff Notice Board

On the move:

After a prolonged period of minimal staff movements, we have several changes within the last month:

It is with great disappointment that we announce Kirsty Shaw's departure. Unfortunately it seems that YRW is not the only thing of importance in Kirsty's life and she is leaving to join partner Adrian in Auckland. Kirsty takes with her our very best wishes for the future, as well as our grateful thanks for the excellent work she has carried out while an Associate with our practice.

Gayle Proudman is leaving YRW to travel overseas with husband Grant. Gayle has been with YRW for more than 25 years during which time she has developed huge expertise in a number of specialist areas, particularly company administration. We would like to publicly acknowledge the superb service Gayle has given to YRW and we applaud her decision to spend some time seeing the world outside YRW.

Lisa Scott is relocating to Coromandel to be with partner Ian. Lisa has been responsible for our tax management system alongside her role as an accountant, managing both very capably for a number of years. We know that Lisa's clients will be very sorry to learn that she is leaving YRW, but we are sure that they will join with us in wishing her every success in the future.

But thankfully there is some great news as well:

We are delighted to announce the appointment of two new graduate accountants – Rebecca Maulder and James Sherson. Both Rebecca and James are degree qualified and are looking to progress through to full membership of NZICA. We are delighted to welcome them as part of the YRW accounting team.

And to ensure that YRW continues to maintain its excellent standard of service to our clients, we have another appointment to announce:

Debbie Armstrong has joined YRW in a role which comprises the tax management system along with a range of other responsibilities. Debbie is a Tauranga local with a strong background in administration roles including time spent working for large legal firms and investment organisations. We welcome Debbie to YRW and know that our clients and team will enjoy working with her.

Competitive spirit is alive and well at YRW as our **Bean Bouncers** continue to demonstrate outstanding sporting prowess in local volleyball competition:

The move from the beach to indoor for the winter season saw a lacklustre start, but by week three the team was back in winning form!

There are 13 weeks to go and with the recruitment of new staff to the team, further wins are definitely anticipated!

Have you visited our new website?

yrw.co.nz

CONTACTS

Principals	Phone	Email
Steve	07 578 0069 Extn 713	steve@yrw.co.nz
Eric	07 578 0069 Extn 708	eric@yrw.co.nz
Raimarie	07 578 0069 Extn 711	raimarie@yrw.co.nz
Associate	**Phone**	**Email**
Dave	07 578 0069 Extn 716	david@yrw.co.nz

YOUNG READ WOUDBERG YRW

CONTACT US:

Young Read Woudberg Limited

13 McLean Street
PO Box 948
Tauranga 3140

Phone 07 578 0069
Fax 07 578 8725
Email accountants@yrw.co.nz
Website www.yrw.co.nz

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.

YOUNG READ WOUDBERG

Making Sense of NUMBERS

BUDGET 2012 ANNOUNCEMENTS / DEPRECIATION AND COMMERCIAL PROPERTY FIT-OUT / ACC CHANGES SELF-EMPLOYED INVOICING JUNE 2012

CHARTERED ACCOUNTANTS

BUDGET 2012 ANNOUNCEMENTS

MOST OF THE TAX CHANGES IN BUDGET 2012 WERE SIGNALLED IN LAST YEAR'S BUDGET AND ARE CURRENTLY "WORKS IN PROGRESS".

The following key announcements were made as part of the proposals to be enacted via the Taxation (Budget Measures) Bill and the Student Loan Scheme (Budget Measures) Amendment Bill:

- Tightening the rules around the deductibility of costs relating to mixed-use assets - those that are both used by their owners and rented out for income, such as holiday homes, boats and aircraft.
- Putting recent changes to livestock valuation rules into law through Budget legislation (with further detail to follow later in the year).
- Repealing two tax credits: the income under $9,880 tax credit and the childcare and housekeeper tax credit.
- Replacing the tax credit for the active income of children with a limited exemption for children.
- Removing the student loan voluntary repayment bonus from 1 April 2013.
- Providing an extra $78.4 million to Inland Revenue over the next four years for tax compliance activities.
- Increasing the student loan repayment rate for all New Zealand-based borrowers earning over the repayment threshold to 12 cents in the dollar from 1 April 2013.
- Broadening the definition of income for student loan repayment purposes to include a wider range of income types from 1 April 2014.
- Implementing an information match between Inland Revenue and the New Zealand Customs Service to identify Student Loan borrowers in serious default.

(see page 2 for some further detail)

YRW - YOUR KEY PARTNERS

Historically low domestic interest rates continue as the new norm and as never before we are aware of the economic impact on New Zealand from overseas.

While our local economy has continued to languish for some time, we are now seeing some very encouraging signs of new business and investment activity.

An ongoing and unwavering focus on efficiencies and innovations will be needed but we strongly believe that our community is well placed to head towards a prosperous future.

YRW looks forward to being a key player working alongside our clients:

- **Providing Simply Better Experience**
- **Delivering Better Expertise**
- **Making Better Business**

Steve Read
Principal

Eric Woudberg
Principal

Raimarie Pointon
Principal

CONTACT US:

Young Read Woudberg Limited

13 McLean Street
PO Box 948
Tauranga 3140

Phone 07 578 0069
Fax 07 578 8725
Email accountants@yrw.co.nz
Website www.yrw.co.nz

BUDGET 2012 – CONTINUED

Tax Credits Changes

The Government has reviewed various tax credits which have existed in some form for many years, and determined that they are outdated and no longer serve their original policy intent.

As a result, three tax credits are being changed for the 2012/13 and later years:

- the income-under-$9,880 tax credit,
- the tax credit for childcare and housekeeper expenditure, and
- the tax credit for the active income of children

The income-under-$9,880 tax credit and the tax credit for childcare and housekeeper expenditure are being repealed. Taxpayers will not be able to claim these credits if they file a tax return at the end of the tax year.

The tax credit for children is being replaced by a limited tax exemption. This credit ensures that children will not need to file a tax return if they have small amounts of income not taxed at source (for example, from mowing their neighbour's lawn). This new exemption will not allow a child to claim a refund of tax that has already been paid, such as PAYE and Resident Withholding Tax.

Transitional rules have been developed for people who are claiming one of these tax credits in the current year through the PAYE system.

For more information please visit the Inland Revenue's website: ***www.ird.govt.nz*** *or telephone your adviser at YRW.*

Look Through Companies (LTC)

The Loss Attributing Qualifying Company (LAQC) regime was abolished effective 31 March 2011 and essentially replaced with the new Look Through Company (LTC) regime. The Qualifying Company (QC) regime is continuing for the present time.

Under the LTC regime a Company retains its commercial identity and continues to be regulated by the Companies Act. However, for income tax purposes the Company is treated as a partnership or sole trader.

Prior to the introduction of the new legislation on 1 April 2011, YRW undertook a pro-active and in-depth review of all LAQC Company clients. This included advising clients as to whether they should:

- Transition to another entity such as a partnership or sole trader
- Transition to a LTC
- Continue as a QC
- Continue as an ordinary Company

"We communicated extensively with all our company clients over a period of several months, attending to the various items of documentation required including IRD election forms and registering changes to Company Constitutions."

The legislation has been amended several times since it was originally introduced and is relatively untried. This means that there are many grey areas in the practical application. One particular area of contention is in relation to the owner basis calculation and more specifically the valuation of "secured amounts". We will need to continue to work closely with our LTC clients especially in the first financial year that the Company became a LTC, and in most cases will need to make contact with financial institutions to confirm security details.

If you would like more information on this topic, please telephone Debbie Read on Extn 725.

ASSISTING KIWIFRUIT ORCHARDISTS PLAN AHEAD

Kiwifruit Vine Health (KVH), an organization leading the industry response to PSA, has provided us with a financial modeling tool which can help our orchard clients develop a plan of action in response to PSA.

If you think you may benefit from this, we encourage you to contact Chris Doms on Extn 737 to arrange an appointment.

YRW SUPPORTING YOUNG PROFESSIONALS AND BUSINESSES

Rocket! is the Tauranga Chamber of Commerce's networking arm for young professionals where members can meet and connect with each other and local businesses.

Young Read Woudberg Ltd is the main sponsor of the Rocket! Young Professionals Ball and Awards which are being held this year at Bella Vista on Saturday 6 October 2012.

The 2012 Rocket! Young Professionals Ball and Awards recognise outstanding young professionals and businesses and promotes Tauranga as a vibrant entrepreneurial city. Rocket! is currently looking for candidates for the following three awards:

- Young Employee of the Year
- Young Business Owner of the Year
- Young Innovator of the year

If you think you fit into one these categories and would like to receive an application form please contact Amanda Sutcliffe on 07 578 0069 (Extn 710) or Amanda@yrw.co.nz.

For more information on the Rocket! Young Professionals Ball and Awards or the monthly networking events, please go to www.tauranga.org.nz

DEPRECIATION AND COMMERCIAL PROPERTY FIT-OUT

AS DETAILED IN OUR LAST NEWSLETTER, THE 2010 BUDGET INTRODUCED CHANGES TO APPLY FROM THE 2011/2012 INCOME YEAR DISALLOWING DEPRECIATION DEDUCTIONS FOR ALL BUILDINGS DEEMED TO HAVE AN ESTIMATED USEFUL LIFE OF 50 YEARS OR MORE.

Section DB 65 was introduced to provide relief in respect of fit-out of **commercial buildings** acquired before the 2011/2012 income year which had not previously been recorded and depreciated separately from the building. **It does not apply to residential property.**

This one off transitional rule provides that the owner of the fit-out can claim a deduction for up to 15% of the building's adjusted tax book value calculated at 2% straight-line per annum until the building is disposed of.

Note that this claim is not classified as depreciation, and there is no further deduction of any remaining balance in the fit-out pool allowed if there is ultimately a loss on disposal. Neither will there be any recovery income if proceeds exceed the written down value of the fit-out pool at time of sale.

The following criteria must be satisfied for DB 65 to apply;

- The taxpayer owns a commercial building acquired before 2011/2012 income year that is subject to 0% depreciation rate.
- Depreciation deductions have been allowed on the building for the 2010/2011 income year and the building has not been disposed of.
- Commercial fit-out had not been separately depreciated **if the fit-out was acquired at the same time as the building.**
- No deduction has been allowed on the building under any provisions in the Income Tax Act 2007 for the income year.

New Commercial Buildings

Purchase of existing Commercial Property

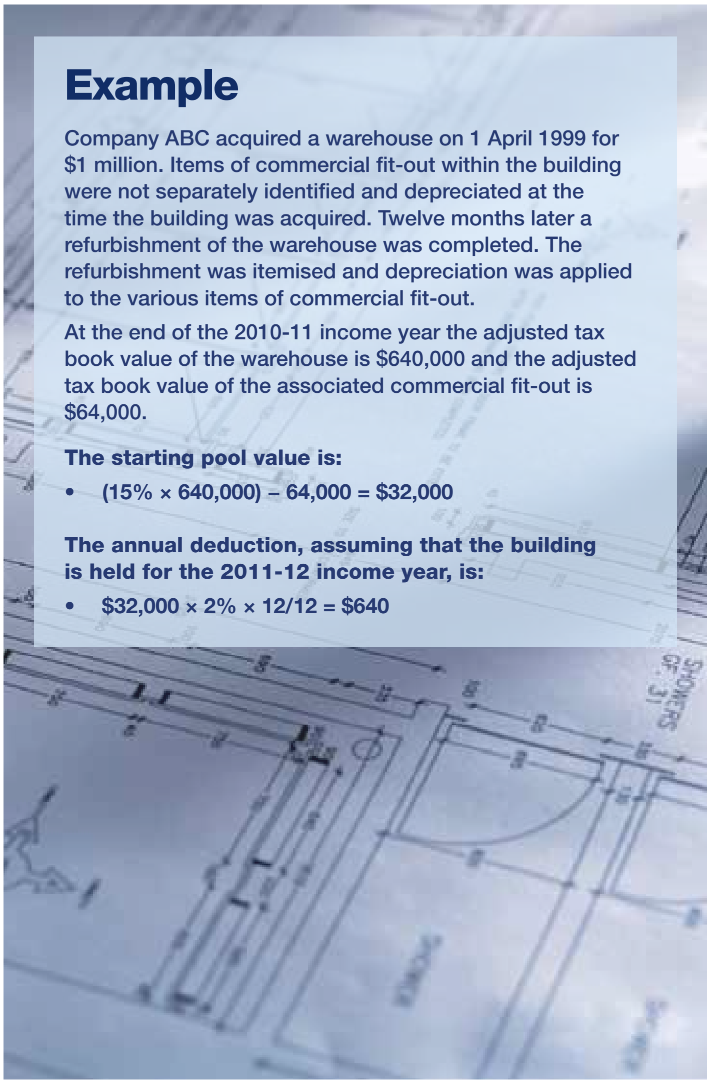
(a) Commercial property owners still have the ability to separately identify and depreciate fit-out value at time of purchase with a range of applicable rates depending on the nature of the item.

If the sale and purchase agreement does not allocate a value to fit-out, we recommend that the new property owners obtain a valuation report to distinguish between the fit-out component of the building and the building itself.

Building of new Commercial Property

(b) In most cases sufficient information will be available from the invoices to enable clear identification of fit-out expenditure so that it can be separated from the building construction costs.

If this is not the case, again a valuer will be able to provide the necessary allocation between building and fit-out.



Example

Company ABC acquired a warehouse on 1 April 1999 for $1 million. Items of commercial fit-out within the building were not separately identified and depreciated at the time the building was acquired. Twelve months later a refurbishment of the warehouse was completed. The refurbishment was itemised and depreciation was applied to the various items of commercial fit-out.

At the end of the 2010-11 income year the adjusted tax book value of the warehouse is $640,000 and the adjusted tax book value of the associated commercial fit-out is $64,000.

The starting pool value is:

- **(15% × 640,000) – 64,000 = $32,000**

The annual deduction, assuming that the building is held for the 2011-12 income year, is:

- **$32,000 × 2% × 12/12 = $640**

WARNING!
LAND PURCHASES – FARMING OR LIFESTYLE BLOCKS

You may be aware that most pre 1990 forestry blocks and some post 1989 forestry blocks are included within the ETS (Emissions Trading Scheme), and therefore create potential liability in relation to carbon credits for their owners.

Because any carbon credit liabilities attach to the landowner, if a liability is assessed by MAF on a particular block of land, it is possible that the purchaser of land can unknowingly inherit a significant liability.

Therefore it is now vital with any purchase of land that may have forestry on it, or may have previously been planted with forestry, that due diligence is carried out to check the property's history. Some commentators are recommending that a land-mapping be carried out to identify plantings that may have existed previously.

Please telephone Steve Read on Extn 713 for more detailed information on this topic.

TAX TALK

Working For Families

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

- The family tax credit amount for children under 16 has risen for inflation:

Qualifying Child	Current Amount	New Amount
First child if under 16	$4,578	$4,822
Second child if under 13	$3,182	$3,351
Second child if 13 - 15	$3,629	$3,822

- The net income level guaranteed by the minimum family tax credit rose from $22,204 to $22,568
- The abatement rate increased from 20 cents to 21.25 cents in the dollar
- The abatement threshold decreased from $36,827 to $36,350

KiwiSaver

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

Foreign Investment Fund (FIF) Regime

Some technicalities for those who have some understanding of this regime which taxes overseas income other than most Australian listed shares:

The Taxation (International Investment and Remedial Matters) Act 2012 has made major changes to the FIF regime, in particular for taxpayers holding 10% or more of a foreign company. For most taxpayers these changes apply to the 2012-13 income year.

The grey list exemption is removed but non-portfolio FIFs that are resident and subject to tax in Australia are still excluded from the regime.
Of significance:

- The $50,000 de minimus exemption will be optional. A FIF method may give a better result, but adopting FIF will mean those rules apply in subsequent years as well.
- The Accounting Profits and Branch Equivalent methods are repealed.
- The Fair Dividend Rate (FDR) and Cost methods will be able to be used for interests of 10% or more.
- The Comparative Value (CV) method is restricted to natural persons and family trusts for interests in both portfolio (less than 10%) and non-portfolio (10% or more). This method is no longer available to companies and other types of entities.
- There is a new 'Attributable FIF Income" method based on the Controlled Foreign Company (CFC) active income exemption is available for non-portfolio interests in a FIF that is a foreign company. Essentially if less than 5% of the FIF's gross income is from passive income, no FIF income is attributed.

And on a lighter note, let us entertain you!

There is ongoing confusion about the correct tax treatment of saying thanks to customers and staff, typically with gifts, wining and dining. Inland Revenue's IR268 guide gives the following examples of where entertainment expenses are 50% deductible:

- Taking customers, suppliers and business associates out for dinner or putting on a function for them
- The traditional Christmas party for staff
- Shouting customers, suppliers and staff to an event, e.g. a rugby game or a show
- Taking them on a jaunt in your launch (running/hireage costs and food and alcohol)
- Giving them the use of your bach or time share apartment as a thank you gesture (the occupancy costs)

We've been asked 'why only 50% deductible?' Apparently it's because we get some personal enjoyment or benefit!

> **" So, for added income tax efficiency, in lieu of a Christmas party you could give your employees restaurant vouchers to use at their discretion. This cost is fully deductible."**

However remember it is subject to fringe benefit tax (FBT), although there is an exemption of $300 per employee per quarter (a maximum exemption $1,200 per employee or $22,500 per employer applies). The same treatment applies to staff gifts, again fully deductible but subject to FBT under the 'other benefits' category.

As a thank you gesture many firms give their customers gifts, often during the festive season but also throughout the year. The cost of the gifts is fully tax deductible as marketing and promotion expenditure.

Employers often pay their staff a cash bonus, both at Christmas and on achieving targets during the year. These payments are classed as 'extra emoluments' and are fully deductible but have PAYE deducted at the employee's marginal tax rate e.g. 33% if earning over $70,000 per annum.

If in doubt about where your generosity to customers and staff stands from a tax perspective, check with us and we'll help you get it right.