

BIZTAX ALERT

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Risk and Reward

Employment law changes 1 April 2011

Changes to both the Holidays Act and the Employment Relations Act will come into force on 1 April 2011. These changes are intended to reduce compliance costs, increase business confidence in recruiting new staff as well as speed up the resolution of workplace disputes. The main changes include:

- Employees will be able to cash in one week of their four weeks' leave
- Employees who have irregular working hours and pay will now have their holiday, sick and bereavement leave calculated on an average daily pay basis
- Employers and employees will be able to agree to transfer taking a public holiday to another working day
- The minimum wage will increase from \$12.75 to \$13.00 from 1 April, while the training and new entrants' minimum wage will rise from \$10.20 to \$10.40, effective as of the same date

- The 90-day trial period is being extended to all employers (currently limited to those with less than 20 employees). From 1 April employers and employees can enter into an employment agreement which provides for a trial period of 90 days or less. During the trial period the employer can dismiss the employee without risking a personal grievance
- Employers will have to keep detailed personal files for each employee. These files must contain signed copies of employment agreements, other terms and conditions, handbooks, as well as any intended agreements (even where these have not been agreed to by the employee). These documents must be available to employees on request. Employers have until 1 July to get their files up to the new standard. We estimate that a good number of our clients will have some work to do here! Contact us if you need help with this.
- Union representatives will need an employer's permission to enter the workplace
- Minimum requirements establishing a fair and reasonable dismissal process will be set out in the Act and employers will have a much clearer process to follow. This is great news for our employer clients, who can be fearful of dismissal processes being scrutinised for minor defects

Love your neighbour as yourself; but don't take down the fence. **Carl Sandburg**

ACC levies, no-claims discounts and experience rating

Government is introducing experience rating into the ACC levy system on 1 April 2011. Here's how it is likely to work:

- Small employers (paying less than \$10,000 per year in work related levies) will be entitled to a no-claims discount
- Larger employers (paying more than or equal to \$10,000 per year) will be part of an experience rating programme. This programme will reflect both the employer's and its industry's performance in preventing injuries and claims and could create an increase or reduction in levies of up to 50%!

Clearly Government is trying to provide employers with a financial incentive to prevent injuries as well as make levies fairer by ensuring low-risk employers aren't paying for high-risk ones. Having said that, there is a no claims discount or loading of minus or plus 10% (the majority of employers will fall into the 'small employer' category) really going to incentivise employers to get serious about workplace safety?

Minimising shareholder employee ACC levies

Changes were made last year enabling shareholder employees to be classified under their individual occupation rather than the business activity of their employer company. This change can make quite a difference to the levies you pay. For example, the levy rate for an office manager is much lower than that of a factory supervisor.

We are looking at providing an ongoing ACC administration and advisory service to our clients on an agreed annual fee basis. We would review your cover structure and premiums, to ensure your cover is appropriate and levies are minimised.

Tax Talk

Company tax rates dropping

The company tax rate will reduce from 30% to 28% from the 2011/2012 income year (for most companies, 1 April 2011).

Building depreciation gone

Depreciation deductions on buildings with an estimated useful life of 50 years or more disappear from the start of the 2011/2012 year (for most of you 1 April 2011). New rules have been introduced to ensure the fit-out of commercial and industrial buildings continues to be depreciable.

At last – some GST simplification

Sales of land now zero rated

In the past, whether GST should be added or not to the sale of land, has sometimes been a complex matter. From 1 April 2011 these transactions will be zero rated, as long as the following apply:

- The purchaser declares in writing that the property is to be used for a GST activity, and
- The purchaser is GST registered

LAQC reviews underway

Over the past few months we've been communicating with clients affected by the far reaching LAQC reforms that come into play on 1 April 2011 this year.

We've commenced a personalised review of each client LAQC and we'll be advising each of you on the best way forward very shortly. Rest assured that we have the whole issue well under control. In the meantime, if you do have any concerns do give us a call or drop us an email.



Private use adjustments on cars

As of 1 April the rules for calculating private use adjustments on vehicles for sole traders and partnerships have been simplified... sort of.

By way of example, if you expect business usage to be 80%, then you simply claim 80% of the GST on the cost of the car and any running expenses. Sounds logical, some would say obvious (accountants have been suggesting this to Government for years).

That was the simple bit. If you underestimate your private usage by 10% or more, or if any GST over-claimed due to such underestimating comes to more than \$1,000, an adjustment (not so simple) has to be made.

But wait... there's more. There's a wash up calculation when you sell the car and it's complicated. In fact, we won't bore you with the details in this newsletter. To talk through your situation, give us a call or email us, and we'll provide you with the maths!

Working for families - tax credits income net widened

As of 1 April clients will no longer be able to use investment losses such as from rental properties to reduce their income for working for families (WFF) tax credit.

The definition of income will also include an extra nine types of income:

1. Attributable trustee income
2. Attributable fringe benefits
3. PIE income other than registered superannuation schemes such as Kiwisaver and retirement benefit schemes
4. Passive income earned by children (includes interest, dividends and rent). Amounts over \$500 per child will be included as family income
5. Worldwide income received by a non-resident spouse
6. Tax exempt salary or wages under specific international agreements
7. Income equalisation deposits made by you, your trust, or a company controlled by you or your trust
8. Certain pensions and annuities – includes 50% of payments from life insurance policies or a superannuation fund (excludes NZ super)
9. Other payments received from any sources that are used for your family's day-to-day living expenses (but only if the total amount from those sources is more than \$5,000). An example of this might be board received.

In future, when you apply for WFF tax credits, you'll need to let IRD know about amounts from any of the above sources.

For those clients who receive or are entitled to WFF credits, when we prepare your 2012 tax return, we'll need to request the above information. Good communication will be essential.



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Business Perspective

We have to say at this point that we don't usually like to put quite so much 'tax talk' into our newsletters. We simply had to this issue due to the amount of tax change hitting us all this April.

So let's move onto a topic that's much more interesting and uplifting.

From time to time we will profile a successful kiwi business. Not the type born of big business or led by high flyers with matching profiles (and egos), but businesses founded by people like you who've had to work incredibly hard and face immense hurdles and real adversity in their business lives.

Their stories reinforce the fundamentals of business. Work hard, face up square on to your business challenges and surround yourself with good advisors.

Enjoy...



Dad's Pies

From beachside to BP – pie makers to the nation



The Dad's Pies story started in 1981 when Eddie and Erika Grooten bought a small beachside dairy / bakery on Red Beach near Orewa. Thirty years later the business operates out of a 6400 square metre state-of-the-art factory in Silverdale producing eight million pies per year including those sold nationally by BP's 'Wild Bean Cafes'. Prior to the Grootens' ownership the business was unprofitable with four owners over two years, so how did Eddie and Erika turn a failing venture into a kiwi success story?

They have succeeded because of their passion for the business and determination to be the best, backed up by sheer hard work and the ability to listen to other experienced business owners.



You only have to walk around the Dad's Pies factory with Eddie to experience his knowledge of every facet of the production line, his interest in every employee and his ever roving eye looking for anything that can be improved.

The business has had its challenges along the way. Funding multi-million dollar plant and equipment requires very strong financial stewardship and a supportive and pro-active banking partner. Five years ago the decision was made to change from their banker of twenty-five years to a specialist plant and equipment financier, a decision not taken lightly. Eddie credits their purchase of the original bakery premises and home at Red Beach as the key factor in enabling Dad's Pies to grow.

While supplying BP is an enviable contract, it does place the business in a vulnerable position, dominating production and sales. When the price of petrol rose to well over \$2 per litre vehicle owners used their vehicles less, bought petrol less frequently and consequently pie sales fell. In recent years marketing efforts have been directed at diversifying the

customer base and the company now exports to ten countries.

Food hygiene is of critical importance through every aspect of production and delivery and Dad's Pies have introduced the highest standards in the country with the total support of its employees who have embraced 'the firm's culture of individual responsibility'. Hygiene standards are audited constantly both internally and externally.

A cornerstone of a successful business is its people and Dad's Pies have many loyal long serving employees. Eddie states he is 'an upfront and direct employer' who is always willing to help his employees in achieving their goals be it purchasing their first home or encouraging them to get fit! He believes it is every worker's (including his) responsibility to make it a happy workplace.

In the same way Eddie coaches employees who seek his help, he himself has sought out guidance from others. There have been many mentors along the way ranging from the father of a life-long friend to a recently appointed business coach with whom senior management meet weekly to turn strategy into plans and plans into action and results. Some years ago they formed an advisory board recruiting high level business expertise outside of the baking industry to enhance commercial intelligence and sharpen governance. He is a graduate and advocate of the University of Auckland's Icehouse Business Owners' programme and his business drive and acumen saw him recognized as a finalist in the 2005 Ernst and Young Entrepreneur of the Year competition.

The Dad's Pies product is a humble one and the ingredients to its success are straightforward too – passion, high quality, hard work, and thoughtful and sensible management. Eddie says the most important value in life is to be content and he and Erika have loved the journey that has made Dad's Pies a kiwi success story.



Opportunity is missed by most because it is dressed in overalls and looks like work. **Thomas Alva Edison**

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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