

# BIZTAX ALERT

## Winter Wilco 2011



[info@biztax.co.nz](mailto:info@biztax.co.nz) phone: 07 834 0556



## Risk and Reward

### Family Trusts - the story continues

The Law Commission's review of Family Trusts continues. A paper on Trustees' duties, the office of Trustee, trust administration, and trustees' powers is due out shortly, with the final analysis - on trading trusts, the potential registration of trusts and the obligations of trust advisors - to be delivered to Government in approximately 3 months' time.

It appears we are heading for a major shake up on the entire manner in which trusts operate and are administered. As your accountants (and for some of you, your professional trustees) we're on a mission to ensure your Family Trust's administration processes are robust. If you haven't heard from us yet, you may well soon....

*'In the business world, the rear-view mirror is always clearer than the windshield.'* **Warren Buffett**

## LAQC changes

We have been in contact with clients who have LAQC companies affected by the changes which came into effect on 1 April this year.

There are some companies which will no longer be making losses (mainly due to the phase out of depreciation claims on buildings) and for these no action is required. They will become Qualifying Companies (with no loss attribution available). You will have been advised by us if your company meets this criteria.

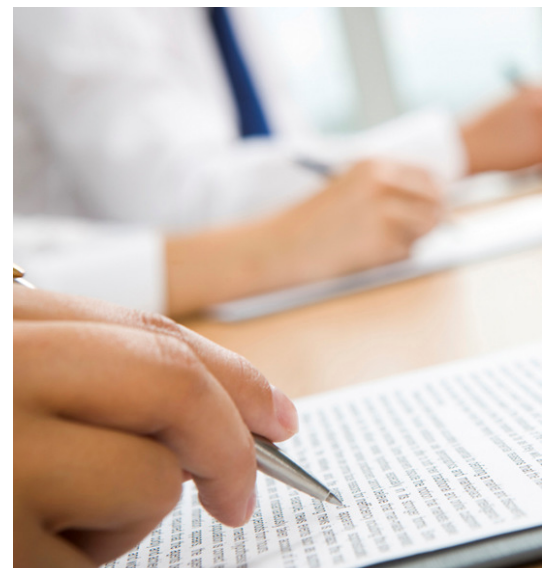
For most other LAQCs transition to the Look Through Company (LTC) alternative will be the appropriate option. In the next few weeks we will be working through these on a case by case basis and contacting you about it. Elections need to be made by 30 September and will apply retrospectively from 1 April.

## Student wages

Many businesses benefit from the assistance of students. Often this involvement includes services such as vehicle cleaning, delivering of circulars, gardening and lawnmowing at the premises etc.

It is quite legitimate to claim a tax deduction for payment to the students, whether they be family of the proprietors or unrelated. The following guidelines apply:

- payments need to be made from the business.
- they need to be realistic and justifiable in terms of the work done and the pay rate.
- PAYE needs to be deducted unless the recipient is (a) a school student and (b) his/her total annual earnings will be less than \$2,340. Unless the student is family, the employer will probably not know the total earnings, so should deduct the PAYE.



# Tax Talk

## Some depreciation allowances still available

While depreciation allowances on most building structures ended on 1 April this year, depreciation can still be claimed on a wide range of commercial and industrial building fit-out assets.

Just before Christmas, legislation was passed confirming that depreciation will continue to be allowed on building services assets such as lifts, air conditioning systems, plumbing and electrical reticulation in **commercial buildings**. The legislation recognises the practical reality that fit-outs in commercial, retail and industrial buildings suffer significantly higher wear and tear when compared to residential property.

Those clients who have never separately itemised the building fit-out of commercial buildings assets acquired at the same time as the building can now take 15% of the building's book value less the book value of any separately itemised fit-out assets acquired subsequent to acquisition of the building, call it fit-out and depreciate it at the rate of 2% for the 2011-12 year onwards.

For all new property purchases, building and fit-out assets should be properly segregated at acquisition date.



## Talk to us about shareholding changes

We've recently experienced two cases where clients have decided to make shareholding changes in their companies, have gone online to the Companies Office website and Bob's your Uncle, shareholding changes updated!

Actually, it wasn't such a smart idea as it turns out. Changing shareholding in your company without talking to us first can have dire tax consequences. These consequences can be far reaching. Continuity of losses carried forward can be affected, imputation tax credits can be lost forever, and under the new Look Through Company regime the flow of losses will be affected.

Moral of the story? Talk to us when you're contemplating share changes. Even better, get us to be your Registered Office. In fact, we do this for many of our clients. We'll file your annual return for you, and help you comply with your statutory records requirements under the Companies Act.



## Proposals to make the tax system fairer

The 2011 budget included some measures to protect the tax base. The Government is concerned about three areas and proposes to release public consultation documents on each of these later this year. Livestock elections were covered separately in a Biztax Special Alert and we summarise below the other two areas of Government concern.

The first concern is whether non-cash benefits should be added to income for social assistance purposes, such as Working For Families and whether salary that is traded for non-taxed in kind benefits should be subject to income tax. Typical non-cash benefits may include company cars, gym and sporting club subscriptions, staff discounts, use of company owned holiday accommodation and subsidised health insurance to name a few. Some employees choose to receive a company car by taking a salary sacrifice thereby reducing PAYE deducted from salary.

The second relates to mixed-use high value assets such as holiday homes set up as rental properties that have a very low occupancy or are used privately during their peak season when high rentals would be received. Yachts and launches that are chartered may well come under scrutiny in this document too.

The net continues to tighten.

# Business Perspective

## Risk management basics

We should all now realise what business disaster recovery planning really means and that a pre-emptive strike can positively influence your recovery. There are *many* aspects to review when it comes to your business recovery plan with no 'one size fits all' model available. Below are some important basics that you can implement readily.

1. Internal safety - Have you reviewed your premises to be sure the fit-out is safe and items are secured? Do you have the regulatory fire equipment? Do you have food and water stocks on-site? First aid? Do you have a clear and documented evacuation plan? Review and cement your plans as a team. Impose regular reviews and discussions of the plan, keeping new team members up to speed.
2. Evolving cloud technology and the virtual workplace have had a hugely positive effect on the recovery process. Important documentation can now easily be stored offsite 'in the cloud' as well as there being a definite trend towards web based software. At the very least, review (and test!) your current backup procedures.
3. Which of your staff could work remotely with minimal disruption? Why not investigate remote computer connections in the short term rather than as a reaction to a disaster? There can be positives to having the right staff work remotely. It's also easier than it seems and for some industries it's becoming the way of the future.
4. Have you reviewed your paperless possibilities? What do you currently store in hard copy that should be scanned and sucked into your server or a 'cloud' based backup solution?

5. What about your most vital of business documents? Do you have the originals stored in a safe location as well as 'soft' copies (stored in your computer server with adequate backup of course)? Examples include: insurance policies, key client and staff contracts.
6. Insurances - Do you have cover for site and equipment, vehicles, electronics, furniture and fittings, stock, wages and salaries, loss of profit, additional/increased cost of operating your business, claim preparation costs (accountant, solicitor, and insurance advisor fees), reinstatement of records? And the list goes on.
7. Finally, do you have the names, mobile and home phone numbers and personal email addresses of all your team members stored in your mobile phone? A Christchurch acquaintance could not stress strongly enough his relief at having this information readily available, not only in the immediate aftermath but when he needed to coordinate his team remotely in the following weeks.

We recommend you do your research and establish risk management that best fits your business. The NZ civil defence website ([www.civildefence.govt.nz](http://www.civildefence.govt.nz)) is a great starting point.



*'If you see a bandwagon, it's too late.'* **James Goldsmith**



## Rebuilding community spirit

'Climate change and the alarming increase in extreme weather patterns are a new reality. Since 1960 natural disasters and extreme weather events have increased from 50 to 400 per year.... Bouncing back from adversity is the foundation of resilience. Bounce back is learned.' Profound words from Dr Sven Hansen of the Resilience Institute.

Dr Hansen outlines a number of key focus points to strengthen your resilience in the aftermath of a natural event. In summary:

1. Be around others, working or relaxing. Commit to using positive language, focus on the small wins and be aware of the future you are working towards together.
2. Repel negative emotions (grief, rage, terror, etc). Constructively identify them and move forward.
3. Relaxation - even the most resilient succumb to psychological damage, destructive emotions, fatigue, insomnia, injury and dietary lapse. Practice daily relaxation and appreciate the human courage as it spreads around you.

## Rebuilding community spirit (cont.)

4. Move forward. Focus on what you can control - aim for deliberate action, even if simple and routine. 'What can I do/achieve/start/support'? Constantly reflect on positive stepping stones.
5. Maintain daily routine. Critical events change everything. Take regular breaks, stretch tired muscles, snack and rehydrate. Powernap. Establish routine in recovery efforts. 'Sleep is mission-critical in long-term recovery'.

Resilience is one of the cornerstones of a successful business. Like the world we live in, a business (a unique ecosystem in its own right) regularly experiences natural events, as well as the odd disaster. Check out the Resilience Institute at: [www.resiliencei.com](http://www.resiliencei.com).



## Roasting guru gives green world first

Christchurch one-stop coffee supplies shop Caffe Prima is introducing a green alternative for coffee enthusiasts.

They've launched the world's first fully biodegradable pack for freshly roasted coffee - the Econic coffee pack.

With coffee consumption rising significantly each year, so is packaging waste. The Econic coffee pack gives coffee drinkers a feel-good alternative to dumping millions of standard foil bags every year.

Caffe Prima uses about 90,000 foil bags annually. Geoff Johnson (owner of Caffe Prima) explains, "We're a medium-sized player so there are millions [of foil bags] going out every year in New Zealand. We thought 'what should we be doing to be better corporate citizens?'"

Hamilton-based Convex Plastics developed the compostable bag. The 3 layer lamination process has a middle cellulose layer sprayed with an aluminum coating. The three films are made from sustainably-produced wood pulp and corn sources and have all been internationally certified to the British Standard EN13432 for composting and biodegradability.

The empty Caffe Prima bags will break down well in a home composting environment. When tested in a Waikato bark composting facility the final prototype all but disappeared. It started to soften after a fortnight and was down to a few small fragments by week 14.

The Econic packs have been specifically developed by Convex Plastics to provide the ideal sealing and barrier properties for coffee and dry foods. They are available both with and without an innovative biodegradable vent to allow the CO2 gases given off by hot roasted coffee beans to be vented through the top and bottom bag

seals. The vent replaces the traditional non-renewable one-way valve button, and is activated by positive pressure inside the bag.

Caffe Prima was established in 1995 and contract roasts for a wide range of customers, as well as supplying a range of coffee, tea and related paraphernalia.

We're tracking Geoff and the Caffe Prima team's progress - we think their initiative is a fabulous example of clean green sustainable kiwi business ingenuity. Stay tuned for our interview with Geoff Johnson of Caffe Prima in your Spring 2011 edition of Biztax Alert.



### 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.*



[info@biztax.co.nz](mailto:info@biztax.co.nz) phone: 07 834 0556