

## TAX CUTS FROM 1 OCTOBER 2008 FOR INDIVIDUALS

The Government has announced cuts to the tax rates for individuals which will come into force as from 1 October 2008. As these changes only come in part way through the tax year, the composite rates for 2008-2009 will be:

\$0-\$9,500	13.75%
\$9,501-\$14,000	16.75%
\$14,001-\$38,000	21.00%
\$38,001-\$40,000	27.00%
\$40,001-\$60,000	33.00%
\$60,001-\$70,000	36.00%
\$70,001 and higher	39.00%

So how will this affect you? If you earn between \$20,000 and \$35,000 you will save \$11.92 per week in tax. If you earn between \$40,000 and \$60,000 you will save \$16.54 per week. If you earn over \$70,000 you will save \$28.08 per week.

The tax rates have not changed. It is the bands of income which have been extended at the lower tax rates which give rise to an annual tax saving.

Assuming there is no change to Labour's tax cuts announced in the May 2008 Budget, tax rates for following years will be:

Year ended 31 March 2010	
\$0-\$17,500	12.50%
\$17,501-\$40,000	21.00%
\$40,001-\$75,000	33.00%
\$75,001 and higher	39.00%

Year Ended 31 March 2011	
\$0-\$20,000	12.50%
\$20,001-\$42,500	21.00%
\$42,501-\$80,000	33.00%
\$80,001 and higher	39.00%

If the tax bands had been inflation adjusted when they were first introduced we would all be enjoying much bigger tax savings. As it is, with the new tax rates it only goes some way to clawing back inflation. In real terms we are still worse off with these new rates, excluding the new "Working For Families" tax scheme.

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## PROVISIONAL TAX AND GST RETURNS

The IRD have given the option to pay your provisional tax along with your GST on 28 August 2008. We recommend that you do not pay these two taxes together and continue paying only GST with your GST return and use our provisional tax remittance slips for provisional tax. We also recommend keeping the payments separate when paying via the internet.

## PROVISIONAL TAX PAYMENTS DATES

Last year the Government changed the due dates for provisional tax with the first change affecting the first payment of 2009 provisional tax.

For those with a 31 March balance date, the payment dates are:

	<i>OLD DATES</i>	<i>NEW DATES</i>
1st	07 July 2008	28 August 2008
2nd	11 November 2008	15 January 2009
3rd	07 March 2009	07 May 2009

If you are registered for GST on a six monthly basis, there will only be two provisional tax payment dates. These are:

28 October 2008  
07 May 2009

## 2009 PROVISIONAL TAX CALCULATION

On the 28 August 2008 your first instalment of 2009 provisional tax is due (28 October if GST registered on six monthly basis).

As stated earlier, the 2009 year is a composite year with tax rate changes coming into effect from 1 October 2008.

For individuals and trusts, the calculation for this first instalment of provisional tax due 28 August 2008 remains the same as previous years, being one third of 2008 plus 5% or 2007 plus 10%. For companies, the instalments provide for the 10% cut in company tax to 30%.

The remaining two instalments will be calculated using the new reduced tax rates.

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## LATE FILING PENALTIES – GST RETURNS

From 1 April 2008 onwards the Inland Revenue Department is able to charge a late filing penalty in regard to your GST returns.

This is \$50 for those registered on a payments basis and \$250 for invoice or hybrid basis.

Consideration will be given for your first offence.

If you are not already doing so, filing your GST returns via the internet could be a mechanism to avoid these penalties. Please let us know if you need help regarding this.

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## RELIEF FOR SMALL BUSINESSES

A sample of the changes contained in a bill before Government right now are;

- \* Requirement to register for GST turnover of \$50,000 increased from \$40,000
- \* Filing PAYE once a month up to \$250,000 of annual PAYE from \$100,000
- \* File GST returns six monthly turnover of \$500,000 up from \$250,000

These changes are expected to take effect from 1 April 2009.

## LAND TRANSACTIONS AND ASSOCIATED PERSONS

The IRD have a bill before Parliament that includes changes to the associated person definition.

The intended application date of these changes is 1 April 2009. With this being an election year, we are lead to believe that this bill will not be heard anytime soon. This means that we will have very little time to advise on any restructuring needed for those affected.

In its present form the changes to the legislation will mean

1. That investment properties will be tainted by development activity, regardless of the structure used, unless owed for more than 10 years.
2. Selling development property to an investment entity, the capital gain will be taxable when sold (no 10 year rule)

The association will include husband and wife, infant children, common trusts and companies. It will be near impossible to break this association after 1 April 2009.

Any properties owned before this legislation's application date will be judged under the old rules.

The tainting will only last for the duration of each property development.

Scenarios that required attention now are;

1. Developers intending to retain properties from a development and convert into rental properties.
2. Developers wishing to purchase investment properties
3. A restructure of your land and buildings out of a trading company.
4. Merging businesses

Don't forget that a property developer is someone that does 'work of more than a minor nature' on a property or has a view when purchasing the property to sell for a profit. It's not just the big boys affected here. Dividing off your back section may throw you into this category.

Please contact us now to discuss your circumstances.

This, is a very discriminating change to tax law that affects property developers. Everyone else is still able to own investment properties with any capital gain being tax free. *Robin Hood tax law.*

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## DEPOSITS TO HELP CASHFLOW

As the economic downturn starts to take effect we are seeing client's debtors ledgers growing and their average debtors days being pushed out to 50.

A mechanism to combat this is to increase the initial deposit you ask to be paid before you commence the job.

For instance if you order some blind they will ask for 50% to be paid on acceptance of the quote, this has become an industry standard.

Even if historically, your industry has not operated like this, now could be the time to start, remember "only dead fish swim with the current". It would seem unlikely that the payment terms would be the deciding factor in gaining or losing your customers work.

## FOREIGN INVESTMENT RORT

You may be aware of the changes to the taxing of foreign investment, where you have an option to use 'comparative value' or a 5% 'fair dividend' method.

Simplistically, the comparative value method takes your closing market value less your opening market value to give the unrealised gain. If this turns out to be a loss overall you can not claim the loss against other income or carry it forward to offset future foreign profits. The result is that no income need be returned for these investments including any dividends actually received.

But the problem with this method is that your closing market value becomes your opening value for the next year. So, like most taxpayers if your investment went down in 2008, you were unable to claim the loss and say in 2009 if the investment returns to its original value this growth will be taxable. *Heads the Government wins, tails you lose tax!*

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## PRICE INCREASES

With inflation running at 4% you will probably have to increase your prices.

If you have staff, we would expect that they have been given pay increases of at least inflation. This will need to be recovered in your prices to avoid the erosion of your profit.

Remember that small increments regularly (but not too often) are easier to swallow than large ones infrequently.

Your top 20% of customers may have to managed carefully though with an explanation and perhaps a warning before they take effect.

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## BEING A TRUSTEE IS 'SERIOUS STUFF'

It can be flattering to be asked to be a trustee for a close friend or relative but this role carries with it huge responsibilities and it is alarming when things go wrong.

If you accept an invitation to become a trustee you should;

- Get control of the family trust immediately
- Read the Trust Deed thoroughly and be sure you understand it. This contains your powers. You will have to refer back to it on occasions.
- Read all minutes
- Hold regular meetings, preferably quarterly but at the minimum annually, discuss all investments and make sure they are protected for the benefit of the beneficiaries
- Minute all decisions and get them signed by all trustees before acting on them
- Any payments to the Settlor must be specified in a minute as to whether it is a reduction of debt or an income distribution.
- Ensure you have a set of the latest financial statements and make sure you understand them. Seek advice if you are unsure.

You are liable to the beneficiaries if the assets of the trust are not preserved for their benefit.