

de Newsletter

March 2011



Craig's Yarn

March is here again and Christmas but a memory. We did manage to get some extra rain over the summer period so I see farmers with more of a smile than a grimace!

As mentioned in the December newsletter, we are moving to a new Pricing methodology. Stuart is working on a system so that a price can be agreed upon before we start. For this to work we will need to review your papers before we can determine the fee. While this won't have a major impact

on the usual compliance work (GST, Financials, Income Tax etc.) where you will see a difference is in the one off work that we do. The reason is that there can be a different perception from both parties as to what the work entails so that when the work is billed a difference of opinion can be had. While this isn't a 'normal' instance you only need one experience of this to realise it's a part of the business where you need to improve.

Another focus that has changed here at de Lautours.co is the move to being more pro-active in our dealings with you. I am spending more time working with people to assist them in identifying their goals because it is a lot easier to give advice when I know the direction you are heading in. The analogy I use is to say that I can give great advice directing you to Wellington so that you have an enjoyable, cost effective journey, yet the advice is pointless if you really want to go to Auckland.

I have found that the clients that have gone through the goal setting experience with me have found value, and I have really enjoyed working with the clients in a more pro-active manner. The next step in the process is to go through a planning session so that work can commence on working towards these goals.

If you have any queries over what I have written about, feel free to give me a call.

The review of Trust law in New Zealand Out with the old

The Law Commission has just released the first in a series of papers that aim to review and modernise the law of Trusts. In that paper, the Commission first points out that the current legislation (the Trustee Act 1956) has been neglected and that there are concerns about its usefulness and outdated language. Following on from that, the present law does not have enough mandatory provisions. For example, it is not unusual for a Trust Deed to include clauses exempting Trustees for breaches of trust. The Commission sees a rewrite of the legislation as helping to clarify certain basic obligations that must be adhered to.

Even though the Act is called the 'Trustee Act', it contains only one statement about the standard expected of Trustees. The new legislation will spell out the duties and powers of Trustees, as well as beneficiaries' rights.

It will be some months before the likely changes become clear. Having said that, we have concerns about the standard of Trust administration in a number of our clients' Trusts and we're continuing to step up our Trust administration activities, to make sure those Trusts are robust and cannot be challenged by any third party.

Funny - Two Boys

Two young boys are in a hospital, lying on stretchers next to each other outside the operating surgery – the surgeries of the day.

The first kid leans over and asks, "What are you in here for?"

The second kid says, "I'm here to get my tonsils out and I'm a little nervous."

The first kid says, "You've got nothing to worry about. I had that done when I was four. They put you to sleep, and when you wake up they give you lots of jelly and ice cream. It's a breeze."

The second kid then asks, "What are you here for?" The first kid says, "A circumcision."

"Whoa!" the second kid replies. "Good luck buddy. I had that done when I was born. Couldn't walk for a year!"



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Becoming Customer Driven

A really practical read on retaining customers in your business is Ian Brooks' 10 Steps to Becoming Customer Driven. Brooks talks about customer relationship management (CRM) as "not just a marketing initiative or a piece of business software, it is a powerful business strategy. CRM is the way you run your business."

He says businesses serious about becoming customer driven need to build their entire business strategy towards totally caring for the customer and changing the behaviours by which the team and therefore the business will carry out this strategy.

Everyone in the organisation, from the CEO to the front-office people to the workers in the storeroom, needs to be customer driven.

Go out of your way to solve the problem

Brooks asks how important is it to retain your customer? Obviously it's very important. Therefore you need to go out of your way to solve the customer's problem.

Why then do surveys reveal such shocking customer service statistics in this country, and why, as consumers ourselves, we often feel fobbed off by companies that show lack of compassion, understanding or care?

You need to care very much if your customer has a problem because if you don't care, they'll go somewhere else that will. Walk in the customer's shoes for a change – if they have a problem, it becomes your problem to fix. Help solve the problem, and the customer and you will walk away happy. Strive always for a win-win situation.

A customer-driven organisation involves putting the right systems in place and the right people in place and managing your relationships with customers really well.



Accounting for Sharemilkers' Entitlement to Calves



Some lower order sharemilking contracts include a provision that sharemilkers are entitled to take and rear as their own property, and for no charge, (say) 50 calves that are born each year. This little "perk" forms part of the sharemilkers' remuneration.

The problem is that the farm owner runs foul of Section GC 1 of the Income Tax Act 2007 and also has a problem with Section 10(2) of the GST Act 1985.

Income Tax

For income tax purposes livestock is defined as trading stock. Section GC 1 prohibits the owner of the trading stock from making any sale or disposition for nil consideration or a consideration less than market value.

Accordingly, the owner of the livestock must "sell" and the acquirer of the livestock, the sharemilker, must "buy" for an appropriate consideration.

The "sale" of the calves occurs shortly after calving. Replacement calves are retained as replacement breeding heifers, with the excess being either "sold" to the sharemilker or disposed of as bobby calves. The market value of the excess calves at this point (probably) is their bobby calf sale price.

The problem then is under the sharemilking agreement the sharemilker is entitled to receive the calves as part of the contract without further charge.

To offset the "sale" outlined above it is appropriate for the sharemilker to invoice the owner for "additional dairy proceeds per contract" for an amount equivalent to the value of the livestock.

This leaves both parties all square. The owner "receives" payment for the calves that he has sold to the sharemilker and he "pays" an additional amount to the sharemilker.

From the sharemilker's viewpoint 50 calves have been "bought" and the cost has been offset by "receiving" an additional share of the dairy proceeds.

GST

There are also some GST considerations. Under Section 10(2) of the GST Act 1985 the supply must take place at the open market value of the goods and GST must be accounted for.

There are a few practical considerations which involve the issue of appropriate GST tax invoices and matters in relation to payment if, in fact, no cash changes hands.

If both parties are on an invoice basis, the payment problem goes away.

The best way to deal with this situation is:

1. The calves are valued shortly after calving by an independent party and the value is agreed between the owner and sharemilker.

2. The owner issues a tax invoice for (say)

50 Calves @ \$50	2,500.00
Plus GST	375.00
Total	2,875.00

3. The sharemilker issues a tax invoice for Additional Dairy Proceeds

"As per Contract"	2,500.00
Plus GST	375.00
Total	2,875.00

4. The sharemilker pays the owner a cheque for \$2,812.50 in full settlement of the purchase of the calves.

5. The owner pays the sharemilker a cheque for \$2,812.50 in full settlement of the additional dairy proceeds.

This leaves a complete audit trail for income tax purposes and also provides all the appropriate documentation required for GST purposes. Each party claims the GST input tax and returns the output tax in their next GST return.





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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! We'll be providing you with an Employee Personal File Checklist, to help you meet the new standards
- Union representatives will need an employer's permission to enter the workplace
- Employers will be able to communicate with employees during collective bargaining
- 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

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, 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?



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LAQC reviews underway

The far reaching LAQC reforms 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.



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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

Opportunity is missed by most because it is dressed in overalls and looks like work.

Thomas Alva Edison

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.



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!



Shed Expenses



There is often some confusion over what should be coded to "dairy shed expenses". This code is generally used for the consumables needed in the operation of a dairy shed. Most of these items are purchased from Stock and Station Agents or Dairy Company Trading Stores.

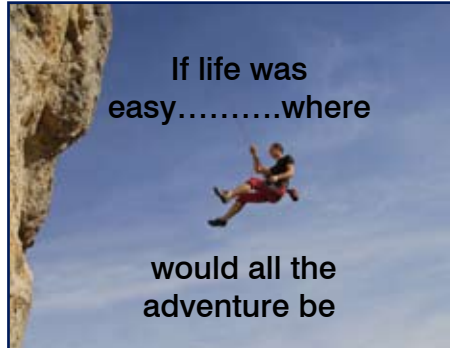
Items to include are:

- Detergents - Rubberware
- Brushware - RVP Oil
- Liners and filter socks

Repairs or replacement parts for the dairy shed or plant should be coded to repairs and maintenance.

Teat spray and penicillin are coded to Animal Health.

Tail Paint is coded to Breeding Expenses.



When is a Pet not a Pet ?

Imagine this: Included in a bundle of client records is a Local Authority invoice for Dog registration fees.

2 Bichon Frise dogs @ 49.10 \$98.20

The client has written "farm dogs" on the invoice.

Of course Accountants regularly encounter invoices for dog roll and cat food coming through on the RD 1 or Stock and Station Agency Statements.

So, how do Accountants treat these items of expenditure? Is there a nexus between necessarily incurring the cost and the operation of a farming business?

Accountants have heard some wonderful stories The farmer owned a beautiful black Labrador, and costs were incurred for registration, vet. fees and dog food; there were some wild ducks on the property; ducks foul the pasture and needed to be shot; leaving dead ducks lying round attracted feral cats, stoats and ferrets; those animals harbour diseases, which could infect the farmed livestock; the Labrador was used to retrieve the fallen ducks; therefore the cost of feeding and maintaining the dog was (necessarily) part of the cost of pest control on the farm.

It may not be possible however that a similar story could be concocted for a pair of Bichon Frise dogs; but maybe they were guard dogs that protected the farm assets from burglars.

Seriously though, this is one of those issues where there is a very narrow line between deductibility and non deductibility. At one end of the scale clients have genuine farm working dogs where there is no doubt that their registration, feed and maintenance costs are fully deductible.

At the other end of the scale there are toy dogs that live in the house and are treated exclusively as family pets. They simply cannot be the subject of business tax deductible expenditure.

Somewhere between these two extremes there is a narrow dividing line between tax deductible business expense and non deductible personal expense. A good dose of common sense is all that is required to make the correct decision.

Finally, there is a story of an Accountant who recalls a lively discussion he had with a fellow Chartered Accountant (opposition firm) about 15-20 years ago. He was adamant that cat food was deductible in respect of a very pampered (family pet) cat that had once caught a rat on the farm.

Accountant X suggested that he should get his feet on the ground and focus on proper accounting analysis based on robust and reliable tax deduction provisions. The opposing Accountant suggested that this was slap dash and X really needed to use some imagination to recognise the nexus between claiming the deduction (the cat food) and the operation of the farm business.

Reminders

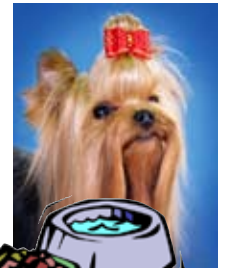
- Please bring us your GST by the 15th of each month .
- Keep us posted with any changes in your contact details !
- We need your email address please!
- Client papers—Please note, If they are not picked up within 10 days of notification, we will automatically send them out.

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Several years later one of the opposition's clients decided to shift their accounting work over to Accountants X's firm. A quick review of the records showed that the previous Accountant did not understand livestock valuation, had made some bad decisions and had also got some of the actual calculations wrong. The net result had been a tax cost of several thousand dollars to the unfortunate client ... but, I suppose he saved about \$40 of tax by claiming the cat food deduction.



Business Review

When the world of business, risk and tax gets you down, contemplate these facts:

1. According to the new Global Peace Index (GPI), New Zealand tops the list of countries that are the safest in the world.
2. According to the just released Human Development Report released by the UN, New Zealand is the third best country to live in the world, climbing 17 places in this year's index.
3. According to the IFC and World Bank, among 183 economies, New Zealand is in the top 3 for ease of doing business for local firms.
4. Australia and New Zealand shared first place, in a first-of-its-kind survey ranking 153 nations on the willingness of their citizens to donate time and money to charity. China ranked near the bottom, barely higher than last-place Madagascar.
5. And if that doesn't put a smile on your face, the world recession has created an oversupply of bubbly from France. Retailers are waging a 'champagne war', with prices for Moët slumping by almost 30%!

The Hobbit – *Shattered buildings, businesses and dreams*

Prime Minister John Key announced late in October that The Hobbit movies will be made in New Zealand, following industrial action and intense negotiations with film producers Warner Bros.

Government then moved swiftly to introduce legislation clarifying the distinction between independent contractors and employees, but only as it relates to the film industry. This Bill amends the Employment Relations Act 2000 so that workers involved with film production work will be treated as independent contractors, unless they choose to be employees by entering into an agreement that provides that they are employees.

The New Zealand government will give Warner Bros a \$15 million tax rebate (subject to the success of the movies) and offset \$10 million of Warner Brothers' marketing costs as part of a strategic partnership, designed to promote the real middle earth as both a film production and tourist destination. NZ will also host one of the world premieres of the Hobbit movies.

The Government's handling of the dispute leading to a payout and a change to

industrial laws to suit Warner Bros has polarised public opinion.

But let's face facts. The Hobbit movies are a \$670M project involving work for thousands of New Zealanders and promoting New Zealand on the world stage.

The production of a movie is big business and in business we all make decisions that involve intricate negotiations and the investment of cash to bring in revenue.

As Henry Ford said so eloquently, "The man who will use his skill and constructive imagination to see how much he can give for a dollar, instead of how little he can give for a dollar, is bound to succeed".



Funny – attractive wife

Stanley was in his usual place in the morning, sitting at the table, reading the paper after breakfast. He came across an article about a beautiful actress that was about to marry a football player, who was known primarily for his lack of I.Q. and common knowledge.

He turned to his wife with a look of question on his face. "I'll never understand why the biggest jerks get the most attractive wives." Stanley's wife replied, "Why thank you, dear!"

Christmas Float 2010





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