

de Newsletter

June 2011

Craig's Yarn



It's the middle of the year already and time is flying by fast. That old adage of "time flies when you're having fun" bears

a certain semblance to life in our Office of late.

I will keep it brief this month ... it is important you have a browse through this Newsletter as there is a high chance that something mentioned here will affect you in some way. I hope that our new fridge magnet sent out recently is proving a handy reminder of our new telephone number here at the Office.

While you could be excused for not realising it's officially winter, I look forward to yarning with you again in our next Newsletter due out in the spring.

Cheers

Important Notice

Our telephone number has changed to

07 872 0566

Fax number remains
07 871 5501

Eftpos

For your convenience, we now have an Eftpos facility on site!

Forestry - Carbon Credits

Have you any exotic plantings on your property?

Does it cover more than 1 hectare, and are the forest species capable of reaching more than 5m in height?

If so, you may be eligible for the issue of New Zealand Units (NZU) which have a cash value and is TAX FREE in your hands!

It does not pay to do nothing as there can be penalties down the track should you do something with the planting.

Please call so we can discuss your position.

Deadline for application for exemption (plantings of less than 50 hectares) is 30 September 2011.

Allocation of NZU - 30 November 2011 so there is not much time left to make a decision.

Note: Plantation must have a width of 30m on average - so this would exclude shelter belts.



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 are covered later in this newsletter 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.



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Tax Rates, Your Will and the Future ...Farmers take note!

After several years of transition, tax rates appear to have settled at levels that could remain relatively stable for a few years. For 2012 the rates are 28% flat for Companies, 33% flat for Trustees, and a top marginal rate (above \$70,000) of 33% for individuals.

It is possible that the top marginal for individuals could be lowered further still, as the current administration congratulates itself on the progressive move away from taxes on income to a greater emphasis on taxes on consumption. (See Peter Dunne's speech to the International Fiscal Association 11 March 2011).

We should always be thinking about operating structures, asset protection and succession planning, and all of those issues have been given added impetus by the changes in tax rates. We should also blend in some consideration of the 2005 legislation changes relating to the death of a taxpayer, the 2009 changes in relation to Partnerships, the 2010 changes to Qualifying Companies (more changes to come?) and the proposed abolition of gift duty from 1 October 2011.

Add to this, the progressive dismantling of some of the advantages that are attached to the operation of Family Trusts (access to family assistance, rest home subsidies, student allowances) and there is a clear case for some serious planning around how we structure our clients affairs to meet their future needs.

A full discussion on succession planning is well beyond the scope of this article, but I do want to look at one aspect of it, namely Wills and Asset Protection.

It concerns me that Wills are drawn up by Solicitors, often without any discussion with the Accountant and certainly without any real consideration of the tax issues that may result from the death of the testator.

In our experience modern Wills (for farmers) often involve leaving all of the assets to an existing Family Trust or to a new Will Trust which will kick into action on death.

The new will is normally supported by a Memorandum of Wishes which spells

out the deceased person's expectation of what the Trustees might do with the Trust assets. Sort of a Will outside the real Will.

The use of this style of Will is apparently driven by an obsession with asset protection i.e. finding a way to preserve the family wealth as family property forever. Or more particularly ensuring that no replacement spouse or de facto, or none of the children-in-law can get their hands on half of any direct legatee's share of a direct bequest.

I acknowledge that we Accountants are often more driven by the potential tax consequences of the construction of a Will, and further acknowledge that it may be better to lose 30% of the Estate in tax rather 50% through a subsequent relationship property settlement.

But there must come a time when the existing spouse (of 40-50 years) and the children (who are now in their 40's) can be trusted to deal wisely with the family wealth which could be bequeathed directly to them.

The use of a Trust as the recipient of the wealth is tantamount to the deceased trying to control their wealth from beyond the grave.

The recent legislative changes on the tax consequences of death are worth studying. There are no immediate tax issues if a spouse leaves the Revenue Account Assets (livestock, depreciated assets) directly to the surviving spouse. But if those assets are passed directly to a Trust, or a life interest Estate, tax consequences crystallise on the death of the first spouse.

The direct bequest to a surviving spouse delays tax consequences until the second death and allows further time to construct a succession plan if appropriate.

Somewhere along the way, I came across a note that reads:-

Watch that a succession plan (based exclusively on asset protection) does not limit vision, inhibit progress, stultify growth, and ossify the brain.

Harsh words, but more than a grain of truth in them.

ACC Cover Plus Extra

Company Shareholder premiums now deductible.

For the past 7-8 years, there has been a problem with ACC Cover Plus Extra premiums for Shareholder employees not being deductible.

The reason for the lack of deductibility was a result of the premium being billed directly to the Shareholder employee. The Employee can't claim a tax deduction for expenses relating to salary/ wages, while Companies can't claim a deduction as the ACC levy wasn't invoiced to them.

This situation has now been rectified and is discussed in the IRD's November 2010 issue of Agents Answers which states:

Previously, premiums for ACC CoverPlus Extra (CPX) haven't been tax deductible for Shareholder-employees. Now, when an employer Company pays a Shareholder-employee's CPX levy, or reimburses them for payment of those levies, the amount paid or reimbursed (excluding the earners' levy) will be tax deductible as an expense to the employer Company.



It is not the employer who pays the wages. Employers only handle the money.

It is the customer who pays the wages.

Henry Ford

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Coping with employment changes

In our Special Employer Alert in April, we highlighted major changes to the Employment Relations and Holidays Acts that came into force on 1 April 2011. Of particular concern to us is the requirement for employers to maintain employee personal files from 1 July this year.

We understand all too well the administration that comes with being an employer. To make our employer clients' lives easier, we've developed a simple Employer Documentation Kit, which you now have the opportunity to acquire.

The kit includes almost 50 checklists, forms and letters as well as a detailed procedure that guides you through its use. The kit covers recruitment, induction, trial & probation, remuneration, training & career development, performance management, leave & sick leave, resignation & termination. (Please note that we have not included an Employment Agreement template in the kit, simply because there are a number of recognised agreement providers).

If you do want help with individual Employment Agreements, you can use the Employment Agreement builder on the Department of Labour website www.dol.govt.nz/er/starting/relationships/agreements/builder.asp

Alternatively you can use a specialist provider, such as one of those listed below:

- The Employment Relations service offered by the Department of Labour, <http://www.dol.govt.nz/er>
- Employers Assistance Ltd, www.employers.co.nz or 0800 15 8000
- Employers And Manufacturers Association Inc (EMA), www.ema.co.nz or 0800 800 362

- Federated Farmers of New Zealand, www.fedfarm.org.nz or 0800 327 646
- Or, of course, your local or preferred legal specialist

To acquire our Employer Documentation Kit, call or email any one of the team and we'll get that out to you in a paper copy.



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

Funny - Husband

A wife went to the police station with her next-door neighbour to report that her husband was missing. The policeman asked for a description.

She said, "He's 35 years old, 6 foot 4, has dark eyes, dark wavy hair, an athletic build, weighs 185 pounds, is soft-spoken, and is good to the children."

The next door neighbour protested, "Your husband is 5 foot 4, chubby, bald, has a big mouth,, and is mean to your children."

The wife replied, "Yes, but who wants HIM back?"

Special Alert: Livestock Valuations

Watch this Space...

The Government's 2011 Budget signalled potential changes to the Livestock Valuation election process.

Government is concerned that farmers are taking advantage of the ability to switch back and forth between the Herd Scheme and the National Standard Cost Scheme, allowing increases in market values to go untaxed with decreases being deductible for tax purposes.

What we may see is a tightening of the rules around moving between the schemes. It is not expected however that either of the schemes themselves will be removed.

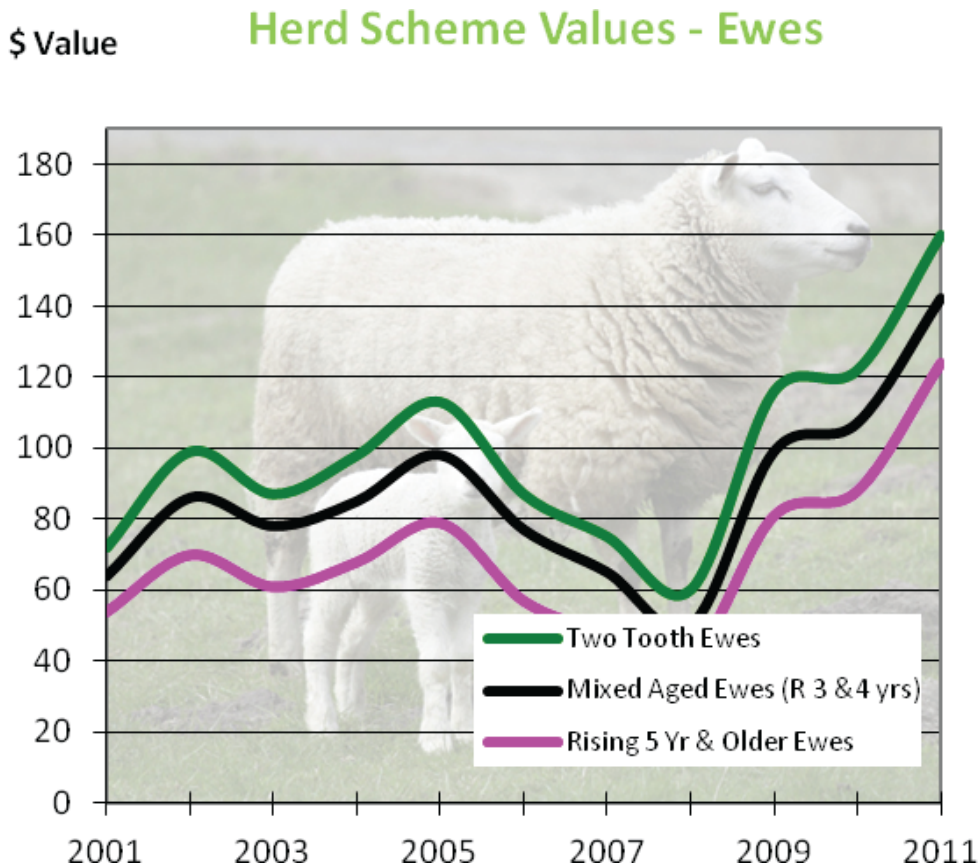
The last review of this legislation was in 1993. A public consultation document will be released on this Budget initiative later in the year.

As your Accountant, we take utilising the Valuation schemes to your best tax advantage very seriously.... We'll keep you posted as fresh information comes to light.



Livestock Valuations Updated

The IRD have recently announced this year's livestock Herd Scheme Values and we think this is a great opportunity to update you on the latest movements. The Herd Scheme Values are the National Average Market Values as determined by a process involving a review of the livestock market as at 30 April.



Sheep Values

Sheep values have increased on average by about 40% to record highs throughout the sector. The profitability being experienced by sheep farmers at the moment is reflected in the values. Also playing a part here will be the lack of supply of lambs due to the storms experienced in the Central North Island and Southland last spring which led to a significant number of lambs being lost.

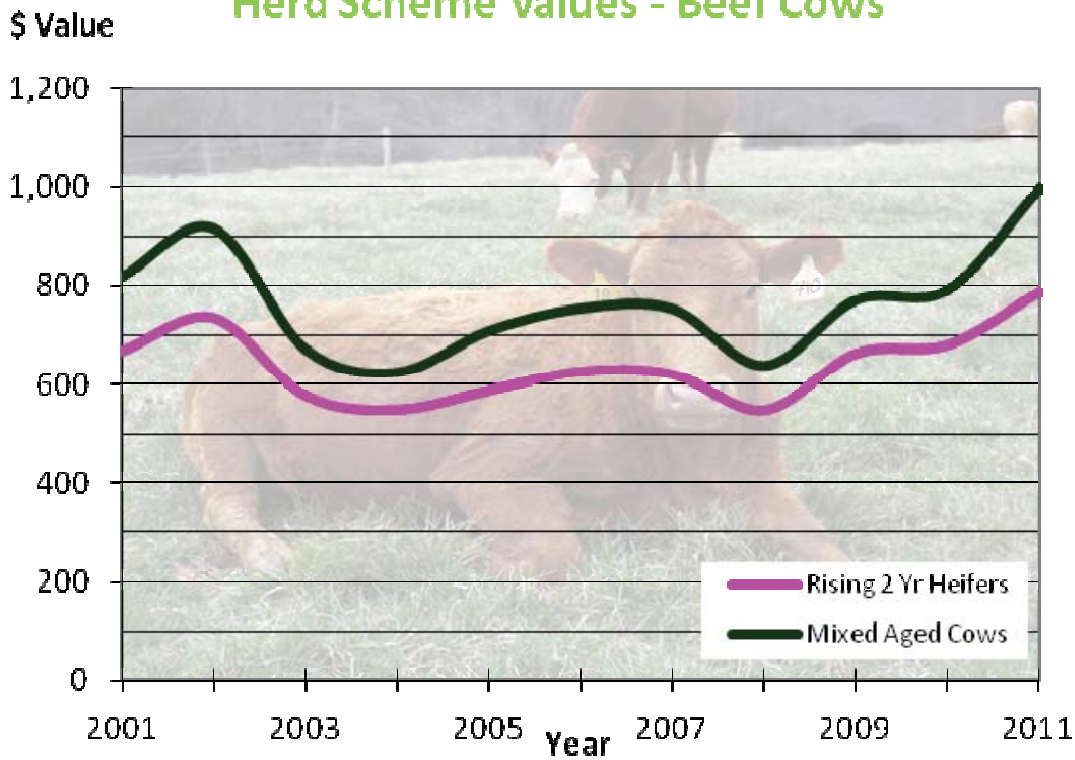
Deer Values

Deer values have generally risen overall from 2009 to 2010. The deer market is experiencing some 'quiet positivity' with worldwide demand for product beginning to increase as worldwide frozen venison stocks diminish. Demand for chilled product is increasing leading to higher meat returns for deer farmers.

The best measure of a man's honesty isn't his income tax return. It's the zero adjust on his bathroom scale.

Arthur C. Clarke

Herd Scheme Values - Beef Cows

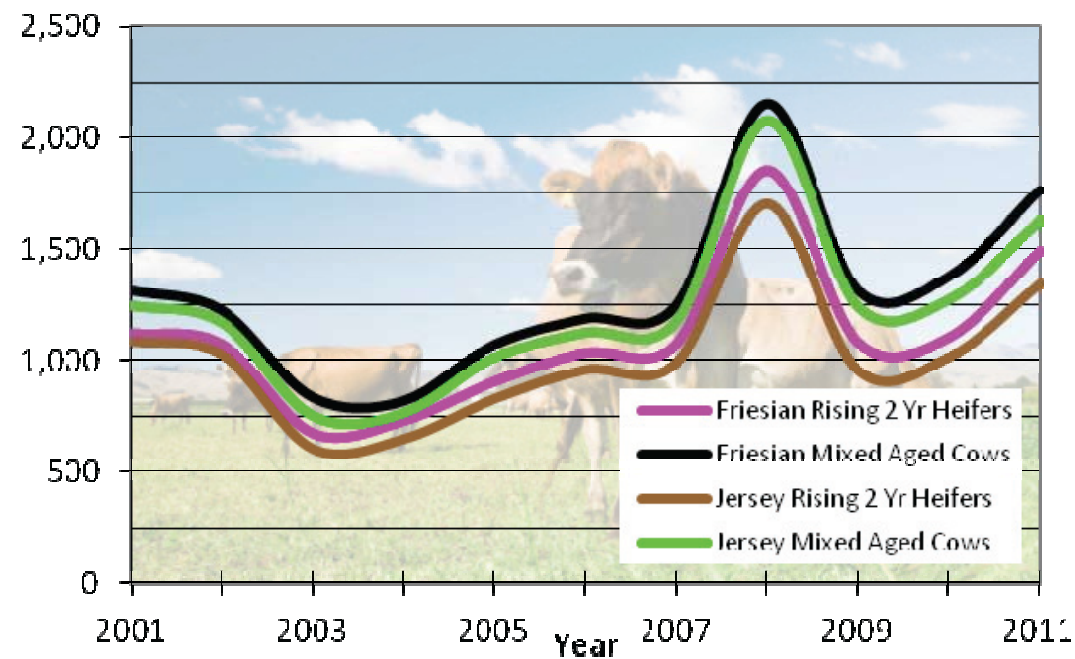


Beef Cattle Values

Beef cattle values have increased significantly on last year's values with Mixed Age cows rising by 26% to \$997 per head. This is the highest value for a Mixed Age Beef cow since the Herd Values were introduced in 1987 and is higher than the previous peak of \$916 in 2002.

The worldwide increase in demand for food is no doubt the driver behind these increases. Certainly some of the supplier driven pricing in the beef market is leading to good returns being experienced by beef farmers at the moment.

Herd Scheme Values - Dairy Cows



Dairy Cattle Values

From the 2010 year to the 2011 year there have been good increases in the value of rising 2 year heifers and mixed age cows which reflects the positivity in the dairy market from increasing dairy pay outs and from indications that these will continue for a year or two.

There have been significant increases in the value of rising 1 year heifers. These values were higher than anticipated by many commentators and are no doubt due to the high prices being achieved for heifers being sold into offshore markets such as China.

General Summary

While there is the ability within the Livestock Valuation legislation to change livestock schemes, the decision to change schemes depends on a number of factors such as:

- Are market values for that class of livestock perceived to be increasing or decreasing? What confidence is there in the industry?
- Is the farmer likely to retire from farming in the short term?
- Is the farmer in a rapid growth phase, and how important is it to preserve cash flow within the farming operations in the short term?

- What is the taxable income for the farming operation, and how is the livestock valuation decision likely to impact on exposures to IRD interest?

Election decisions should be made on a case by case basis. We will discuss your valuation options with you on review of your 2011 Financial Statements and Taxation Returns.

We'll also be in touch when the government announces the outcome of its Livestock Valuation criteria review, as highlighted in the budget.

Comings and Goings

New Administration Manager



Bernard Westerbaan

Bernard, our Office/ Administration Manager, started his career with Dutch Inland Revenue Department before emigration to New Zealand. After milking cows and accountancy work he was employed at the Waipa District Council for 20 years.

Bernard is married to Isabella and they have 5 children and 4 grandchildren. When not at work, Bernard serves on the Community Board, plays bass guitar and enjoys church and watching football. The best thing for Bernard about working here at de Lautours.co is the staff and computer related work! He really enjoys the challenge that computers present, but also the way they ease our jobs!

For relaxation, Bernard likes to do amateur radio, watch "Supernatural" and "Criminal Minds" on TV, while sipping on a 'Jagerrmeister'. He prefers home cooking to any other dining experience and his best advice is, to put your mind to whatever you want to do, and DO it!

Carol Wise has resigned and we wish her all the very best for her future.



Congratulations and goodbye!!

Alison Meddings has completed her business degree with Accounting as a major and with this achievement, has decided to leave us and take on the challenge of working for Rabobank in fulltime employment. We wish Ali all the best in her new role.



Congratulations!!

Lakhminder Singh Ubha was admitted to the New Zealand's Institute of Chartered Accountants' as an Associate Chartered Accountant.



Congratulations!!

Charanjit Ghuman has been appointed in a full-time position to do accounting work. Jit, for short, is a new immigrant to NZ with his wife and young son.

We welcome Jit to our team!



New telephone number
07 872 0566
Fax remains
07 871 5501

Huntington Stables
Retreat Accommodation

Huntington Stables Country Retreat features two private self-contained luxurious lodges set alone in a stable complex with expansive views over the surrounding farmland to the bush and hills beyond, yet less than 5 minutes from the attractive town of Cambridge.

106 Maunakawa Road Ph: 07 823 4136 www.huntington.co.nz

Funny - Bull Breeders

A group of 40-year-old bull breeders discussed where they should meet for dinner after the National Bull Sales. Finally it was agreed that they should meet at the Long Range View Restaurant because the waitresses there had tight pants and looked nice.

10 years later at 50 years of age, the group once again discussed where they should meet for dinner. Finally it was agreed that they should meet at the Long Range View Restaurant because the food there was very good and the selection was also good.

10 years later at 60 years of age, the group once again discussed where they should meet for dinner. Finally it was agreed that they should meet at the Long Range View Restaurant because

they could eat there in peace and quiet and the restaurant had a beautiful view of the countryside.

10 years later, at 70 years of age, the group once again discussed where they should meet for dinner. Finally it was agreed that they should meet at the Long Range View Restaurant because the restaurant was wheel chair accessible and they even had an elevator.

10 years later, at 80 years of age, the group once again discussed where they should meet for dinner. Finally it was agreed that they should meet at the Long Range View Restaurant because they had never been there before.

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