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BROWN GLASSFORD
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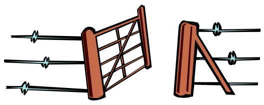
Beyond the Farm Gate



Farming Newsletter

June 2011

THIS EDITION

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Taxation for 2011

As a result of farm income increasing, farmers need to consider their taxation obligations for 2011. Clients with May Balance Dates should have recently received their tax letters from us. Clients with June Balance Dates will be receiving their tax letters within the next month. **If you wish to discuss your taxation options for 2011, please contact our office as soon as possible.**

Budget 2011

KiwiSaver

Less Government Participation

The Government wants more real saving by New Zealanders and less input from the Government coffers. Changes should save the country $2.6 billion in four years, money that would otherwise have to be borrowed…

1. The Member Tax Credit (a Government subsidy) will be halved to a maximum of $10 per week – **effective 1 July 2011**.

2. Employer contributions will no longer be tax-free from **1 April 2012**. Employer Superannuation Contribution Tax will apply at the employees' marginal tax rate.

3. On **1 April 2013** minimum contributions from both employer and employee will rise from 2% to 3% (employees/members can still opt to contribute 4% or 8%).

Please note that Kick-Start payments will remain unchanged.

Student Loans

Tighter lending criteria

Mild changes to the Student Loan system will be implemented in the next two years:

1. Students with overdue payments of $500 or more, and who are in default for over a year, will have restricted eligibility for further loans.

2. Students aged 55 and over will be eligible to borrow for tuition fees only.

3. Part time students will no longer be eligible to borrow for course related costs.

4. The repayment holiday for borrowers offshore will be reduced from three years to one, and borrowers will be required to apply for the holiday providing a New Zealand based contact before they leave.

Working for Families

Small reductions targeted at higher earners

An increase in eligibility has caused a Working for Families blow out and the Government is making minor changes to curb the escalating costs of the scheme. These new changes will be applied in conjunction with those heralded in the 2010 Budget as part of a four stage programme.

Stage one came into effect on 1 April 2011 with changes to the definition of 'family income' to include nine extra types of income, restricting families from using investment losses to reduce their income for higher tax credits.

One by one further changes will be implemented with each new inflation adjustment – roughly every two years until 1 April 2018. These changes are:

- A reduction in the income level at which tax credits start to decrease, from $36,827 to $35,000.
- An increase in the rate of reductions, from $0.20 in the dollar to $0.25 in the dollar.
- The amount paid in respect of children aged 16 and over will be aligned with that paid for children aged 13 to 15.

Those with lower incomes will be largely unaffected – the majority getting an increase in their payments from 1 April 2012. Some higher earning families will receive a little less than they currently do and a small portion (approximately 7,000) will no longer qualify.

If you currently receive your Working for Families Tax Credit (WFFTC) on a weekly/fortnightly basis (as opposed to a lump sum at the end of the year) your current payments may be incorrect, as a result of the changes to 'income'. If this is the case, please contact us.

Private Use Adjustment on Cars

As of 1 April 2011, the rules for calculating private use adjustments on vehicles for sole traders and partnerships have been simplified… well 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, 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 is a wash up calculation when you sell the car and it is complicated. In fact, we will not bore you with the details in this newsletter. To talk through your situation, give us a call or email us and we will provide you with the maths.

Zero-rating of Land Transactions

The Taxation (GST and Remedial Matters) Act 2010 introduces new rules that require, from 1 April 2011, transactions between GST-registered parties involving land or in which land is a component to be zero-rated.

The new rules will not apply when the supply of land is intended to be used as a principal place of residence of the purchaser or their relative.

The Act clarifies that the obligation for providing information on whether zero rating is applicable will rest solely with the purchaser of the land. The purchaser must provide a written statement regarding their GST registered status and their intended use of the land. Therefore, it requires the purchaser to provide, at or before settlement, a written statement to the supplier whether at the date of settlement:

- They are, or expected to be, a registered person.
- They are acquiring the goods with the intention of using them for making taxable supplies.
- They do not intend to use the land as a principal place of residence for them or a person associated with them.

The standard Auckland District Law Society Sale and Purchase Agreement now includes an addendum in the form of a checklist to notify of the intent to be zero-rated. Agreements should still say 'plus GST if any'.

If a supply is zero-rated the supplier is required to maintain sufficient records to enable the following particulars in relation to the supply to be ascertained:

- The name and address of the recipient.
- The registration number of the recipient.
- A description of the land.
- The consideration for the supply.

For the sale of farms where there is a dwelling/s the GST Act still considers there to be two supplies in these cases; the exempt supply in the case of the house and a zero-rated supply in the case of the land. In the GST Return you are only dealing with the zero-rated supply and the amount of that supply.

Therefore a dwelling and curtilage apportionment will still be required as has been the case historically.

Electronic Tax Payments

A reminder to clients who make their tax payments electronically that you need to be careful with the year reference. The year reference needs to be in relation to the tax year the payment belongs to, not the particular year the payment is made. For example, if you make a 2011 year Terminal Tax payment on the 7th of April 2012 the year reference needs to be 2011.

Inland Revenue will not automatically re-allocate the payment to the correct tax year and will send out a late payment letter. We then have to contact Inland Revenue and transfer the payment to the correct year.

Petrol Rebates

All petrol sold in New Zealand has an Excise Duty tax applied to it. This tax is theoretically for the creation and maintenance of the country's roading infrastructure. It follows then that petrol not used in vehicles on the road should have the Excise Duty refunded.

Excise Duty applies to the following fuels at the following current rates (as at April 2011):

- Petrol $0.56 per litre
- LPG $0.12 per litre
- CNG $3.65 per gigajoule

Excise Duty does not apply to diesel. Instead of having the tax applied to the fuel, owners of diesel vehicles pay a road user charged based on mileage. Road user charges can also be refunded when vehicles are used off road (refer to: www.nzta.govt.nz for details).

Farmers are entitled to claim a rebate on the above fuels used in the operation of the following:

- Petrol Tractors
- Farm Bikes & Quad Bikes
- Chainsaws
- Brush Cutters
- Stationary Motors and Generators
- Gas Bottles for docking

The key point is that this is an on road vs off road vehicle test. It is not the business use test that we use for Annual Accounts or GST.

At $0.56 per litre, the petrol rebate is worth claiming. Farming bikes, particularly quads use a lot of petrol. Many farmers easily use several thousand litres per year. $0.56 per litre rebate over 2,000 litres generates a $1,120 rebate. This is not a bad reward for minimal paperwork and quarterly claims. Claim forms (MR70) are available from the New Zealand Transport Authority, or are found at www.nzta.govt.nz. An Excise Duty fact sheet (Factsheet 14) provides details on the Excise Duty refund process.

Claims are filed quarterly and require details of usage of fuel, a reconciliation of opening and closing stock and proof of purchases. It is possible to claim refunds as far back as two years, but you lose 10% of the refund for any claims older than three months.

For those who apply for and obtain a petrol rebate, these refunds are subject to GST and Income Tax. The refund should be credited back against the appropriate expense code or recorded as taxable sundry income.

Brown Glassford Record Keeping Dividers

We offer to our clients' **free** record keeping dividers to help clients organise their records throughout the year. Efficient record keeping enables us to complete Annual Accounts more accurately. The record keeping dividers consist of 10 tabs and each tab has a heading as follows:

- ★ Tax Return Information
- ★ Income
- ★ Wages and ACC
- ★ Assets
- ★ Loans, HP's and Leases
- ★ GST, FBT and RWT
- ★ Expenses and Tax Invoices
- ★ Bank Statements
- ★ Monthly Suppliers
- ★ Computer Reports

If you would like to place an order for a set of the dividers, please contact the office or email Jayne: jayne.lewis@brownglass.co.nz.