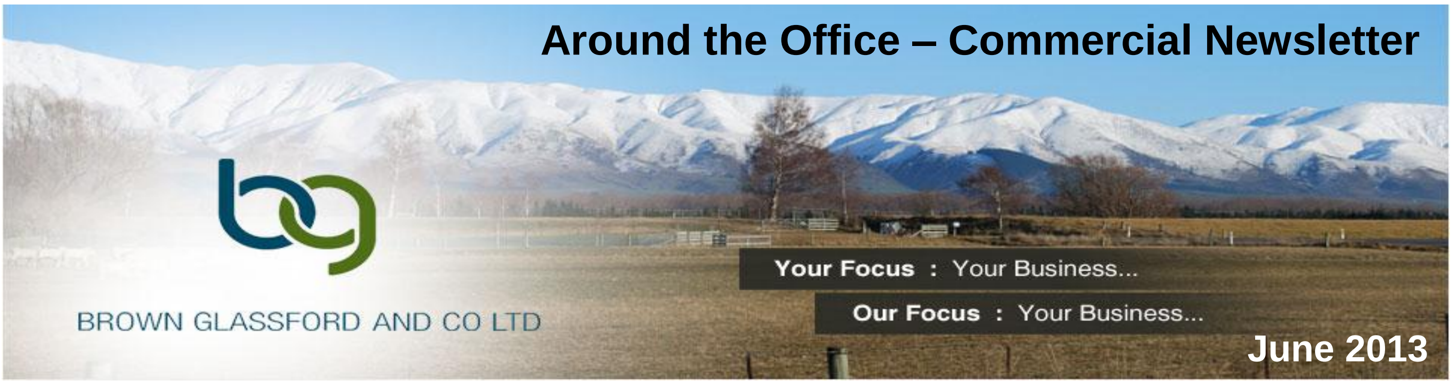

P 03 365 0881 ❖ F 03 377 2991 ❖ E admin@brownglass.co.nz ❖ www.brownglass.co.nz

THIS EDITION

ACC – CoverPlus and CoverPlus Extra

We often talk to clients about their accident and income protection insurance, and in particular:

- The differences between ACC CoverPlus (CP) and ACC CoverPlus Extra (CPX)
- The option of exchanging some of their ACC costs for taking up income protection (IP) insurance

This article gives a general overview of the matters to consider. The table below gives a summary of the main differences between ACC CP & CPX, remembering that ACC provides cover for accidents only:

	ACC Coverplus	ACC CoverPlus Extra
Eligible Business Types	Self employed only, as soon as business starts	Self Employed + non PAYE shareholder employees, you must apply for this cover
Proof of Loss of Earnings	Yes, standard ACC cover for self employed based on previous year's liable earnings	Agreed level of cover, and can opt for lower levels of weekly compensation
Renewal of Cover	Automatic renewal each year	Automatic rollover 31 March each year
Weekly compensation when injured	Pays up to 80% of previous year's liable earnings, may be reduced if business continues to generate income, based on actual loss of earnings. 7 day wait period	Based on 100% of agreed amount until fit to return to fulltime work, stays the same if business still generates income (but will be reduced if you have opted for lower levels of weekly compensation. 7 day wait period
Maximum / minimum cover 2013-2014 income year	Max $113,768, Min $27,548 (ACC pay 80% of these), subject to change, normally annually	Max $92,871, Min $22,464 , subject to change, normally annually

A more detailed guide can be found at the following link:
http://www.acc.co.nz/PRD_EXT_CSMP/groups/external_levies/documents/publications_promotion/prd_ctrb089627.pdf

Benefits of CPX

The benefits of CPX can be summarised as follows:

1. A client can change their ACC "classification unit" – these are the occupation codes that determine the levy payable. Shareholder employees and the self-employed can be rated individually in terms of the work they actually perform rather than industry rating, meaning in some cases ACC levies can be legitimately reduced for less manual type work eg: business administration.

2. CPX allows a client to nominate an agreed amount of cover (subject to the max and min levels in the table above). This means you can increase or decrease the agreed weekly compensation relative to what you may have been entitled to receive under CP. Therefore, there is some flexibility in adapting the amount of accident cover to suit your income needs.

3. Under CPX the client does not need to prove loss of income at claim time.

4. Under CPX there is no abatement for partial disablement.

5. CPX allows clients who are new to business (and have no or negative earnings) some form of accident cover, usually 60% of the ACC's replacement labour costs.

6. Often clients may choose to use CPX to elect an agreed decreased level of weekly compensation in the event of an accident, which results in "saved" ACC levies. Clients may then use these "saved" ACC levies to take out additional Income Protection (IP) policies which covers them for accident and illness.

Potential Risks

It is important to remember that where a client reduces their weekly compensation using CPX then it is likely some other benefits will be reduced:

1. There will likely be a reduction in "fatal entitlements" which are payments made to immediate family survivors in the event of death of a client. This can be potentially overcome by taking additional accidental death insurance.

2. An increase in waiting period. The ACC wait period is 1 week whereas IP policies often have an extended wait period before compensation is paid eg: 13 weeks.

In summary, making changes to you ACC and/or personal insurance cover, including substituting one for the other, can be complex – there are both potential benefits and risks. We recommend you get independent professional advice when contemplating any changes.

Fringe Benefits & the "Company Car"

We sometimes get questions from our clients as to how they should be treating the expenditure related to vehicles that are used for both business and private purposes.

Generally speaking, those operating under a sole trader or partnership structure need to make an adjustment for private use for the running costs and the GST on these running costs by way of a % allocation, typically by keeping a logbook or using the IRD "default" business use allocation of 25% where a logbook is not kept. This is relatively easy to administer.

For those operating under a company structure, there are generally two scenarios as outlined below. Note that a company is caught with Fringe Benefit Tax (FBT) obligations on the basis of availability for private use i.e.: you pay FBT whether the vehicle is used or not.

1. Vehicles Available For Non-Shareholder Employee Use

Any vehicle owned by a company and made available to a non-shareholder employee for private use will be subject to FBT. There are some limited exemptions for work related vehicles, however, any private use that is more than incidental means that these exemptions do not apply.

Essentially it becomes a bit of a balancing exercise. If FBT is paid, all costs, including depreciation and the FBT paid, will be deductible to the company for income tax purposes, so there is a 28% tax benefit to the company. However, FBT must be returned on a quarterly basis at 49% on 20% of the value of the vehicle (including all on road costs & GST) e.g.: a $50,000 Prado (including GST) would attract FBT of $4,925 ($50,000 x 20% = $10,000 x 49.25%) on annual basis. On these numbers, average annual running costs including depreciation, would need to be $12,664 ($4,925 / 28% = $17,589 less $4,925 FBT deductible = $12,664) for it to be "tax neutral".

In addition, there is quarterly filing of FBT returns to be completed, and annoying penalties for late filing, which can occur at busy times on the farm.

2. *Vehicles Available For <u>Shareholder - Employee Use</u>*

Where a company vehicle is made available for use to a <u>shareholder-employee,</u> there is a legitimate option available to both recognise and adjust for the private use of the vehicle and remove the compliance cost, hassle, and angst that seems to be a feature of FBT.

This method involves calculating the value of the fringe benefit, then charging that to the shareholder. This reduces the fringe benefit to nil. The amount charged is treated as company income and will be offset by the deductible running costs associated with the vehicle.

Using the example above, the $50,000 Prado that is available for private use 100% of the time would result in a fringe benefit value of $10,000, split $1,304 as GST payable and $8,696 as taxable income for the company, $2,435 of income tax, and therefore a total cash cost of $3,739 (ie: the income tax + the GST).

If we did not do this calculation, the company would be required to pay FBT of $4,925, plus GST of $1,304, less an income tax deduction of $1,744, therefore a total cash cost of $4,485. The net cash cost under the "contribution" option is less and the compliance has been removed.

Redundant Tax Codes

The ML and ML SL tax codes can no longer be used from 1 April 2013. If any employees are using either of these codes, then deduct PAYE using either the M or M SL rates, unless they give you a new Tax Declaration Code form IR330.

Employer KiwiSaver contribution change

The minimum contribution rate for employers (and employees) has increased from 2% to 3% of the gross wage or salary from the first pay period starting on or after 1 April 2013. Here is a useful link to the Inland Revenue website regarding employer obligations: http://www.ird.govt.nz/kiwisaver/employers/administering/employer-contributions/

Student Loans

For those with children or employees who have finished (or nearly finished) their tertiary studies, from 1 April 2013 NZ based borrowers earning more than $19,084 pa will now have to repay them at the rate of 12 cents in the dollar (previously 10 cents in the dollar).

Voluntary repayment bonus – **<u>this has been removed from 1 April 2013.</u>**

Student Allowances

Some of you will have children starting (or restarting) tertiary studies this year and will be going through the process of reviewing their entitlement to student allowances. Broadly speaking, the amount of allowance a student may be entitled to is determined by their income, their parents' income, and whether or not they live in the parental home. A student may earn up to $206.73 before tax in any one week before their student allowance payments are affected.

If students are aged 18-23 and have no children, then their parental income will be tested to determine the level of student allowance payments. Parents can earn up to $55,028 per annum before the student allowance payments are affected, and then the allowance payment is reduced gradually to nil once parental income reaches $83,449 per annum (if the student lives at home) and $90,555 per annum (if the student lives away from home).

As with Working for Families Tax Credits, the definition of Parental Income for student allowance purposes is now much wider ranging that it used to be and, in particular, now includes income in Trusts that is not distributed to beneficiaries, Income Equalisation deposits (except for adverse events), income held in closely held companies, other payments received by parents that exceed $5,000 per annum, and also does not allow parents to offset any business losses against their taxable income. We find the StudyLink website a useful source of information when contemplating whether or not to proceed with an application for student allowance: http://www.studylink.govt.nz/

Children's Wages

Up until 1 April 2012 you were allowed to employ school students and, provided they didn't earn more than $2,340 per annum, no tax needed to be deducted. They may also have qualified for the tax credit for children.

The tax credit for children was repealed effective from 1 April 2012, and was replaced with a tax exemption for children meaning that they will not need to pay tax on income up to $2,340 which is not taxed at source e.g. mowing lawns, babysitting. However, this exemption does not apply to income on which tax has already been paid, e.g. wages, interest.

As at 1 April 2013, you will now be required to deduct PAYE from a school child's wages. The rate of deduction will be 10.5% up to the point they earn $14,000. This means providing the child with a Tax Declaration Code form IR330 prior to 1 April 2013. If the IR330 is not completed and returned, you must deduct PAYE at the "no notification" rate of 46.7%.

Mixed Use Assets

Mixed use assets refer to those assets that are used to earn income for their owners but are also used privately. The Taxation (Livestock Revaluation, Assets Expenditure, & Remedial Matters) Bill due shortly to get its second reading in the House contains new rules in dealing with these assets.

It is intended that these rules will apply when as asset is:

1. Used to earn income; and
2. Used privately; and
3. Is not used for more than 62 days in an income year

Only land or buildings, and assets costing more than $50,000, are proposed to be included (eg: beach house, light aircraft, boats). The overall intention of the Bill is to require the taxpayer to apportion expenditure associated with these assets so that only part of these expenses can be deducted for income tax purposes. We will update you on the detail of these proposals once they have been enacted.

Interest Rates

Over the first half of this year we have seen some volatility in the longer term fixed interest rates, whilst floating rates have remained relatively steady.

We continue to recommend that you obtain regular (say two weekly) information from your bank as to the movement in interest rates (e.g. floating through to 5 years fixed). It will help you get a feel for the general direction of interest rates, and what is influencing these movements.

This is certainly useful if you have fixed interest rates expiring, or if you are contemplating fixing interest rates on debt that you currently have on a floating rate. Of course, we are happy to discuss with you your current borrowing structure and some of the strategies you might employ to manage your interest rate risk.

Starting Out Wage – Ministry of Business, Innovation & Employment

Available from 1 May 2013, eligible 16-19 year olds can be paid 80% of the adult minimum wage for 6 months, or for as long as they are undertaking recognised industry training of at least 40 credits per year. For more information go to the following link:http://www.dol.govt.nz/er/pay/starting-out-wage/

IRD – Unpaid Taxes

In some cases, clients may get behind when making their tax payments on time. Having an outstanding tax debt will normally result in the following charges at IRD:

- Late filing penalties and interest
- Late payment penalties
- Non payment penalties

It can also result in additional costs to our clients if we have to spend significant additional time resolving these matters.

If you find yourself in circumstances, where you cannot make a tax payment, then please contact us so that we can discuss the options with you.

Please note: IRD will send correspondence when they think a tax payment has been missed. Ordinarily this will be sent to us as your Tax Agent and we will contact you if we need to. However, we have had a number of instances in the last few months where the IRD correspondence or their text messages have been sent directly to clients and not to us. We would request that if IRD contact you directly, that you either refer them to us as your Tax Agent and/or contact us to discuss the correspondence received.

Annual Account Questionnaires
We are now well into preparing annual accounts and income tax returns for our clients for the 2013 income year.

Those of you with March/April/May balance dates should have received the Annual Questionnaire from us by now. This forms the basis of the information we need to prepare these reports.
Please contact us if you have not received your March/April/May Questionnaires yet.

Clients with June balance dates will receive their questionnaires shortly.

If you have any questions about completing the questionnaires, or the information we need to complete your annual accounts and income tax returns, please do not hesitate to contact us.

Client Folder and Index
A reminder that we have a good supply of the folder and index which can be used to help collate your accounting information to bring in to us.

Please phone or email our receptionist, Erin, if you would like us to send you a folder and/or index - *Erin.Coakley@brownglass.co.nz*

Premises Update

We are now very happily settled into our new premises on
Level 2, 504 Wairakei Road.

We have client car parking available under the building
and we look forward to seeing you in our new office.

***Please note**:* **we have a new postal address which is:**
P O Box 39195, Harewood,
Christchurch 8545

Staff News - Arrivals

We are very pleased to welcome the following people to the BG Team:

Nicole Scully
Nicole started her accounting career in Southland before moving to Christchurch with her husband. Nicole's young daughter Indie keeps her busy in her spare time.

Erin Coakley
Erin is our new Receptionist and Companies Administrator. Erin is from a farming background in the Waikato and studied at Lincoln. In her spare time, Erin teaches dancing and enjoys keeping fit.

Karen Bedford
Karen was brought up on a Canterbury sheep farm. After completing her degree, she worked in a Chartered Accountants office in Dunedin in an Agribusiness team, before moving back to Christchurch.

Staff News - Departures

Christie O'Donnell

We have recently farewelled Christie O'Donnell. Christie is moving to Blenheim with her husband and young son to be near family and we wish them all the very best.