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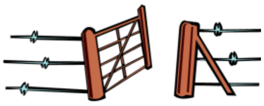
BROWN GLASSFORD AND CO LTD

Beyond the Farm Gate



Farming Newsletter

July 2012

THIS EDITION

- Brown Glassford & Co - Premises Update
- Annual Questionnaire
- IRD – changes to Student Loans
- Payroll Management
- IRD – changes to Working for Families Tax Credits
- Income Protection Insurance
- Rations Provided to Employees or Contractors
- Basis for Determining 2013 Provisional Tax Payments
- Significant Changes to Farm Cashflows
- Interest Rates

Brown Glassford – Premises Update

The construction of our new premises at 504 Wairakei Road is running to schedule and the photo above gives you some idea as to what it will look like once finished – from the outside at least! All our staff went on a recent site visit to the building to give us all a better impression of what we will be moving into, and we are still on target for moving into the building in September 2012.

Annual Questionnaire

By now, almost all of our clients will have received our Annual Questionnaire to complete and send back to us with their records for us to complete Annual Reports and Tax Returns.

If you have not received one, then please either make contact with us or go to our website at http://www.brownglass.co.nz/ and download one.

If you have any questions in respect of completing the Annual Questionnaire, please call us to discuss. We find that the more complete this information is at the commencement of your work, the less time it tends to take to complete the work, and the less likely that the IRD will amend Tax Assessments, particularly with respect to Student Loans and Working for Family Tax Credits (*see below*).

Student Loans

1 April 2012 Changes

For clients (or their children) who have student loans, or for those who employ staff with student loans, there have been some changes implemented with effect from 1 April 2012 which you should be aware of:

- Anybody who has a student loan and earns salary or wages in NZ must use a tax code that includes the SL repayment code unless:
  - You are studying fulltime & have an exemption (must earn less than $19,084 pa, you must apply for an exemption); or
  - You receive an income tested benefit (use the "M" code for benefit income but the "SL' code for secondary income).
- For student loan borrowers who go overseas, the maximum time you may have a repayment holiday has been reduced from 3 years to 1 year. Further, you must apply for the repayment holiday and provide an alternative contact person based in NZ.
- You will not be able to use losses from business or investment activities to offset your income and reduce student loan repayment obligations.

Voluntary Repayment Bonus

You may qualify for a voluntary repayment bonus of 10% of the voluntary repayments you make if:

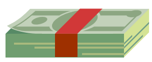
- You are up to date with repayments and obligations
- Your total loan balance is greater than $550 at the start of the tax year, and
- Your voluntary repayments for the tax year are greater than $500.

Bonuses are limited to 1/11th of your loan balance. The 2013 income year is the last year that a voluntary repayment bonus is available.

IRD Website http://www.ird.govt.nz/studentloans/

Student Loan Borrower Overseas

It is important for you to provide accurate dates in our Annual Questionnaire when Student Loan Borrowers are overseas as the IRD cross checks these with the Department of Immigration and will amend Tax Assessments accordingly. Often this will result in further work required by us and additional Income Tax and Student Loan payments required by the borrower !



Payroll Management

We understand that PGG Wrightsons no longer provide payroll management services to rural clients. If you require payroll management services, we would recommend contacting either of the following providers;

- **Ezypay Ltd** – Total Payroll Management – contact 0800-399 729 or www.ezypay.co.nz
- **Kim Hamill** - Your Office Administrator – contact 03 307 8448.

Working for Families Tax Credits

As per our last newsletter, we remind you that from 1 April 2011 the IRD will now include income received from a much wider range of sources than was previously the case when determining Family Income for the purposes of calculating Working for Families Tax Credits (WFFTC). In some cases this will mean that you may not receive a WFFTC when, under similar income circumstances, you have in the past.

You will see in our **Annual Questionnaire** that we have asked you to provide details of any income you receive from any of the following sources:

- Any Trusts you have settled and/or benefitted from that we do not administer.
- Passive income received by any of your children (eg: rent, royalties, beneficiary income, PIE income).
- Any fringe benefits you receive.
- Any other payments you receive and use for day to day living expenses.

A more detailed description of the above income sources can be found on the IRD website www.ird.govt.nz/wff-tax-credits/entitlement/work-out/wfftc-entitlement-adjustments.html

Again, it is important that you provide us accurate information via the Annual Questionnaire as the IRD are applying more scrutiny around determining if there is income from these sources and will amend Tax Assessments accordingly.

Income Protection Insurance

Many of you may have Income Protection Insurance policies to provide for your income in the event of accident or illness in addition to any cover you may receive under ACC.

We remind you that premiums for these policies may be deductible against taxable income provided that the benefit from the insurance policy is taxable. Please let us know if you have an Income Protection policy so that we can ensure it is treated appropriately when completing your income tax return.

ACC

We receive a number of enquires from clients regarding their ACC payment obligations and ACC cover.

We are currently investigating how we might provide a distinct ACC Management Service to clients and will let you know more about that in subsequent correspondence with you.

However, in the meantime, if you have any questions regarding your ACC assessments or invoices, please contact us. In respect of any queries, it is almost always necessary for us to have a copy of the ACC documents you are referring to (these can be faxed or scanned to us, *both sides of the pages please*!)

Rations provided to employees or contractors

You or your business will normally be entitled to claim a deduction for the cost of meals provided to employees or contractors whilst they are carrying out work at your property. You should keep a record of the number of meals provided, and their cost, and include this in the Annual Questionnaire so that we can claim the deduction. In the absence of records being kept in respect of the cost, we would normally allow $5/person for morning/afternoon teas, and $10/person for main meals as a reasonable estimate.

Basis for Determining 2013 Provisional Tax Payments

Some of you will use the "estimate basis" to determine the amount of your Provisional Tax payments throughout the year. You can re-estimate your provisional tax as often as you like, up to and including your third instalment, at which date your last estimate becomes final.

In order to avoid overpayment (and use of valuable working capital) or underpayment (and the risk of interest and/or penalties to IRD) under this basis, it is worth reconsidering your estimate if you think there may be significant changes to your taxable income.

In general, the outlook for commodity prices over the coming 2013 year looks lower compared to the 2012 year recently completed. For those of you using the "uplift" basis (ie: 2012 Residual Tax + 5%) to determine 2013 Provisional Tax payable, there may also be a case for considering using the "estimate basis" to lower the 2013 Provisional Tax payable if you think your Taxable Income will be significantly reduced.

We will cover this with you in the course of completing your 2012 Annual Report & Income Tax returns, however, we are happy to discuss it with you prior to then if you wish.

Significant Changes to Farm Cashflows

Partly related to the above, we are also seeing the likely impact on 2012-13 farm cashflows as a result of the generally lower commodity price outlook. Although these prices still tend to be above historic averages, some clients have been surprised by how much less cash income there will be over the coming season eg: an owner/operator with a 300,000kgMS dairy unit may see income fall approximately $1.20/kgMS or $360,000; an owner/operator fattening say 5,000 lambs may see income fall $30/lamb or $150,000.

Each operation will be different, however, we recommend if you haven't already done so, to sit down and prepare a budget for the coming season so that you can see how commodity price changes may affect your cashflow, and determine whether you may need to make adjustments to the timing or amount of planned expenditure, and/or ensure you have sufficient seasonal finance in place.

Interest Rates

Given continued volatility in overseas capital markets in particular, we continue to recommend that you obtain regular (say two weekly) information from your bank as to the movement in interest rates (eg: floating through to 5yrs fixed). It will help you get a feel for the general direction of interest rates.

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.

Similar to the market for housing loans, well capitalised banks are also competing for business and farming loans so it pays to keep informed as what current interest rates are for the various terms.

Something that banks are doing more of for their clients is the "forward fixing" of interest rates. Essentially, they can book an interest rate now to come into effect at some point in the future eg: agreeing now for a fixed rate to apply on a loan from, say, 1/6/2013. Depending on your circumstances, this may mean that you can take advantage of currently lower floating rates for now, but "lock in" the certainty of a fixed rate in the future.