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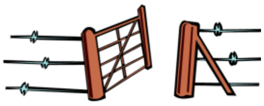
BROWN GLASSFORD AND CO LTD

Beyond the Farm Gate



Farming Newsletter

April 2012

THIS EDITION

- Brown Glassford Staff News
- "Happy New Year"
- 2012 Provisional Tax Instalments (31 March balance dates)
- Income Estimates and Tax Payment Planning
- IRD – changes to Working for Families Tax Credits
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- IRD – changes to Building Depreciation
- New or changed Borrowing Facilities
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Staff News/Announcements

~Caroline Boyd-Clark ~

Brown Glassford welcomes Caroline to the BG team. She works as Personal Assistant to Peter Glassford and Paul McCarron. Prior to joining BG, Caroline was in similar roles at several other Accounting firms in Christchurch. Originally from North Canterbury, Caroline has lived in Christchurch for a number of years. Her complete profile can be viewed on our website www.brownglass.co.nz

~Louise Wohlers ~

Brown Glassford also welcomes Louise to the BG team. Louise's was raised on a Southland sheep farm and completed a Commerce and Management Degree at Lincoln University in 2000. She has completed her Chartered Accounting qualification in 2008 whilst working for a Farm Accounting practice in Timaru.

~Off Site ~

As those of you who deal with her already know, as of 16 April 2012 Di Leslie will be working from home – in sunny Nelson! She is still very much connected to Brown Glassford and the office and can be reached via her usual email and phone contact details. In the unlikely event you experience problems contacting Di, please let us know at the office and we will sort it out.

Happy New Year

Well another tax year has passed us all by on 31 March 2012 and we have spent April finalising the last of the 2011 income tax returns for clients. The seismic events of the past 18 months or so have created some disruptions to our business operations, not least having to move to temporary premises in March 2011 (new premises update later in this newsletter). We would like to take this opportunity to thank you all for your understanding and patience, particularly in the cases where we have been later than we would have liked in completing your work.

We are currently near the end of planning our next years work and are confident that work will be completed to better timeframes.

2012 Provisional Tax

Those clients with **31 March balance dates** will soon be receiving tax payment slips from us for the 3rd instalment of 2012 Provisional Tax **due on 7 May 2012.**

Estimation Basis for Determining Provisional Tax Payments

Some of you will use the "estimate basis" to determine the a 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 installment, 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, for example;

- Quantity/volume of production (eg: no. lambs, crop yeilds, kgMS)
- Product prices (eg: lamb prices, crop prices, payout forecast)
- Changes in farm costs (eg: projects, fertilizer, cost savings)
- Availability or otherwise of previous year tax losses to offset future taxable income.

Although we will have covered these things with you when we finalised your 2011 income tax returns, we suggest making contact with us if you think your taxable income has changed significantly since then.

Working for Families Tax Credits

From 1 April 2011 there have been changes to the types of income to be included when determining Family Income for the purposes of calculating Working for Families Tax Credits. Family Income will now include income received from a much wider range of sources than was previously the case.

You will see in our **Annual Questionnaire** that we have asked you to provide details if you receive income 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, interest and dividends)
- Any fringe benefits you receive
- Any other payments you receive and use for day to day living expenses (e.g. school fees paid by relatives).

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

KiwiSaver Employer Contributions – Deduct Employer Superannuation Contributions Tax (ECST) from 1 April 2012

As you know, as an employer you are required to contribute to your employee's KiwiSaver account or complying fund at 2% of their gross salary or wage. **From 1 April 2012** you must deduct tax known as ESCT from any employer cash contributions made to a registered superannuation scheme including KiwiSaver for an employee. This can be done one of two ways:

1. An optional ESCT rate based on either:

- the total salary or wages plus gross employer cash contributions paid to the employee in the previous standard tax year (1 April to 31 March), or
- when employees haven't worked for a full previous tax year, an estimate of the total salary or wages, plus gross employer cash contributions that the employees have received or will receive, can be used.

With the thresholds as follows:

- $0 - $16,800 at 10.5%
- $16,801 - $57,600 at 17.5%
- $57,601 to $84,000 at 30%
- $84,001+ at 33%

Or

*2. Treat your employer cash contribution as salary or wages and taxed at the employee's **personal tax rate** (if the employer and the employee agree)*

If employers agree, employees can choose to have all or part of the value of the employer's superannuation cash contribution included in their gross salary and wages and taxed at their personal tax rates. Employees must understand that classifying this amount as salary and wages will affect their Working for Families Tax Credits, independent earner tax credit entitlements, the amount of Child Support they pay and their student loan repayments. However, they can change back at any time.

The actual employer cash contribution is paid into the KiwiSaver superannuation fund - the employee doesn't receive the contribution in the hand. The value of the employer cash contribution will be added to the employee's gross wages for the pay period and taxed at the appropriate rate. The rate will depend on the employee's tax code.

Contributions treated as salary and wages are subject to ACC earners' levy (included in the PAYE tables). There are two ways of paying the employer cash contribution to the superannuation fund:

- the gross amount is paid to the superannuation fund and the employee's net salary or wage is reduced by the amount of PAYE i.e. less paid to employee, or
- the net amount is paid to the superannuation fund after deducting the income tax component of the PAYE i.e. less paid to the fund.

Examples: There are several examples of how to calculate the amounts under both methods per the IRD website link: http://www.ird.govt.nz/payroll-employers/make-deductions/deductions/super-contributions/

Payment of ESCT: ESCT will be paid via the Employer Deductions form IR345 by 20th of the month following deduction. ESCT is not included on the Employer monthly schedule (EMS) (IR348). The amount shown as total KiwiSaver employer contributions on the EMS is the net amount - the gross employer contribution less ESCT.

KiwiSaver employer contributions need to be paid with your PAYE while contributions you make to your employees' complying funds still need to be paid directly to the applicable scheme.

See the following link on the IRD website for more details and examples; http://www.ird.govt.nz/changes/

Changes to Livestock Schemes

On 28 March 2012 the Government tightened livestock tax rules to prevent farmers, who change valuation schemes, from receiving what it calls "an unintended tax break".

The rules have changed so that those who elect to use the 'herd scheme' cannot change to the alternative 'national standard cost scheme', except in narrow circumstances (for more on what these circumstances are and other details go to the following link taxpolicy.ird.govt.nz/sites/default/files/2012-other-livestock-elections-fact-sheet.pdf)

The change will take effect as at 28 March 2012, however, it retrospectively cancels the ability of farmers to switch schemes for the 2012/13 income year unless those elections were made prior to 18 August 2011.

Changes to Building Depreciation

Some of you may recall that the 2011 Budget announced that legislation would be enacted to eliminate further claims for depreciation on **most** buildings from the commencement of 2011-12 income year.

This legislation has subsequently been enacted and there is a new Schedule 39 in the Act which lists the types of buildings on which we will be able to continue with depreciation claims including:

- Milking sheds, Portable huts, Fowl houses
- Cool-stores and freezing chambers, farm slaughterhouses
- Plastic hothouses and PVC tunnel houses and Glasshouses
- Roofed stock yards, wintering barns & simple loafing barns

New or Changed Borrowing Facilities

The May/June period is normally the busiest period for settling farm purchase and sale transactions, and many farmers will be entering into new or restructured borrowing arrangements with their banks, and may also be contemplating new or changed business structures.

In some cases this will have an impact on the tax deductibility of interest where money is borrowed or restructured, particularly when the farm and/or assets purchased are to be owned by an entity that does not earn assessable income, or the assets purchased are non farm related.

Whilst in most cases these issues can be resolved at a later date, it often involves more complexity and cost than would otherwise have been the case had it been addressed prior to the transaction occurring.

If you are contemplating any of the above and are unsure as to the possible impacts then please give us a call.

Interest Rates on Debt

The OCR has been left unchanged this week, and we continue to see relatively low interest rates in historic terms against a backdrop of volatility in international capital markets. Combined with a competitive banking environment there may be opportunites to move some debt from floating to relatively low fixed interest rates. We recommend you request regular interest rate updates (say two weekly) from your banker to help you identify these opportunities..

Brown Glassford – Premises Update

We are soon to have a new home having recently signed up a lease for a new building on 504 Wairakei Rd (near Christchurch Airport). The building is currently under construction and we are looking forward to moving into it in September 2012.