

client newsletter

June 2011

Millar & Miller Ltd
CHARTERED ACCOUNTANTS

Budget 2011

Big deficit, hard cuts, bright future?

With the highest deficit on record at 16.7 billion dollars, unemployment is high and economic recovery slow.

Focus has moved from last year's major tax reform to extreme government saving, with restricted spending. Undoubtedly the biggest strikes hit KiwiSaver, Working for Families and the Student Loans scheme with over 60% of projected Government savings to come from cutbacks and changes to these schemes.

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 this year with changes to the definition of 'family income' to include 9 extra types of income, restricting families from using investment losses to reduce their income for higher tax credits. (If you receive working for families tax credits and want more information please give us a call.)

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 reduction, from 20 cents in the dollar to 25 cents
- The amount paid in respect of children aged 16 and over will be aligned with that paid for children aged 13 – 15

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



Student Loans — Tighter lending criteria

Mild changes to the Student Loan system will be implemented in the next 2 years:

- Students with overdue payments of \$500 or more, and who are in default for over a year will have restricted eligibility for further loans
- Students aged 55 and over will be eligible to borrow for tuition fees only
- Part time students will no longer be eligible to borrow for course related costs
- 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 NZ based contact before they leave

The repayment threshold will remain at \$19,084 until 31 March 2015 and there has been no change to the general interest-free treatment of loans.

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 4 years, money that would 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%).

Tax Talk

Company tax rates dropping

The company tax rate will reduce from 30% to 28% from the 2011/2012 income year (for most companies, 1 April 2011).

Building depreciation gone

Depreciation deductions on buildings with an estimated useful life of 50 years or more disappear from the start of the 2011/2012 year (for most of you 1 April 2011). New rules have been introduced to ensure the fit-out of commercial and industrial buildings continues to be depreciable.

At last – some GST simplification

Sales of land now zero rated

In the past, whether GST should be added or not to the sale of land, has been a complex matter. From 1 April 2011 these transactions will be zero rated, as long as the following apply:

- The purchaser declares in writing that the property is to be used for a GST activity, and
- The vendor and purchaser are GST registered



Private use adjustments on cars

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



LAQC reviews underway

Over the past few months we've been communicating regularly with clients affected by the far reaching LAQC reforms that come into play on 1 April 2011 this year.

We've been undertaking a personalised review of each client LAQC and advising each of you on the best way forward. Rest assured that we have the whole issue well under control. In the meantime, if you do have any concerns do give us a call or drop us an email.



Risk and Reward

Employment law changes 1 April 2011

Changes to both the Holidays Act and the Employment Relations Act came into force on 1 April 2011. These changes are intended to reduce compliance costs, increase business confidence in recruiting new staff as well as speed up the resolution of workplace disputes. The main changes include:

- Employees will be able to cash in one week of their four weeks' leave
 - Employees who have irregular working hours and pay will now have their holiday, sick and bereavement leave calculated on an average daily pay basis
 - Employers and employees will be able to agree to transfer taking a public holiday to another working day
 - The minimum wage increased from \$12.75 to \$13.00 from 1 April, while the training and new entrants' minimum wage rose from \$10.20 to \$10.40, effective as of the same date
- The 90-day trial period is being extended to all employers (currently limited to those with less than 20 employees). From 1 April employers and employees can enter into an employment agreement which provides for a trial period of 90 days or less. During the trial period the employer can dismiss the employee without risking a personal grievance
 - Employers will have to keep detailed personal files for each employee. These files must contain signed copies of employment agreements, other terms and conditions, handbooks, as well as any intended agreements (even where these have not been agreed to by the employee). These documents must be available to employees on request. Employers have until 1 July to get their files up to the new standard. We estimate that a good number of our clients will have some work to do here! Keep an eye out for more information on this.
 - Union representatives will need an employer's permission to enter the workplace
 - Employers will be able to communicate with employees during collective bargaining
 - Minimum requirements establishing a fair and reasonable dismissal process will be set out in the Act and employers will have a much clearer process to follow. This is great news for our employer clients, who can be fearful of dismissal processes being scrutinised for minor defects

Love your neighbour as yourself; but don't take down the fence. **Carl Sandburg**

ACC levies, no-claims discounts and experience rating

Government introduced experience rating into the ACC levy system on 1 April 2011. Here's how it is likely to work:

- Small employers (paying less than \$10,000 per year in work related levies) will be entitled to a no-claims discount
- Larger employers (paying more than or equal to \$10,000 per year) will be part of an experience rating programme. This programme will reflect both the employer's and its industry's performance in preventing injuries and claims and could create an increase or reduction in levies of up to 50%!

Clearly Government is trying to provide employers with a financial incentive to prevent injuries as well as make levies fairer by ensuring low-risk employers aren't paying for high-risk ones. Having said that, is a no claims discount or loading of minus or plus 10% (the majority of employers will fall into the 'small employer' category) really going to incentivise employers to get serious about workplace safety?

A big welcome to.....

Yvonne Verry, Christine Oakley-Hall and Karen McCall who have joined our administration support team. You may have already seen Yvonne and Christine's smiling faces or talked to them on the phone in their role at reception.

Karen manages the admin team and assists with client services work.

We look forward to working with Karen, Christine and Yvonne and are sure you will enjoy meeting them next time you are in the office.

And Finally.....

- Do you have trouble sending us your large accounting software file?
- Would you like to access your financials - wherever? - whenever?
- Are you concerned about the security of your financial details being emailed?

Announcing – The launch of our secure website

To ease your worries and make your life easier we can now offer to you a secure client login section on our website.

To activate your account please contact Rob Stewart on 385 3343, or submit a request through the client login section at www.millarmiller.co.nz



Opportunity is missed by most because it is dressed in overalls and looks like work. **Thomas Alva Edison**

Disclaimer

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