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Budget Update

Today's Budget did not include significant and unexpected tax changes, fortunately.

While there was concern that some sort of capital gains tax might be introduced it would be fair to say that this year's Budget largely built on initiatives identified last year and there were no big surprises.

Specific items that you may be interested in are:

- The removal of the childcare and housekeeper tax credits. While this is a small amount (\$310 maximum refund) it is recognition for the costs of childcare and provides a reduction in after school care costs for many parents.
- The removal of the low income rebate for those earning less than \$9,880.
- The removal of the child rebate ie for those still at school. The rebate will be replaced by a limited tax exemption for "cash" jobs that will mean that school children will not need to pay tax on income earned up to \$2,340 if it is not taxed at source (baby sitting and lawn mowing for example). The threshold is a set amount, so if the child earns more than \$2,340, there will be no exemption. Distributions from family trusts, since not earned, will be taxed from the first dollar.
- The student loan repayment amount is to increase from 10% to 12% of the annual income above the repayment threshold of \$367 per week.

- Limits have been placed on the deductibility of the costs of mixed use assets such as holiday homes, boats and airplanes (if you have them!) This was heralded in last year's Budget and has been discussed in our August 2011 newsletter. In summary if you use the property at all personally then you will only be able to claim costs up to the income received and you won't be able to gain any tax advantage from renting the property out and making a loss. This change is expected to save \$109 million over 4 years.
- Livestock valuation rules: as announced on 11 August 2011 farmers in the Herd scheme will be locked in from that date.
- Automatic KiwiSaver enrollment from 2014 has been deferred.

These changes are expected to save the country \$410 million over the next 3 years.

Interestingly Inland Revenue is to get an extra \$78.4 million for increased audit activity.

We noted too that customer prescription charges are increasing to \$5 each and that the price of a pack of 20 cigarettes is expected to rise to more than \$20 by 2016.

Billed as a zero budget there was no big new spending with all increases covered by increased revenue.

Australian Budget Impact

The Australian Budget on 8 May affects those New Zealanders who own property in Australia whether this is as a holiday home or rental property.

The Australian Government announced in its 2012/2013 Federal Budget that it is removing the 50 percent capital gains tax (CGT) discount for non-residents from 8 May 2012. This will affect New Zealand resident individuals owning real property in Australia eg rental properties and holiday accommodation. The CGT discount is still available for capital gains earned prior to 8 May 2012. However,

we recommend that you obtain a market valuation for the property as at 8 May 2012. We understand that you will then receive a 50% discount on any capital gain up to that date and you will then pay tax on the whole capital gain received from that date until the date of sale.

ACC Classification Units

Make sure you are using the correct ACC CU (classification unit) to minimize the amount of ACC levy payable.

The levy is calculated on the CU and the default is Manufacturing which results in a high CU ACC rate.

Generally the CU is set by your Business Industry Classification (BIC) when you register for GST and you need to work your way through the <http://www.businessdescription.co.nz/> website to work out which BIC category best describes what you do.

It is sometimes difficult to find a category that reflects what you do. For example if you are an arbitrator or mediator then lawyer may not describe what you do, nor would psychologist but there is no separate category for mediator. Choose the closest fit. The categories have been aligned with Australian categories to create a single classification process for the two countries.

When you have your BIC you can go to http://www.acc.co.nz/PRD_EXT_CSMP/groups/external_levies/documents/papers_plans/wpc096771.pdf to find out your Classification Unit (CU).

If you are a management consultant your BIC would be M696245 and your ACC CU code would be 78550. ACC is calculated for every employee up to a maximum per annum of \$113,768.

So if I operate my own business as a shareholder employee and I pay myself \$113,768 (or \$250,000) as salary for the year then the company would pay an ACC levy of \$2,431 for the year including GST.

You can complete your own calculations at: http://www.acc.co.nz/PRD_EXT_CSMP/groups/external_levies/documents/interactiveresource/workplace-cover-calculator.pdf.

A word of warning: if you work fulltime ie more than 30 hours a week then you will be charged ACC levy on a minimum of \$27,040 even if you earn less than that amount.

If you work part time ie less than 30 hours a week make sure this is quite clear on your income tax return or check with ACC whether they have you listed as part or full time. If you only work part time then you will be charged the levy on the amount you actually earn, not a minimum amount.

ACC has recently been sending out letters to customers to check their CU code and their part time / full time status. If you receive one of these letters please don't ignore it. If you work part time eg 10 hours a week and earn \$10,000 a year then you should pay a levy of around \$224 as opposed to \$606 if ACC understood you were working for more than 30 hours a week.

And if you had left the default manufacturing CU code (I picked the first one - fertiliser manufacturing CU 25310) then you would be paying \$371 on your \$10,000 worth of earnings and \$1,004 if you were thought to be working full time.

So if you don't check the form you could be paying \$1,004 on \$10,000 worth of part-time earnings instead of \$224.

Incidentally if you had earned more than the maximum full time rate of \$113,768 and hadn't bothered to correct the default manufacturing code you could be paying \$4,228 instead of the \$2,431 calculated earlier.

So remember to check that ACC has your correct CU code and has you correctly recorded as full or part time.

Next provisional tax payment

If you are not GST registered or you are registered on a two monthly basis you won't have any provisional tax now to pay till 28 August.

If you are registered for GST on a six-monthly basis then you won't have GST to pay now till 28 October.

If your income changes and you'd like to review your provisional tax payments closer to those due dates please just call.

This will be the first provisional tax payment for 2013.

Hikurangi Ride

The Hikurangi Foundation organised a ride from Cape Reinga to Bluff in April to raise funds for a new Transportation Innovation Challenge Fund. Teams cycled either seven day stages in the North Island (638km Cape Reinga to Wellington) or the South Island (687km Bluff to Picton), joining up in Wellington for a final race around the Beehive on April 21st. The trip included some guest riders who enjoyed a rain free ride!

You can read more about their trip at <http://www.hikurangi.org.nz/tourofz/>.

Congratulations to Marieke Hilhorst who joined the ride for part of the North Island leg. The ride raised \$10,000 for the Fund, whose purpose is to improve and increase access to cycling as an integral part of transport in New Zealand.

Well done to Alex, Ashley and Freda.

If you've done something really great that you'd like to share with us please drop us a line – and a photo would be good too.

Our move

We have moved premises. We are now operating from Level 7, 166 Featherston St, which is on the corner of Panama St and diagonally opposite Dick Smith. Please call in if you are passing.

Phone numbers, fax, email and postal addresses have not changed.

After 11 years operating from a home office which was growing every day we just needed more space!

We're taking the opportunity to rebrand so look out for a new logo on our website, letterhead, and office.

Moving was conducted over a Sunday at the busiest time of the year for us so there was no interruption to operations. Some staff continue to work offsite through our virtual office and others prefer to come into town.

It's great to be operating from a nearly paperless office – no paper files and no waste paper bin in my office!

We'd also like to welcome Jenny Wilson, an experienced bookkeeper who previously worked at Xero. Jenny is helping us out over our busy period for the next month or so.



Photo: 166 Featherston Street.