



Chartered Accountants

**GAMBITSIS PARTNERS LIMITED**

Business Consultants

# Trial Balance

THE OFFICIAL NEWSLETTER OF NZ CA LIMITED

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ISSUE TWENTY TWO



## Approaching 65...

### NZ Superannuation

On reaching age 65, New Zealand citizens and permanent residents\* become eligible to apply for NZ Superannuation. Work and Income NZ do not automatically start making payments on reaching eligible age. Be aware you need to apply at least two weeks before you turn 65 to ensure you start receiving the payments on time. WINZ are unable to back date your payments.

### Living Alone Allowance

In addition to NZ Superannuation, if you are living alone, single, widowed or married your spouse is in full time residential care, you may also be eligible for a Living Alone Allowance. This is not income or asset tested and payments can be made from the date you started living alone or the date IRD receive your application, whichever is later. Again payments will not be back dated.

Contact Work and Income on 0800 552 02 to apply.

\*Specific rules apply please seek further information from WINZ.

Prince & Partners RSM

## The Top 10 Timewasters

WHAT IS PRODUCTIVITY? It's not spending time doing something.

Productivity is the power to produce outstanding results.

So what are the 10 top timewasters – the things that stop you being productive?

- 1 Shifting priorities
- 2 Interruptions
- 3 No clear goals – lack of focus
- 4 Messy desk and looking for things
- 5 Procrastination
- 6 Ineffective Delegation
- 7 Inability to say "no"
- 8 Poor planning
- 9 Poor use of technology and systems
- 10 Meetings

- Toss
- Action
  - Action Now (next two weeks)
  - Or Action in two weeks

- Send
- Keep

Another version of this is the 4 Ds

- Dump
- Delegate
- Do it now, or
- Decide when to do it.

On average a piece of paper is picked up six times before it is dealt with. The same could be said for reading emails. The above strategies can help you to be more productive.

*Sudburys Limited*

It is said that there is a strong link between procrastination and perfection. "If I can't do it right I won't do it at all." Never let perfect get in the way of better.

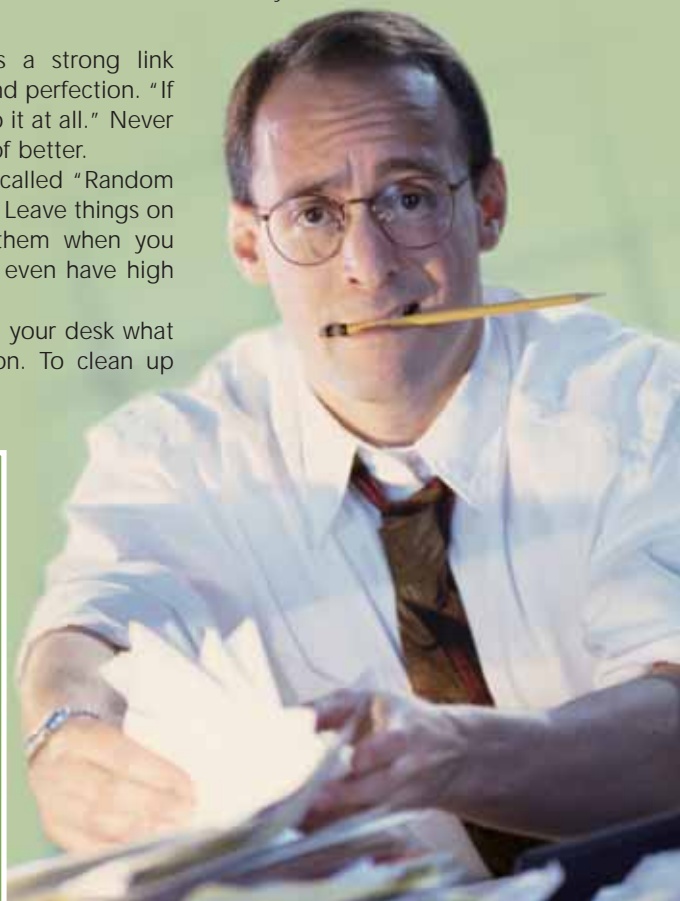
A messy desk has been called "Random Access Stack Technology". Leave things on your desk and hunt for them when you need them. Some people even have high rise versions.

You should only have on your desk what you're currently working on. To clean up your desk the process is:

## Your home in LAQC

The IRD has a new publication called Revenue Alert. Its purpose is to warn people of IRD thinking, in advance. The first Revenue Alert looks at people renting their home from an LAQC and claiming the losses. In many cases the department will treat these arrangements as tax avoidance and disallow them.

The penalties for tax avoidance can be high.



## Flexible Hours

### Flexible Working hours for some Employees

FROM JULY 2008, employees with six months service can request flexible working arrangements to allow them to care for ANY person. ("Care" isn't defined). The request might relate to hours or days worked, place of work and so on.

Employers will have up to three months to respond. Grounds for declining the request include detrimental effect on performance, quality or ability to meet customer demand, inability to reorganise work amongst existing staff or to recruit additional staff, and so on.

If there is a dispute, the matter must first be referred to a labour inspector before it can be mediated or referred to the Employment Relations Authority (if the labour inspector can't resolve it).

If the employer doesn't comply with the legislation, an employee may be awarded up to eight weeks pay as compensation and the employer may be fined up to \$8000.

Apparently, similar legislation in the UK has not given rise to many problems but given the different working environment in New Zealand, that remains to be seen. No doubt, there will be situations where a request for flexible working arrangements will be not only reasonable from an employee's perspective but will also be easily accommodated by an employer. However, it is hard enough now being a small business employer in New Zealand and I can see difficulties for some employers.

Where an employer considers that flexible working arrangements wouldn't be practical in relation to a particular employee (e.g. a PA) because of one or other of the factors set out in the legislation, it might be prudent to include a provision in the employment agreement setting this out.

It's so much fun being a small business employer in New Zealand.

*Steven Dukeson - Dukesons Business Law*

## Redundancy Rebate

**The Government has recently introduced a tax rebate for redundancy payments.**

THE PURPOSE OF THIS rebate is to avoid situations of over-taxation that can arise under the current tax law when a lump sum redundancy payment pushes the recipient into a higher tax bracket.

The rebate will be calculated at a flat rate of six cents per dollar for the first \$60,000 of the redundancy payment. The rebate is therefore capped at \$3,600

(\$60,000 x 0.06) per redundancy.

This legislative change will apply retrospectively to all redundancy payments made on or after 1 December 2006.

You can apply for the redundancy rebate from 1 April 2008 by completing a claim form (IR 524) and submitting it to the IRD, along with documentation detailing the amount of your redundancy payment (e.g. a payslip or letter from your employer).

## Special Tax Codes

FOR MANY PEOPLE, the standard employee tax codes do not deduct the correct amount of tax for their particular circumstances. This could be due to them having a second job or other sources of income, such as income from a partnership or rental property. This will often leave the taxpayer with a large tax bill or refund at the end of the year.

To avoid this situation, it is possible to apply for a special tax code to ensure the correct amount of tax is being paid throughout the year.

You can obtain a special tax code by completing an application form (IR 23BS), on which you will

estimate your income for the upcoming year. Your special tax code will be based on this estimate. The IRD will then issue a certificate for you to sign and give to your employer to let them know the rate of tax to deduct from your income.

Special tax codes are only valid for one tax year. If you are already using a special tax code, you will soon receive an annual renewal form from the IRD.

If you need assistance with renewing your special tax code or think a special tax code may be right for you, please contact your accountant for advice.

## Attribution Rules Reminder

INDIVIDUALS EARNING personal services income through an associated company, trading trust or partnership are reminded to consider the implications of the attribution rules.

The attribution rules were put in place to prevent situations where an individual would divert income from their personal efforts to an associated entity in order to avoid the highest individual tax rate of 39%.

In certain circumstances, the attribution rules will deem the individual providing the personal services to have earned the income rather than the associated entity

and this attributed income will therefore be taxed at the individual tax rates.

In general, the rules will apply if:

- The individual and the entity are associated;
- The entity receives 80% or more of its income from one source; and
- 80% or more of the entity's income arises from personal services performed by the individual.

If you think the attribution rules may apply to you, please contact your accountant for advice.

## Minimum Wage Changes

FROM 1 APRIL 2008 the minimum wage for employees aged 16 years and over will rise to \$12.00 an hour before tax. That's \$96 for an eight hour day, or \$480 for a 40 hour week. The training wage will rise to \$9.60 an hour before tax. From 1 April 2008, there will no longer be a minimum wage for youth. Instead there will be a new entrants minimum wage. The new entrants minimum wage will be \$9.60 an hour before tax on 1 April, 2008. The new entrants minimum wage will apply to some 16 and 17 year old workers.

A new entrant is a worker who is 16 or 17 years old except if they have completed 3 months or 200 hours of employment, whichever is shorter, OR they have been supervising or training other workers, OR they are subject to the minimum training wage.

*Source: Department of Labour*

## Company Tax Rate Reduction to 30%

IN OUR LAST NEWSLETTER Issue 21 dated December 2007, we featured an article on this Topic titled 'Pay Out Dividends'. We will be including a more detailed article in our next newsletter.

# Limited Partnerships

THE LIMITED PARTNERSHIPS BILL that was introduced into Parliament in August 2007 has just been reported back from the Commerce Select Committee.

The legislation, once the Bill is enacted, is intended to be effective from 1 April 2008.

The Bill introduces a new type of partnership called a Limited Partnership, repeals the law relating to special partnerships, and provides clearer rules for the tax treatment on the exit and entry of partners, and on the dissolution of a partnership.

## Limited Partnerships

Limited partnerships are intended to be a more attractive investment vehicle especially for the venture capital industry as it will provide for a flow through of the income and expenditure to the limited partners while providing them with limited liability.

A limited partnership will have one or more general partners and one or more limited partners and must have a partnership agreement.

The limited partnership will be registered with the Registrar of Companies and will be recognised as a separate legal person in its own right. It must use the words "Limited Partnership", or the initials "LP" or "L.P." in its name.

Only the limited partner(s) will contribute capital to the partnership and will have the limited liability. Consequently they will be permitted to have only limited involvement in the management of the partnership. Regulations will set out the management activities that a limited partner may carry out without breaching the rules.

Only limited partners can get distributions from the partnership, and the partnership will need to meet a solvency test when making distributions. Losses that a limited partner can claim will reflect their economic loss, but any excess loss that cannot be claimed will be carried forward.

The general partner(s) will manage the partnership but cannot receive

distributions from the partnership. The general partner would likely charge the partnership for their services by way of management fees.

The income, expenses, tax credits, gains and losses will flow through to the limited partners in proportion to their interest in the partnership.

A limited partnership will terminate in accordance with the terms of the partnership agreement, if the partners resolve, if there is no limited partner, or if the partnership agreement lapses.

The exit or entry of a partner will not mean the end of a partnership and the formation of a new one, but rules will apply for the tax treatment of an exiting or entering partner's share in the partnership, or when the partnership dissolves. There will be a number of thresholds below which adjustments for the value of partnership property, trading stock, depreciable property and financial arrangements will not be required when there is a partner change.

## Special Partnerships

Special partnerships provided for under the Partnership Act 1908 have never been particularly popular due to their onerous restrictions and formation requirements. Existing special partnerships will be allowed to continue through to the end of their term but after 1 April 2008 they may not be renewed nor can any new special partnerships be formed.

## General Partnerships

As with limited partnerships, the look through treatment for income and expenses will apply, as will the rules for the entry and exit of partners, and for the dissolution of the partnership. However, a "small" partnership (that is one that is not a limited partnership and does not have more than five partners) can elect not to apply the exit and entry rules.

More details will be available once the legislation has been passed.

*NSA Tax Limited*

# What is a Financial Plan?

THERE IS A COMMON saying that goes "if you fail to plan you plan to fail". While some individuals do indeed achieve their goals and objectives, more often than not this is through sheer luck rather than planning. It is never too early, or late, to begin the financial planning process, and putting in place a Financial Plan can involve as little as spending up to two hours with a Qualified Financial Planner. During this meeting you will typically discuss the following:

- Your Short, Medium and Long term Goals and Objectives.
- Your existing financial situation as well as establishing how much your lifestyle is costing through analysing your income and expenses.
- What Estate Planning you may have in place, including any Wills, Enduring Powers of Attorney and Trusts.
- The Personal insurance you may have to assist you in times of crises.

**There are several advantages to begin early planning:**

- You can ascertain whether the available resources are sufficient to meet your desired needs, such as maintaining your lifestyle in Retirement.
- It may identify ways to structure assets to minimise tax.
- There may be ownership/estate planning issues.
- Through getting time on your side planning can be conducted in a relaxed manner without pressure.
- Possible pitfalls can be identified early.
- It reduces worry. Having a plan in place can reduce any anguish and help to bring order and organisation to a family's affairs.

After taking advice and considering all the issues a written plan will be prepared which is unique to the individual(s). This plan will then be monitored regularly and adjustments made, in consultation with the client, if required. Like a business plan, it is not something visited once and left to collect dust. It is a flexible living document.

If you would like to discuss how a Financial Plan may help you and your family in maintaining your lifestyle in the future please contact your professional adviser.

*New Zealand Financial Planning*





# KiwiSaver

## Employer Contributions/ Employer Tax Credit

FROM 1 APRIL 2008, employers will be required to match employee contributions to a KiwiSaver scheme. This compulsory matching will be phased in over the next four years. The compulsory contribution will start at 1% in 2008 and by April 2011 will be 4%.

Employers that are required to make employer contributions to KiwiSaver will be eligible for the employer tax credit. The employer tax credit is designed to reduce the impact on employers who are making the compulsory employer contributions for employees who are KiwiSaver members. The employer tax credit will match employer contributions of up to \$20 a week per employee.

Prince & Partners RSM

# New Insolvency Law

Insolvency law is being changed to allow companies in financial difficulties to trade out of them. The process is called voluntary administration.

SECURED CREDITORS OR a court can place a company into voluntary administration. Creditors can then vote on allowing the company to trade out, or they can have it wound up. Decisions are made on the basis of 50% of the creditors (having at least 75% of the debt between them) approving the arrangement.

The problem is the IRD. It gets preference in a winding-up. The accumulation of interest and penalties could see its debt exceed 25% of the total value. It could prefer winding up.

## No asset procedure

Bankruptcy law is also being changed. If a person cannot pay his/her debts and has not previously been bankrupt or used the scheme, he/she can be forgiven the debts and, after 12 months, start afresh.

To qualify for this scheme, one of the conditions is that the debtor must have total assets of \$1000 to \$40,000.

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# Business Plans and Budgets

PLANNING FOR THE FUTURE is one of the most important things that individuals and businesses need to do in the present climate.

To be successful, you need to know where you want to go and how you are going to get there. All businesses should have a business plan which will need to be flexible enough to cope with the changes that will need to be made to it on a regular basis.

Incorporated in the business plan will be financial budgets (Budgeted Profit and Loss, Cash Flow and Balance Sheet). These budgets will usually be for a one year period with a longer 5 year plan available as a supplement. It is essential that all businesses have at least this component of the business plan.

Now is the time to be preparing your 2009 Budget.

Prince & Partners RSM

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NZ CA members have agreed to co-operate together to develop a national working relationship. Membership enables firms to access one another's skills and information whilst maintaining client confidentiality.

NZ CA Limited is associated with NZ LAW Limited, an association of independent legal practices. NZ LAW has 55 member firms practising in 79 locations throughout the country.

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