

Perriam & Partners Ltd

Chartered Accountants & Business Advisors

March / April 2009

Issue No 31

WHAT'S ON THE LINE FOR 2009?

www.perriams.co.nz

For Perriam and Partners we have assembled a **Team Of Assets** that are ready to attack the new financial year with passion and purpose, to meet the many diverse and sometimes challenging needs of our clients.



We couldn't think of any better way to launch into the financial year than to introduce you to our **website**.

You will need to visit our website because this is where you will find this years annual **Checklists** to download and complete. Please note that you will **not** receive a hard copy of your checklists this year unless you call our office and request a hard copy to be sent.

It is really important that you take the time to complete these to the best of your ability. A well completed checklist is a great time saver.

So, welcome to your first glimpse at our home page. We would appreciate any suggestions and comments you have as to the content of this and for us its still a Work In Progress.

A screenshot of the Perriam & Partners Ltd website homepage. The header features the company name and logo. A navigation bar includes links to home, about us, checklists, tax facts, key dates, calculators, links, careers, and contact us. The 'checklists' link is circled in red with a red arrow pointing to it. The main content area is divided into two columns. The left column contains a 'Welcome to Perriam & Partners' section with a brief description of the firm and its services. The right column contains a 'Client Login' section with fields for username and password, and a 'WANT TO KNOW MORE ABOUT ME?' section with '3 REASONS TO WORK WITH US' listed as Passion, Purpose, and Profit. The footer includes the company name and logo, and the tagline 'Purpose with Profit'.

Purpose with Profit

BUSINESS TAX



On 4 February 2009 the Government announced details of its tax measures designed to give some relief to small to medium sized businesses (SME's).

Those that will be of interest to you are;

- ◆ The 5% uplift rate that businesses pay on provisional tax installments when using the standard uplift method will be removed for the 2008-2009 and 2009-10 income years.
- ◆ Lifting the threshold for when use of money interest starts for provisional taxpayers using the standard uplift method from \$35,000 to \$50,000.
- ◆ Reduction in the use-of-money interest rates to 9.73% for underpayments and 4.23% for overpayments effective (1 March 2009).
- ◆ The GST payments threshold will be raised to \$2million of GST turnover from \$1.3 million.
- ◆ The GST registration threshold will be raised from \$40,000 to \$60,000 of GST Turnover.
- ◆ GST six-monthly filing threshold increased from \$250,000 taxable supplies to \$500,000.
- ◆ Businesses with business-related legal expenditure of \$10,000 or less will be able to fully deduct the expense in the year it was incurred, whether it is capital in nature or not.
- ◆ THE PAYE once-a-month filing and payment threshold will be raised from \$100,000 annual PAYE liability to \$500,000.
- ◆ The value of minor fringe benefits, such as chocolate or flowers, which can be provided to employees without attracting FBT will be raised to \$300 per quarter per employee, and to \$22,500 a year per employer.

Do not pass PAYE or go directly to jail (we spotted this heading in the NBR recently).

Inland Revenue is mounting new arguments that unpaid PAYE is evidence of trading while insolvent and looking to claim personal paybacks from company directors.

Unpaid PAYE is a serious issue. As an employer you can't think of it as another cost, it belongs to your employee and is therefore theft . IRD have recently increased the penalties for unpaid PAYE.



Individual Tax Rate Changes Effective 1 April 2009

\$0 – \$14000	12.50%
\$14001 – \$48000	21.00%
\$48001 – \$70000	33.00%
\$70001 +	38.00%

All information in this newsletter is, to the best of the author's knowledge, true and accurate. No liability is assumed by the author or the publisher for any losses suffered by any person relying directly or indirectly upon this newsletter.

You are advised to consult professionals before acting upon this information.

Outlook 2009

Have you heard the one about the investment banker and the pigeon? *Only the pigeon can still put a deposit on a Ferrari. Or the one about the investment banker and the pizza? At least the pizza can feed a family of four.*

They're not bad. However, that the misfortune of these (increasingly) poor souls is becoming the subject of such gleeful jokes speaks volumes about the point we have reached in the sub-prime induced shake-out. After what is now a full calendar year of credit crunch and market meltdown, poking fun at those charged with creating the mess in the first place could almost be considered therapy. It certainly makes a pleasant change from watching your share portfolio evaporate.



Monthly laugh

A blonde calls her boyfriend and says, 'Please come over here and help me. I have a killer jigsaw puzzle, and I can't figure out how to get started.

Her boyfriend asks, 'What is it supposed to be when it's finished?'

The blonde says, 'According to the picture on the box, it's a rooster.'

Her boyfriend decides to go over and help with the puzzle.

She lets him in and shows him where she has the puzzle spread all over the table.

He studies the pieces for a moment, then looks at the box, then turns to her and says,

'First of all, no matter what we do, we're not going to be able to assemble these pieces into anything resembling a rooster.'

He takes her hand and says, 'Second, I want you to relax.

Let's have a nice cup of tea, and then he says with a deep sigh,.....

"Let's put all the Corn Flakes back in the box'.



BE KIND TO YOURSELF

If you are *made redundant*, it is normal to feel a sense of loss, for your work identity and direction. Here are a further six tips to cope:

1. Leave the organisation with dignity and in a manner that will preserve your reputation in the marketplace.
2. Allow yourself time to experience the emotions of the change. Manage each day and keep your routines going, especially exercise.
3. Get your finances under control immediately. Don't use the redundancy package to pay down your mortgage. This is essential finance for the future. Your redundancy is money paid to assist you to make a good transition. At some point, you may be paying yourself.
4. Don't leap immediately into the employment market or fling your C.V. around. Be disciplined in your approach to your career opportunities.
5. Ensure your C.V. reflects your skills, achievements and your value-add to a future employer. Think of the search as skills to developing a successful strategy. It will take time, especially in a tight market.
6. Make the most of your networks and don't be afraid to ask those who can, for help.
7. If you have been made redundant you may be entitled to a rebate on your payout. Please forward your payslip detailing the redundancy payment.

All the very best.

OUR ASSETS HAVE GROWN

We are gearing up for the 2009 Financial year.

Sally Evans is back from her sabbatical in Wanaka which is great news for us all.

Sue Chaw joins our team as a Graduate Accountant, and

to create a leading team

Gary Newell joins the team as Business Manager.

In this issue we have decided to provide you with commentary on some interesting expenditure items!

Deductibility of Fines?

Log Carriers Limited (LCL) is a transport company which, in the past year, has paid fines totaling \$25,000 incurred by its drivers for numerous minor traffic offences. The majority of the offences related to overloading. LCL considers that it could have successfully defended most, if not all, of the prosecutions, but that it was uneconomic to do so and hence simply paid each fine.

Lets look at this a bit further;

1. Are the fines deductible for income tax purposes?
2. Would your answer be any different if LCL was a lawyer and the fine was imposed by the New Zealand Law Society for misconduct?
3. If LCL had chosen to defend the overloading charges, would it be able to deduct the fees for the legal advice it obtained?

Our answers:

A = No, the fines are non deductible.

In a recent Taxation Review Authority (TRA) case, Case Z6 (TRS No 105/5 17 September 2008), the court considered the deductibility of fines imposed on a truck company for overloading offences.

In his judgment Barber J canvassed extensively New Zealand, Australian, English and Canadian case law on the deductibility of fines. The two issues which arose in most of the cases were:

- (a) whether there was a sufficient nexus between the fine and the taxpayer's income to allow the deduction i.e. whether the general deductibility test was met; and, if yes,
- (b) whether the deduction was denied for public policy reasons.

Nexus

In relation to the nexus issue, Barber J considered that the nexus test was not met, stating that, in his view, "a penalty / fine arising from a taxpayer's illegal activities... cannot have a sufficient nexus with the taxpayer's income earning process so as to create deductibility for that cost of the fine".

2. Would your answer be any different if LCL was a lawyer and the fine was imposed by the New Zealand Law Society for misconduct?

A = No, the fine would be non-deductible.

In many countries the tax legislation specifically states that fines and penalties imposed as a result of breaches of the law are not deductible.

3. If LCL had chosen to defend the overloading charges, would it be able to deduct the fees for the legal advice it obtained?

Yes, the legal costs would be deductible regardless of whether LSL was successful or not in defending the charges.

Ownership of luxury assets.

Ernie the entrepreneur is a keen sailing enthusiast. As his trusted advisor we have counselled him against splashing out on the luxury yacht of his dreams until he consolidates his various business assets.

Ernie comes to see us on Monday morning explaining that he has a proposition that not even we can turn down!

Ernie has just returned from a holiday in the Bay of Islands and got talking to some of the local yacht charter boat operators. Ernie's excitement level is at fever pitch. He is adamant he has found a way to own the yacht of his dreams without it costing a cent and what's more "the tax man subsidises part of it".

Ernie races off to chase down his next big business idea and leaves us pondering some of the tax implications and risk associated with Ernie's latest project.

The following questions occur to us:

1. What are the key benefits for Ernie in establishing a yacht chartering operation?
2. Would Ernie be able to claim the GST back?
3. What are the key income tax considerations?
4. What entity should Ernie use to run such an operation?
5. What is the IRD likely to think?
6. What are some of the tax considerations if the charter operation gets into financial distress?

Suggested Answers

If you are interested in our suggested answers and considerations to how you think Ernie would fair with his luxury yacht then please go to our website.

STRIKING OUT ALONE IS COSTLY— More so if you split up in a downturn.

The economic downturn is not only straining peoples relationships—its also never been more costly to break-up.

Its much tougher to run two households and if the separating partners are pressuring each other to reach agreement quickly before what equity they have evaporates it only gets tougher.

Be reasonable and make good rationale decisions.

If there are children involved then the longer you are in disagreement the more you are going to spend on legal fees which could otherwise go towards the children's education.

If can take as little as 15 minutes to get married and two years to get divorced.

“If you can work it out then you should”



EMMERSON



All information in this newsletter is, to the best of the author's knowledge, true and accurate. No liability is assumed by the author or the publisher for any losses suffered by any person relying directly or indirectly upon this newsletter.

You are advised to consult professionals before acting upon this information.

Purpose with Profit

YOUR FINANCIAL STARS



1 Interest Rates

There's one shining light in our future. Interest rates have been on the way down and you can look forward to mortgage relief. It won't last forever.

2 Inflation

Prices go up and prices go down, but, my, what a difference a year makes. Last year's inflation gremlin has been relegated to the backburner. This doesn't mean it's gone, just forgotten.

3 Wages

You may have been able to call the shots and engineer a pay rise for yourself early last year but now you're just glad you have a job. If you're fortunate enough to get a bonus, you're thinking about hoarding it, as you know it may be the last for a while.

4 Employment

We're heading into the year with our unemployment rate a record low but you're more than starry-eyed if you expect it to stay at 4.3 per cent for much longer. Economists say unemployment may rise to between 7 and 9 per cent. But take comfort in the fact that it should stay far from the 12 per cent it reached in the 1990s recession.

5 Oil

Oils ain't oils. Or should we just say the oil price ain't what it used to be. Not that anyone's complaining. We just wish the petrol companies would be as quick to drop their prices as they are to raise them.

6 Gold

All that glistens is still gold. Well, almost. This is the one metal that has managed to maintain its value as others came crashing down around it. It's the modern-day version of putting your money under the mattress.

7 Retail

Sales received a bit of a boost before Christmas, but you expect it to be all downhill from here. The only things you plan to spend money on over the next year are essentials and home entertainment?

8 Sentiment

As we look into our consumer sentiment crystal ball, all we see is fog. Economists say we're going through the longest period in which pessimists have consistently outnumber optimists. You're still not sure which side of the fence you're on, but it's more than likely than not that you'll turn out to be a pessimist. Statistics don't lie.



Yours—The Shining Star—Perriam and Partners Senior Stargazer.

When times get difficult businesses can take longer to pay their monthly bills, essentially relying on other businesses' credit terms and goodwill.

In our experience, when times get difficult businesses can and are taking longer to pay their monthly bills, essentially relying on other businesses' credit terms and goodwill. The priorities for many become paying staff, essential suppliers and the bank. When businesses start struggling with their cash flow and the overdraft is up to its limit, some businesses look for other places for funding. For some this means borrowing off Inland Revenue by delaying paying taxes such as GST and PAYE. But when penalties and use of money interest kicks in, the payment delay can turn into a tax debt which can quickly spiral out of control.

This scenario is not new, and unfortunately many business owners do not realize how expensive it can be when they start missing tax payments. Even after the reduction in use of money interest rates announced as part of the relief measures, set out earlier in our newsletter, the cost of borrowing off Inland Revenue in the first year can be as high as 25.73%. But, when cashflow is extremely tight, essential creditors, banks and staff always come first before Inland Revenue. While borrowing off them is a last resort, it's very easy to let a payment date slip. Compared to other creditors, Inland Revenue are not on the phone demanding payment and threatening to stop credit or supply.

We do encourage all our clients to contact the Inland Revenue Department prior to any payment falling late to make an installment arrangement.

All information in this newsletter is, to the best of the author's knowledge, true and accurate. No liability is assumed by the author or the publisher for any losses suffered by any person relying directly or indirectly upon this newsletter.

You are advised to consult professionals before acting upon this information.

Purpose with Profit