



*March 2009*

### **End of Year Procedures**

Included with this newsletter is a revised end of year questionnaire which outlines the nucleus of the information we require to effectively complete your 2009 annual accounts and taxation returns. Please ensure that you complete all relevant questions and attach all the requested documents.

A review of our practice by auditors from the Institute of Chartered Accountants recommended that we update our client engagement letters and therefore a new letter is enclosed. Please list on the form your various entities (partnerships, companies, trusts) and return to us with your end of year data.

Our website contains the full content of the engagement letter and questionnaire and details the services we provide for each category of our operation.

### **Staff News**

Congratulations to Michael Collins who successfully completed his final exam and will shortly be admitted as a full member of the NZ Institute of Chartered Accountants. Keith Rea achieved the milestone of 40 years service with our firm having joined as a school leaver in 1969.

### **Kiwi Saver**

The change of government has brought changes to the many facets of business and Kiwi Saver is no exception. If you are an employer, it is essential that you and your staff are fully aware of the changes due to take place on April 1<sup>st</sup>. The basic changes are:

1. Employee minimum contribution reduces from 4% to 2%.
2. The government employer contribution subsidy of up to \$20 per week per employee is removed as is the \$40 fee subsidy.
3. The employer contribution rises to 2% as planned.

Actions you need to take:

Advise your employees they have the option to reduce employee contributions to 2%.

If you, as an employer, are contributing more than 2% you need to reassess this bearing in mind that the government subsidy has been canned.

Ensure that any change you make is in accordance with your employment contracts and negotiate any alterations.

One thing that has not changed for Kiwi Saver contributors is the Government contribution to a maximum of \$20 per week or \$1042.86 per year. Therefore it makes sense for employees to adjust their contribution rate % so that they contribute at least \$20 per week to maximize the government contribution.

Similarly employers should not make contributions in excess of 2% as tax is payable on contributions over this amount.

Self Employed who are Kiwi Saver members need to ensure they have contributed at least \$1,042.86 to ensure they obtain the maximum government contribution.

If in doubt give Nikki White at our office a call.

## **Donations**

Qualifying charitable donations that you can make and claim a taxation rebate of 33% is now only limited to the total of your net income for that year. Cut off date is March 31<sup>st</sup>

## **Finance and Interest rates**

One thing that has caused much debate over the last year has been the cost of borrowed funds and the structure of debt.

This situation was brought about by the rapid change in interest rates resulting from the global financial crisis that started last year.

Many clients are anxiously awaiting the rollover of their next fixed interest rate loan, looking aghast at other fixed rates that mature in 2013 and the seemingly horrendous break costs.

This is a summary of what we think the current situation is:

Currently the interest yield curve is moving up, this means floating rates are falling or low and the rate for fixed term loans is increasing as the term increases.

The cost of borrowing funds from overseas by our banks is going up as the world's finance problems worsen. Banks are increasingly looking to borrow off Kiwis to fund their loans and some competition for funds is appearing.

Banks are increasing individual client lending margins. Individual interest rates on loans have two components, a base rate component which have significantly fallen and a client lending rate which is currently being reassessed by the banking world and rising to anything between 1 and 3%

The corporate world is finding it more difficult to source funds from the global banking market and others will follow Fonterra's lead in going to the NZ market with bond issues. Look to government bodies and regional councils to also offer bonds at around the 8% level.

Interest rates will bounce along in a trough for quite some time. Currently there is a movement upwards in the rates for 3 to 5 year fixed term loans but some commentators are saying this is a temporary "dead cat bounce" as people get the "missed the boat feeling" and rush to re fix loans.

Is there a moral to this story?

In this country we cannot expect truly low interest rates, any rate that starts with a 6 or less is a good rate.

Work closely with your banker to manage your loan portfolio.

Being comfortable with a floating rate loan for the next year or two may be the best option.

If extending a swap or breaking a fixed rate loan then crunch the numbers to ensure there is a long term benefit. Do not assume that the break cost is immediately deductible as a cost of borrowing.

## **Business assistance package**

The government recently announced a new tax assistance package to come into effect April 1<sup>st</sup> this year. Assuming the final bill passes as indicated, some of the features of the package are:

- The provisional tax uplift is eliminated.

- The IRD rate for use of money interest (UOMI) reduces from 14.24% to 9.73%.

- GST invoice basis threshold increases from \$1.3m to \$2m.

- GST registration threshold rises from \$40,000 to \$60,000.

- PAYE paid twice a month threshold rises from \$100k to \$500k.

- Minor fringe benefits to employees rises to \$300 per quarter per employee.

- Up to \$10k p.a. of legal costs may be fully deductible irrespective of what it is for.

- Thresholds for prepaid expenditure will be raised.

## **Wages**

New PAYE tables will be coming out as there are new tax codes for employees. Ask your employees to check they are using the correct code.