

health adviser

Grant Thornton 

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Are you ready for KiwiSaver?

KiwiSaver is a voluntary, primarily work-based saving scheme designed to assist individuals save for retirement. It is open to all New Zealand residents and people entitled to reside here indefinitely, aged up to 65. It will commence from 1 July 2007.

How It Works - Employees elect to contribute either 4% or 8% of their gross wages/salary into a KiwiSaver scheme. Contributions will be deducted from their before-tax pay by their employers as part of the payroll process and forwarded to the Inland Revenue with PAYE.

In addition, the Government will contribute \$1,000 (tax-free) to each member's scheme when they join for the first time. Further, commencing 1 July 2007, the Government will match an employee's contribution up to \$20 per week (\$1,042.86 p.a.).

After 1 July 2007, new employees must be automatically enrolled in KiwiSaver (subject to limited exceptions) and contributions must be deducted from their first pay period. Employees can "opt out" in the first two to eight weeks of employment, at which time any contributions already deducted will be refunded.

Existing employees can join KiwiSaver through their employers or by contacting a scheme provider directly.

Non-employees such as the self employed can also join KiwiSaver by contacting a scheme provider directly and paying contributions themselves by way of a regular amount or lump-sum payments. This group will be entitled to the Government's kick-start payment of \$1,000 and the Government's weekly contribution of up to \$20.

From 1 April 2008 (dependent on the passing of legislation) employers will be required to contribute 1% of a participating employee's gross salary to an employee's KiwiSaver account. This will increase in 1% increments over the following 3 years until it reaches 4%.

The Government will return a tax credit of up to \$20 per week to an employer to assist with the funding of this.

KiwiSaver Scheme Providers - KiwiSaver members can choose which scheme they wish to join, but can only belong to one scheme at a time. Employers can also nominate a preferred scheme for their employees, however this will not be mandatory. The Inland Revenue has nominated six default scheme providers where members' contributions will be deposited if neither the employee nor the employer chooses a scheme.

Contribution Holidays - After 12 months of contributing into KiwiSaver, a member can apply for a contribution holiday of up to 5 years. There is no limit to the number of holidays that can be taken by one person and these can run successively without further contributions being made.

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New Zealand businesses lagging behind in energy conservation

New Zealand businesses are lagging behind other economies in managing energy and environmental issues, according to the latest findings from the Grant Thornton International Business Report (IBR).

New Zealand is ranked 25th out of 32 economies* surveyed in terms of action taken to prepare for ever increasing energy prices globally and the need to conserve energy.

The Grant Thornton survey shows that energy and raw material costs are an increasing worry for global businesses but New Zealand companies are more concerned about increasing staff costs.

The biggest worry for businesses globally are raw material costs with 44% of businesses identifying these as having a major impact on cost pressures in the next twelve months, followed by 41% who were concerned about staff costs, 37% about energy costs and 34% about transport costs. Property costs (15%) are expected to have a lesser impact over the coming year.

By contrast, New Zealand businesses are most concerned about increasing staff costs (49%), followed by raw material costs (34%), with energy costs perceived as having a lesser impact on cost pressures over the next 12 months (25%). Only three other countries (out of 32 surveyed) ranked energy costs as less important as a cost driver over the coming year.

Respondents were also measured by whether they had undertaken energy and environmental initiatives namely; if they had undertaken an energy review, reduced energy consumption, put measures in place to turn off electrical equipment, invested in energy saving equipment, invested in alternative fuel/energy supplies, and considered relocating to reduce transportation costs.

Grant Thornton New Zealand spokesperson Peter Sherwin says there is a simple clear message from the survey findings.

"Unless environmental factors such as energy costs become issues that significantly affect a company's profitability, there is no incentive for it to take action and reduce its impact on the environment," he says.

"This is clearly evident in New Zealand where only 25% of businesses ranked energy as having a major impact on cost pressures in the coming year and at the same time New Zealand was ranked 25th (out of 32 countries) in terms of taking action to prepare for ever increasing energy prices and the need to conserve energy."

"Globally, we are at a tipping point with regard to environmental management. Companies that don't take action to mitigate energy costs risk harming their long-term competitiveness," he says.

How Businesses Take Action on Energy

- 58% of businesses globally have undertaken an energy review to understand how they may be wasting energy
- 59% of businesses have reduced their energy consumption
- 60% of businesses have put in place measures to ensure all computers and electrical equipment are turned off
- 44% of businesses have spent most money on energy saving equipment
- 20% of businesses have invested in alternative fuel/energy supplies
- 22% of businesses have considered relocating to reduce transportation costs

* Each country in IBR was given a score based on the percentage of businesses that had carried out each of the criteria. For each of the six criteria, the highest score a country could receive was 100, with a total maximum score for the management of energy and environmental league table of 600.

Quick Budget Summary

Highlights of the June 2007 Budget package included the following:

- Reduction in company tax rate to 30% effective for the 2008/09 tax year (generally from 1 April 2008). This includes various savings vehicles including unit trusts and widely held superannuation schemes.
- A research and development tax credit of 15%.
- A tax credit incentive up to \$20 per week to employees as contributors to the KiwiSaver regime (from 1 July 2007) and a compulsory payment for employers (from 1 April 2008) at 1% of gross wages and increasing at 1% each year until a maximum of 4% is reached - employers will receive a maximum credit of \$20 per week as 'compensation'.
- Remove taxation in New Zealand of earnings of foreign businesses controlled from New Zealand, provided those businesses carry on active (rather than passive) business activities (2009/10 tax year).
- Removal of the existing caps on charitable giving (2008/09 tax year), now limited to a person or entities taxable income.
- Increased property transactions audit activity.

Are you ready for KiwiSaver? (Continued)

Accessing Savings - Savings will generally be locked in until the individual reaches retirement age (currently 65) or has been a member for 5 years, whichever is later. However, earlier withdrawals (excluding the \$1,000 Government contribution and the member tax credits) may be made in circumstances of significant financial hardship, serious illness, or to assist with buying a first home (after 3 years of membership).

In addition, if an individual moves overseas permanently (for more than 12 months), savings including the Government kick-start contribution (but excluding the member tax credits) may be withdrawn.

A mortgage diversion option may be offered by some scheme providers whereby up to half of an employee's regular contribution (up to 2%) could be paid towards mortgage repayments on the family home after they have participated in the scheme for at least twelve months.

Employers' Responsibilities - The main responsibilities will include:

- Providing new employees with KiwiSaver information packs when they start
- Providing new employee details to the Inland Revenue
- Deducting employees' contributions and forwarding these to the Inland Revenue
- Ensuring deductions start from the first pay period of new employees
- Acting on opt out and contribution holiday requests
- Keeping required KiwiSaver records.

Penalties will apply to employers who do not make the required deductions and/or do not pass the employee's details and contributions to the Inland Revenue.

Payroll Changes - The employer monthly schedule and payment remittances will be amended to include employee and employer contribution details.

Example of total contributions in the first year

Person joining 1 April 2008:							
Salary	%	Weekly Contribution	Yearly Contribution	Initial Govt kick-start	Member tax credit	Employer Contribution	Total for first year
\$30,000	4	\$23.04	\$1,200	\$1,000	\$1,042.86	\$300	\$3,542.86
	8	\$46.08	\$2,400	\$1,000	\$1,042.86	\$300	\$4,742.86
\$50,000	4	\$38.44	\$2,000	\$1,000	\$1,042.86	\$500	\$4,542.86
	8	\$76.88	\$4,000	\$1,000	\$1,042.86	\$500	\$6,542.86
\$100,000	4	\$76.92	\$4,000	\$1,000	\$1,042.86	\$1,000	\$7,042.86
	8	\$153.85	\$8,000	\$1,000	\$1,042.86	\$1,000	\$11,042.86

Does a Family Trust need an Independent Trustee?

It is often considered best practice by many to have an independent trustee of your family trust.

Who Should the Independent Trustee Be?

This is a difficult question - professional advisers such as lawyers and accountants generally have a better understanding of trust law operation and administration of trusts. It is however important that they fully understand the true intentions or wishes of the clients who created that trust in order to act effectively as trustees. On the other hand, a close personal friend appointed as trustee may shy away from the appointment particularly when bank loan agreements and guarantees are put in front of them for signing, if they do not understand the implications of signing those documents.

We would always recommend that a solicitor draft the trust deed, as it is a highly legal specialised area. However, it is beneficial to have your accountant and all the trustees review the document before it is finalised.

Trustee Decision Making

Where the trust deed provides for trustee decision making by majority vote, this can lead to problems such as:

- The dissenting trustee could still be held liable in respect of any liability arising from a decision despite voting against that decision.
- The inclusion of this clause could raise suggestions that the trust is a sham.
- An independent trustee could be put in a difficult position such as ending up as "tie breaker" in say a relationship dispute.

Conclusions

- If you are considering setting up a discretionary family trust it is suggested that you appoint an independent trustee.
- That person should understand the obligations, roles and responsibilities of being a trustee although they may or may not be a professional person.
- Trustee decision making should be by unanimous decision.

If you would like more information about setting up a trust, please contact your Grant Thornton adviser.

Property Transactions

As part of the 2007 Budget, the Government has provided Inland Revenue with an extra \$14.6 million to strengthen its auditing of property transactions. This is based on the perception that house prices are being inflated through the actions of property speculators operating outside of the tax net.

New Zealand's land transaction provisions are wide ranging. They contain a range of associated person's provisions which have the effect of bringing taxpayers into the land transaction provisions where they are associated with other parties who are involved in taxable land transaction dealings. The associated person's provisions are robust and complex and need to be considered by taxpayers on a case by case basis prior to entering into property transaction activities.

The following examples set out some of the scenarios where land transactions are caught for income tax:

- land acquired for the purpose or with the intention of disposal
- land acquired by dealers, developers and builders (or persons associated with such people) if acquired as part of their business or disposed of within a 10 year time frame
- land used in certain development or subdivision activities which commence within 10 years of the land being acquired
- land used in a major development or subdivision
- certain value gains from rezoning.

The Government is also seeking to review the associated person's provisions to remove some of the planning opportunities that currently exist. This review is contentious and is likely to be met with significant resistance from industry groups and professional advisers.

Government seeks views on SME tax compliance costs

Owners and operators of small and medium-sized businesses are being invited to express their concerns about tax compliance costs via the Government's Business Consultation website (www.businessconsultation.govt.nz).

The purpose of the exercise is to ensure that the tax compliance cost problems of most concern to small and medium-sized businesses are covered in a discussion document planned for release later this year.

The cost of meeting tax requirements is a big part of business compliance costs, and they can be a particular burden for small and medium-sized businesses, which make up the bulk of businesses in New Zealand.

Recent years have seen a number of legislative changes designed to make tax easier for smaller businesses, including changes to the way that provisional tax and GST are paid and a new payroll agent subsidy to help small businesses with PAYE.

As announced in the 2007 Budget, the forthcoming discussion document will explore further potential measures for simplifying tax compliance, focusing on small to medium-sized businesses.

Once the discussion document is released, the Government's Business Consultation website will let you know where to download a copy and how to make a submission.

If you require further information on any of these topics or would like details on other accounting matters, contact your local Grant Thornton firm:

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