Health Adviser

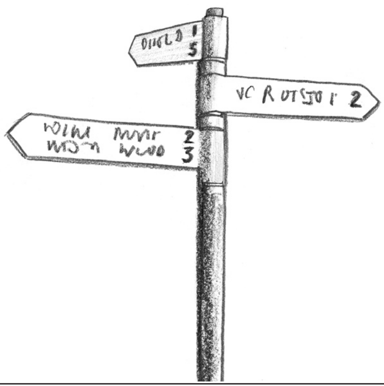
Autumn 2008

New look for Grant Thornton – ongoing commitment to your business

As you see from the masthead above, the Grant Thornton logo has changed in line with changes at Grant Thornton International. We want to take this opportunity to reinforce our commitment to meeting your needs for accounting and business advice and as required, drawing on relevant expertise from more than 80 countries, tailoring it to New Zealand conditions and supporting you to progress your business goals.

The new symbol is based on the concept of the Möbius loop, discovered by German mathematicians and suggesting reliability, relationships, partnerships, intelligence, strength, dynamism, multi-dimensionality and global qualities. These are among the attributes we aim to bring to our relationships with our clients.

We have been developing a broader range of advisory services in business risk services, corporate finance, valuations, recovery and reorganisation and specialist tax. We also work with a number of clients on a one-to-one basis, offering customised advice across the spectrum of business issues – from business planning to cost control, estate planning to growth strategies. Please feel free to contact your Grant Thornton adviser if you would like more information on any of these services to support your future business goals.



End of year tax considerations

When preparing year end financial statements and tax returns, there are a number of issues to consider with regard to the timing and treatment of expenses in order to maximise tax deductions.

The accounting treatment of expenses can affect the timing of deductions. For example, certain prepaid expenditure is deductible in the tax year in which it is incurred if it is below set thresholds and it is not treated as a prepayment in the financial statements. We have noted below common examples of prepaid expenses for which an advance deduction may be available, as well as other typical year end tax issues:

Advertising – if the period of the advertising relates to no more than six months after balance date and the prepaid portion is less than $12,000 per contract, then it is fully deductible in the current year.

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End of year tax considerations

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Bad debts - bad debts are deductible, but only in the year that they are written off. This requires something more than the decision that a debt is bad. The appropriate bookkeeping entries would be necessary in most cases, which ensure the bad debt is written out of the debtors' ledger at year end.

Consumables - consumables used in conjunction with, but not forming part of, the final product can be deducted in the year of purchase, provided the unused stocks at year end do not exceed $58,000.

Depreciation of fixed assets

- depreciation is claimed for each full or part month the asset is used or available for use in the business
- assets costing less than $500 (GST exclusive) can be expensed as repairs, rather than capitalised.
- for any assets disposed of at a loss (either by sale or scrap), the loss becomes deductible in the year of disposal.

Discount provisions - if a prompt payment discount is offered to debtors, then a provision for the potential discount can be made and claimed at balance date.

Insurance - insurance premiums are deductible provided they are not prepaid for more than 12 months and the total annual premium for each policy does not exceed $12,000.

Leave provisions - amounts owing at balance date for holiday pay and long service leave are only deductible if paid out within 63 days of year end.

Rent

- prepaid land and property rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than $23,000
- prepaid livestock or bloodstock rental is deductible on the same basis.

Repairs and maintenance

- if the work is carried out before year end then the amount will be deductible in the current year
- the total cost of a service contract is deductible if it has less than three months to run at balance date and costs less than $23,000 for a full year
- if a warranty is purchased with a fixed asset, ensure the cost of the warranty is separately identified so it can be deducted rather than capitalised.

Staff bonuses - any staff bonuses should be determined before year end and paid within 63 days of year end, otherwise they are not deductible until the following year.

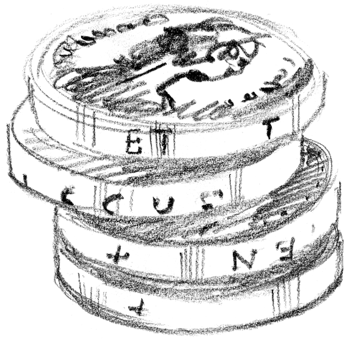
Stationery - if re-stocking is about to occur in April or May, consider moving this forward to March (for a 31 March balance date).

Subscriptions

- newspapers, journals and periodicals are deductible without adding back unexpired amounts
- association memberships are deductible provided they extend no more than 12 months after balance date and the subscription does not exceed $6,000.

Travel and accommodation - advance bookings for business related travel and hotel or motel accommodation are deductible provided it is not more than six months in advance and the total does not exceed $12,000.

Other periodic charges not otherwise dealt with are deductible provided they are not more than twelve months in advance and the prepayment portion does not exceed $12,000 per contract.



KiwiSaver – Changes from 1 April 2008

The take-up has been greater than expected, with the KiwiSaver website stating that more than 400,000 people were members at 30 November 2007. There has been some adverse publicity recently, relating to the length of time Inland Revenue has taken to transfer collections to members' savings accounts and the general state of investment markets. It will be interesting to see how that affects ongoing membership statistics.

The Taxation (KiwiSaver) Act 2007 was passed at the end of last year. This makes a number of amendments to the KiwiSaver scheme. The most important relate to the various "tax credits" announced in last year's Government budget. In summary, the key changes are:

Compulsory Employer Contributions

From 1 April 2008 employers must make compulsory contributions to their employees' KiwiSaver scheme or complying superannuation fund schemes. The initial rate is at 1% of the employee's gross salary or wages. An extra 1% will be required in each successive year until the maximum contribution of 4% is reached from 1 April 2011. In some circumstances existing employer contributions will count towards the compulsory amount. Employers only require compulsory contributions where the employee is contributing to a KiwiSaver scheme or other complying superannuation fund scheme. The legislation also clarifies whether the compulsory contributions are additional to, or part of, existing remuneration. Generally employers and employees can agree this as long as it is done so in "good faith".

We note that compulsory contributions are only required in respect of shareholder-employees if they receive remuneration through the PAYE system and are already contributing themselves to a KiwiSaver scheme.

Employer Tax Credit

To help offset the cost of compulsory employer contributions, an employer tax credit (effectively a subsidy) up to a maximum of $20 per employee per week is allowed. Using the initial compulsory contribution rate of 1%, the credit is enough to subsidise all the contributions made in respect of employees on salaries of up to $104,000. By the time the contribution rate reaches 4%, the credit will only cover salaries of up to $26,000.

Administration of the credit will be built into the PAYE process. There are a number of provisions dealing with miscellaneous matters, such as what happens if an employee in respect of whom credits have been received opts out (the credits are to be refunded) and the situation of an employee having a number of associated employers (they will be counted as one employer for the purposes of the employer tax credit).

Casual Employees

We had expressed initial concern at the application of the KiwiSaver Act to casual employees, in particular the way the automatic enrolment rules worked in conjunction with the definition of "temporary employees". Changes have now been made to clearly exclude casual employees from the automatic enrolment rules. Casual employment is defined, as per the Holidays Act 2003, as employment that is "intermittent or irregular".

The amendments introduce additional compliance obligations upon employers. Therefore if you are encountering problems or have any general enquiries, contact your Grant Thornton adviser.

Count-down to 1 July for charities

Over 2000 charities have already registered with the Charities Commission. The number of applications being received by the Charities Commission is increasing and is now running at around 300 per week. Organisations whose applications are received after 1 July 2008 will no longer have a charitable-purpose tax exemption and are at risk of a tax liability.

The Charities Commission recommends that all charities submit their applications as soon as possible, even if they still require changes to their rules in order to meet the requirements of the Charities Act 2005. Please contact your Grant Thornton adviser for assistance to get your application prepared properly and promptly.

Research & development tax credits now available

In the last Health Adviser we mentioned the imminent introduction of a tax credit for Research and Development ("R&D"). The new legislation has now been passed. This article provides an overview of what the credit covers and how to claim it. Grant Thornton has a specialist team to assist clients with R&D claims.

How much and when?

The R&D credit is based on 15% of eligible expenditure. It applies from the start of the taxpayer's 2008/09 income year. That will mean 1 April 2008 for most taxpayers. Once the credit has been calculated, a separate claim is made through the tax return filing system. The credit will offset any tax that is due and, to the extent that there is no tax to pay (e.g. a loss situation), will be paid in cash. The tax credit will reduce a taxpayer's residual income tax liability. Taxpayers can bear this in mind when managing provisional tax payments. Credits to a company's imputation credit account will also arise to allow the benefit of the R&D tax credit to be passed on to shareholders.

Who is eligible?

Any entity that carries on business in New Zealand, either as a resident or through a fixed establishment, is potentially eligible. The R&D must relate to the business, with the business controlling the R&D activities, bearing the financial risk and effectively owning the results of the activities.

What activities are eligible?

The R&D project must be intended to achieve an advance in science or technology by resolving scientific or technological uncertainty or involve an appreciable element of novelty. The R&D activities will need to be systematic, investigative and involve experimentation with clearly identified observation and evaluation of the outcomes. In other words, the tax credit is not a "free for all" that can be claimed as an after-thought. Considerable planning and documentation is required in order to maximise any claim that is sought.

What expenses are eligible?

Eligible R&D expenditure must be greater than $20,000 in the year the business seeks to make a claim, unless the R&D activity is outsourced to a listed R&D provider.

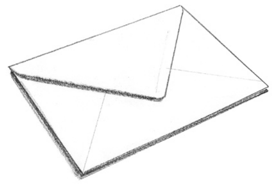
Eligible expenses include direct costs such as staff costs (for example salaries, training and recruitment), depreciation, materials used in trials and other items consumed as part of the R&D project.

Certain overheads such as internal administration, human resources and repairs and maintenance may also be eligible, to the extent that they relate to the R&D activity.

Some expenses are specifically excluded such as market research, quality control and routine testing. Mere cosmetic and stylistic changes are also excluded, as are pre-production activities. There are limitations on related party expenses and depreciation of property acquired from associated persons.

What now?

If you already have R&D projects underway or are planning for R&D in the future, Grant Thornton can assist your business to identify the R&D tax credit opportunity and determine eligibility. We can also provide guidance on how to maximise an R&D tax credit claim.



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

Auckland
Level 4, Grant Thornton House
152 Fanshawe Street, Auckland 1140
T 09 308 2570
F 09 309 4892
E info@gtak.co.nz

Christchurch
Level 9, Anthony Harper Building
47 Cathedral Square, Christchurch 8140
T 03 379 9580
F 03 366 3720
E info@gtch.co.nz

Dunedin
Level 7, Radio Otago House
248 Cumberland Street, Dunedin 9058
T 03 474 0475
F 03 474 0477
E info@gtdn.co.nz

Wellington
Level 13, AXA Centre
80 The Terrace, Wellington 6143
T 04 474 8500
F 04 474 8509
E info@gtwn.co.nz

www.grantthornton.co.nz

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