

# health adviser

Grant Thornton 

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## Welcome To Grant Thornton... ...(and our new newsletter!)

In August last year Brown Woolley Graham agreed to become an independent member of Grant Thornton New Zealand. As from 1 January 2002 the firm is now known as Grant Thornton.

Grant Thornton New Zealand is a member of Grant Thornton International, a leading Association of Chartered Accountants and Business Advisers whose aim is to help owner-managed and entrepreneurial clients achieve success and realise their ambitions. Grant Thornton has over 600 offices in more than 100 countries and in New Zealand there are affiliated offices in Christchurch, Wellington, Dunedin and Whangarei.

The decision to change to a stronger international affiliate was brought about by the recognition of the significant changes taking place in the New Zealand business environment, and particularly the fact that New Zealand business has become much more global.

When considering the change to Grant Thornton, one of the important factors was the similarities in cultures between the two organisations. The hallmark of Brown Woolley Graham's practice has always been its working partnership with our clients and its commitment to excellence by providing the best service possible to meet the specific needs of our clients. Grant Thornton also looks to create a close relationship with clients and has a long track record of helping clients as they expand and explore business opportunities.

As Grant Thornton champions owner-managed and entrepreneurial business world-wide, our firm also looks forward to continuing its role in helping our clients take advantage of growth opportunities in today's changing market and providing positive solutions to business needs.

## 31 March Reminders

**The 31 March financial year end is fast approaching for many of you. Tax issues to consider include:**

### **Trading Stock**

Trading stock may be valued for tax purposes at cost, or at market selling value if this is lower than cost.

Separate stock lines can be valued on different bases. To use market selling value, reasonable evidence must be maintained to substantiate the value.

In addition, trading stock should be reviewed for any damaged or obsolete items that may be scrapped prior to year end in order to support a deduction.

### **Bad Debts**

Trade debtors should be reviewed prior to year end to determine whether any bad debts can be written off. A tax deduction is only available for bad debts physically written off before year end; bad debt provisions are not tax deductible. Don't forget to make a GST credit adjustment in relation to bad debts, if on invoice basis for GST.

### **Fixed Assets**

The fixed asset register should be reviewed for assets that have been sold, discarded or are no longer used.

In certain circumstances a tax deduction may be available.

Business assets purchased during the income year which cost less than \$200 may generally be claimed as an expense.

### **Accrued Holiday Pay and Bonuses**

Accrued holiday pay and bonuses can only be claimed as a deduction in the 2002 income year if paid to employees within 63 days of year end i.e. on or before 2 June 2002.

Accrued amounts paid out after this date will not be allowed as a deduction until the year in which payment is made or the 63 day test is met.

### **Income Recognition**

There may be opportunities to defer the recognition of income for tax purposes to a later period. For example, income from services is generally recognised when an entitlement to bill exists. Contracts should be reviewed to ensure that only income derived in the 2002 period is returned.

### **Prepaid Expenditure**

Generally, expenditure that is prepaid at year end is not deductible until the future period to which it relates. However, there are a number of exceptions, including:

- Consumable aids on hand not exceeding \$58,000;
- Stationery;
- Rates;
- Insurance premiums where the annual premium does not exceed \$12,000.

No deduction can be claimed for these items if the expenditure is taken to the balance sheet in the accounts.

### **Shareholding Changes**

If you are considering a change in the shareholding of your company, or had a change during the year, you should be aware of the following potential consequences:

- Loss of the credit balance of your imputation credit account;
- Tax losses incurred prior to the shareholding change may be lost;
- Ceasing eligibility to be a qualifying company.

### **Imputation Credit Account**

A company's imputation credit account should be reviewed to ensure that it will not have a debit balance at 31 March, otherwise a 10% imputation penalty tax will be imposed.

If you have any queries in relation to these matters, please contact your Grant Thornton advisor.

## Paid Parental Leave to Start

### **Paid parental leave of 12 weeks will be allowed to parents on and after July 1, 2002.**

To be eligible for paid parental leave, a parent must satisfy the criteria laid down in the Parental Leave and Employment Protection Act 1987. In effect, the leave will be available to persons who have been in paid employment with a single employer for at least 10 hours per week for a full year before the date of birth or adoption of a child.

Self employed persons or partners in a partnership will not be eligible for the benefit.

The leave payment will be a maximum of \$325 per week gross (\$256.75 net with a 21% tax rate) or 100% of the parent's previous weekly earnings, whichever is lower. Payment can be shared between eligible partners. This will include persons in a same-sex relationship.

While the Department of Labour will be responsible for administering the scheme, including dealing with eligibility issues and providing publicity, Inland Revenue will process the payments.

Paid parental leave will be funded by the Government at an estimated gross cost of \$57 million, after parental tax credit saving and tax are accounted for.

## FBT Prescribed Interest Rate Change

The rate of interest used to calculate FBT on low interest employment related loans has decreased from 7.19% to 6.70%, with effect from 1 January 2002.

## Increase in Minimum Wage Rates - Effective 18 March 2002

Increases to both the adult minimum wage and the youth minimum wage rate have been announced, and are to come into force on 18 March 2002.

The minimum wage for youths applies to workers who are over the age of 16 years and under the age of 18 years. The adult worker minimum wage applies from the age of 18 years. There is no minimum criteria for workers under the age of 16 years, although a Bill addressing those workers has been introduced into Parliament.

The adult minimum wage rate will increase by 3.9% while the youth minimum wage rate will increase by 18.5% and will apply to 16 and 17 year olds.

### **Minimum wage effective from 18 March 2002**

Age	Per hour (gross)	Per day (gross)	Per 40-hour Week (gross)
16 and 17 years	\$6.40	\$51.20	\$256.00
18 years and upwards	\$8.00	\$64.00	\$320.00

## Easier Interest Deductions for Companies

The interest deductibility rules for companies have been simplified so that for most companies all interest incurred will be deductible, subject only to the thin capitalisation and conduit interest allocation rules.

This new rule does not apply to all companies - qualifying companies are excluded, as are companies that derive any exempt income (with some exceptions, notably exempt dividends).

The amendment is backdated to the 1997-1998 income year. This is designed to validate prior year treatment but may also provide an opportunity to revisit the treatment of interest previously not claimed as a deduction.

This is a significant change. It will provide certainty and will avoid the structuring often required to secure an interest deduction. If you wish to discuss this issue further please contact your Grant Thornton adviser.

## Recent Appointments

**It is with pleasure that we introduce the class of 2002, our new graduates who started recently with our firm.**

(From left to right)

Dawn Laker - Business Services,  
Jean I'iga - Business Services,  
Dharmesh Puna - Business Services,  
Claire Wilton - Assurance Services,  
Sharzreena Sahu Khan - Assurance Services,  
Rebecca Gatenby - Business Services,  
Mike Maitland - Business Services,  
Jan Gates - Business Services,  
Rebecca Campbell - Business Services.



### Editors

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#### Health Adviser - Electronically

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