



Changes from 1st April 2011

Date 18th May 2011



LAQC

What is Happening?

- History and reason for change.
- What LAQC means.
- What was wrong with LAQC's.
- The solution – LTC's.



LAQC

Characteristics

- Losses go to shareholders.
- Profits – taxed in company at company tax rate (currently 28%) or taxed in individual's returns.
- NB - profits are treated in the same way as a normal company, but losses in a normal company must remain in the company.


LTC

Look Through Company

- Government's solution is the removal of LAQC's and bringing in the LTC regime.



LTC – Key Features

- LTC is an incorporated company with limited liability.
 - Similar to a partnership.
 - Shareholders are referred to as ‘Owners’.
 - Gains and losses are passed through to the owners, in proportion to their effective interest in the company.
 - No Company tax rate – all income taxed at owner’s marginal tax rate.
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- A decorative horizontal bar at the bottom right of the slide, consisting of three adjacent colored rectangles: yellow, light green, and dark green.

LTC – Key Features

- LTC does pay other tax – GST, FBT, PAYE.
- For Income Tax purposes, LTC is not treated as a company.
- From the Companies Act perspective, LTC's must comply with the regulations.
- No more than 5 owners.
- Losses are only able to be claimed to the extent of the investment in the company.



Options

- Do nothing – LAQC converts to a Qualifying Company (QC).
- Transition to a partnership or sole trader.
- Transition to an LTC
 - Retain ability to make use of losses in owners tax return.
 - Lose ability to tax profits at company tax rate.
 - Low cost to transition – just file an election form signed by all shareholders.
 - No tax payable to change.
 - Retain company structure & limited liability.

LTC – Additional Benefits

- NO FBT payable on overdrawn current accounts.
- Income flowing into a trust and then subsequently distributed to beneficiaries over 16 years of age earning less than \$48,000 resulting in lower tax payable.
- An existing company that has a large retained earnings benefiting from not having to pay RWT on Dividends.

Transition Rules and Timing

- 18 months to act or become a QC.
- 6 months from balance date to act for this year.
- No tax cost during transition.
- Transition to partnership to be complete within the financial year it applies to.



Compulsory Zero Rating of GST on Land (CZR)

- Land sales between GST registered parties are zero rated from 1 April 2011.
- The purchaser must intend to use land for supplies subject to GST.
- The land is not intended to be used as the principal residence of purchaser.
- Includes business assets sold with the premises.



Changes

- Affects cashflow at time of purchase – purchaser no longer relying on short term finance to fund GST refund.
- Pricing will be “plus GST if any”.
- Vendor needs written statement showing purchaser’s GST registration status & intentions for land use.
- New schedule in sale agreement documenting GST information.
- GST registration focus now on settlement date rather than unconditional date.



Fish Hooks

- Non-GST registered parties – normal rules apply.
- Watch out for nominees purchasing – registration status may be difficult to determine.
- GST position changes before settlement – eg GST registered purchaser but nominee is unregistered.
- GST position changes after settlement – supply was incorrectly zero-rated, purchaser is liable to register & pay GST.



GST Apportionment rules

- For goods & services acquired that have an exempt or personal portion.
- Previously GST input tax adjustments made continually.
- New rules – one-off adjustment at time of purchase.
- Special “wash-up” adjustment at time of sale, deregistration, or when portion of asset’s use for taxable supplies varies.
- Example – purchase of car used for 40% business.



Building Depreciation

- Depreciation on buildings cease.
- Effective for 2012 financial year.
- Buildings with useful life over 50 years.
 - Eg House with 20 years life left.
- Will still need to account for depreciation recovery when sold.



Buildings less than 50 years

- Buildings we continue to depreciate
 - Chicken shed
 - Cowshed
 - Wintering barns
 - Barns
 - Temporary buildings



Residential Buildings

- Important to know what can be depreciated
 - 1. Is the item completely attached?
 - 2. Is the building otherwise incomplete or unable to function?
 - 3. Is the item part of the “fabric” of the building?
- Not a separate asset – wiring, plumbing, built in furniture, home ventilation, lino.
- Is a depreciable asset – carpet, curtains, unattached heating systems.



Commercial Buildings

- Fit-out of commercial buildings still depreciable.
- Fit-out adjustment to compensate for removal of building depreciation.
- 15% of building's adjusted tax book value – depreciate on 2% straight-line basis.
- One-off adjustment 2012 financial year only.
- Time of sale – no deduction for losses, no depreciation recovery.
- Best to separate fit-out at time of purchase.



Depreciation Loading

- Start date - 20 May 2010
- No longer 20% loading for new fixed assets



Cashing in week 4 of leave

- As of April 1st staff can apply to cash in the 4th week of their annual leave.
- They can only do this at anniversary date when the leave has accrued.
- It can be spread over time.
- The employer does not have to do this.
- The employer can not request this either.



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Transfer of a stat day

- Staff may request to formally transfer a stat day to another day, any day – could be a birthday or their wedding anniversary.
- That new day now becomes the stat as opposed to say New Years Day.
- New Years Day is now just an ordinary working day.
- Applications and approvals must be in writing.
- Employers can say no.

Signed agreements

- As of April 1st employers now required to have signed employment agreements for all salaried staff, including themselves.
- No real change except for the salaried shareholder



Trial periods

- Now available to all employers.
- Same rules as before.



Minimum wage

- Now \$13-00 per hour = \$520 for a 40 hour week or \$27,040pa.
- So if you have an employee on \$27kpa and they work in excess of 40 hours a week you will need to pay O/T to avoid falling below min wage.



Marketing

- Branding and new positioning.
- Website and Eshout.
- Suite of Marketing collateral.
- Process changes around scheduling work and upfront pricing.
- Communicating the positioning to staff, peers and client.
- Social media.
- Database.



Thank you



Questions ??