

Tax Implications of the Christmas Season

At this time of year many businesses reward staff and clients with bonuses, parties and gifts. What are the tax implications of these?

- Cash bonuses given to staff are subject to PAYE as part of the staff's wages / salaries.
 - Non-cash bonuses given to staff (such as gift vouchers, bottles of wine, flowers, etc) are subject to Fringe Benefit Tax (FBT). There are FBT thresholds for these types of non-cash bonuses though – if the total value of non-cash bonuses given to each staff member during the quarter does not exceed \$300 (or a total of \$22,500 for the year for all staff), then there is no FBT payable on those non-cash bonuses.
 - Christmas Parties for staff are subject to the “Entertainment Regime” and a tax deduction is limited to 50% of the cost of providing the Christmas party.
 - Gifts to clients are generally 100% deductible on the basis that the gifts are for marketing and promotion purposes. However, if those gifts are food or wine, then the “Entertainment Regime” limits the tax deduction to 50% of the cost of those gifts.
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Income Tax & GST

Just a reminder that GST returns for the October / November 2012 period are due for payment on 15 January 2013. If we calculate your GST, please get the information back to us as soon as possible so we can advise the amount payable before we break up for Christmas. If you have a 31 March balance date, your second provisional tax payment for the 2013 tax year due on 15 January 2013 as well. Tax letters advising you of the amount to pay are currently being sent to you.

Casual Staff & PAYE

With the Christmas break approaching you may be employing students or casual staff. Find out if the employee expects to earn \$2,340 for the full year from all sources of income. If their full year earnings are likely to be less than this figure they do not need to complete a Tax Code Declaration IR330 form and you do not need to deduct PAYE. If they are expecting to earn more than this amount, they will need to complete the IR330 form and you will need to deduct PAYE. If you are not sure what their full year earnings are likely to be, get them to complete the IR330 and deduct PAYE.

From 1 April 2013 the rules have changed and they will need to complete the IR330 so tax can be deducted from their wages.

Casual staff still need a written employment contract, are entitled to the same benefits as full time employees such as annual, sick and bereavement leave. Holiday pay of 8% can be added to the hourly rate.

Business Uplift.....

We are seeing some clients making small incremental steps in improving their business trading over the past six months. Many others are telling us it is still very tight and they have to hustle for every sale where profit margins are under threat. The good news is largely coming from new business persons prepared to give it a go where they have the time, energy and motivation to succeed. For more mature businesses, it still comes back to the basics of setting goals and really working on obtaining business of high quality and extra special service. On balance, we should be glad we are not trading in Europe where unemployment has reached epic proportions. Christmas is always a good time to work on improvements for the next year ahead.

Holiday Break

A big thank you for your business over the past year and we wish you well for the holiday break. Our Christmas holidays start with the office **closing at 5.00 pm on Wednesday 19 December 2012**. We will reopen at 8.30 am on Monday 14 January 2013. John is available during this period on 021 0707234.

Fast Thinking

A bat and a ball cost \$1.10. The bat costs \$1.00 more than the ball. How much does the ball cost?

More often, the intuitive response is the ball costs 10 cents. However, if you think about it a bit more and do the calculations, if the ball cost \$0.10 that means the bat cost \$1.10 and the combined total is \$1.20. The correct answer is of course the ball costs 5 cents and the bat costs \$1.05.

In his book titled *Thinking, Fast and Slow*, Nobel Prize winner psychologist, Daniel Kahneman, describes two methods of thinking –

System 1 – This operates automatically and quickly and does not really involve any thinking at all. He calls this thinking fast.

System 2 – This is a means of allocating sufficient attention to the mental activities involved in thinking through a problem and coming up with the correct answer. He describes this as thinking slow.

It is the slow thinking that needs to take place when looking at your business opportunities over the coming year. You can also apply this to making a sale by offering options for either pricing or payment terms that require more than just a knee jerk response that may not be in your best interests.

KiwiSaver

On 1 July 2007 the KiwiSaver scheme was born on 1 July 2007 and since then nearly two million New Zealanders have enrolled (almost half the eligible population). On 1 July 2012 KiwiSaver turned five and with that anniversary came the ability for some savers to access their funds should they wish to. KiwiSaver members who qualify for NZ Super (currently aged 65 or over), or who joined KiwiSaver between ages 60 and 65, and have been in KiwiSaver for five years will be eligible to withdraw their savings.

Legislation changes have increased the minimum KiwiSaver contribution rates from 1 April 2013. Employees who are contributing at 2% of gross wages prior to 1 April 2013 must change the employee contribution rate to 3%. The compulsory employer contribution also changes to 3% from this date.

These changes must be made for the first full pay period commencing on or after 1 April 2013. If you make employer contributions, please make sure your total contributions are at least 3% from this date. ESCT (employer superannuation contribution tax) must also be deducted from all employer contributions. Employees can still select a higher employee contribution rate of 4% or 8% if they wish, but the employer contribution is topped at 3%.

These are quite complex matters to administer which is the reason why we recommend using an up to date payroll system. Many of our clients use ACE Payroll and find it very user friendly with great support for any queries.
