



WELCOME

Welcome to the Winter 2008 issue of our newsletter. With the morning frosts and All Black season upon us we are now well into the winter months and the warm summer days are a distant memory.

This time of year is particularly busy for accountants and we encourage you to get your information into us early, to avoid any delays. Farmers with June balance dates need to remember to record details of their stock, accounts receivable and accounts payable, as we will be asking for these shortly.

The constant doom and gloom in the media is now becoming a reality for some business sectors. Business owners need to work through this difficult period after a long time of buoyant activity. Some areas that should be reviewed are the business costs (look at tightening the belt), reducing stock levels where possible and consider marketing and business strategies for a competitive advantage.

If your business has been affected by the downturn in the economy, you may need to contact us to re-estimate your income and provisional tax payments down this year. The Government has given some taxpayers a reprieve this year with the corporate tax rate reducing and moving provisional tax dates out by up to 8 weeks, which will help cashflow. The recent budget announcement has also seen the long-awaited personal tax cuts that will take effect from 1 October 2008 - but not as much as we would like.

Our team looks forward to continuing to assist you in your accounting requirements.

Keep safe and warm over the winter months.

Best wishes
Glen White

In this issue

- Pg 2 UK and NZ taxation
- Pg 3 Bull package to assist Canterbury farmers
- Pg 4 It's the golf course for Brian

THE UNSEEN HAND IN POWER DELIVERY

It's a long trail from the turning of a hydro turbine to the flick of a switch at home.

Yet electricity - and a constant supply - is considered a 'given' in 2008. Consider the current debates about ethanol production, wind farms, and rising power charges.

Power Jointing Limited, a Canterbury company based at Kainga, just south of the Waimakariri River, performs one of the vital steps on the complex journey to bring power to our doors.

Just 10 years old, the company was established at the time of the introduction of the deregulation of the electrical market.

Director and owner Wi Karena, then with Southpower, spotted a need for competition in the underground cable construction market, and in partnership with Dave Southen, founded Power Jointing.

Dave later left the business and Don Johns has stepped in, merging his overhead line company (Overhead and Underground) with Power Jointing.

In a highly competitive environment, the company is expanding its installation of high voltage (HV) and low voltage (LV) cables for the power industry, subdividers and commercial and residential building construction.

"We operate with a combination of our own 22 staff - cable layers, digger operators, cable jointers, linesmen, estimators, project managers and support staff - and extensive use of subcontractors," says Paul Collins, General Manager.

"While the Orion Network is our biggest customer, we do a whole range of work including; underground and overhead pole construction, the installation of street lighting and providing trenches for power and telephone cables, and we can design services for small electrical cable reticulation.

"We do other things to assist the power network, for example, cutting trees that encroach over lines and finding the locations of power cables. And we are very good at installing kiosks, the little green substations that you see around the city, and boundary and link boxes, the little black 'plastic' boxes on your property boundary where your power comes from in underground areas."

Power Jointing has nearly 30 vehicles, including many specialised ones such as cherry pickers, a hiab crane truck, diggers and cable carriers.

"Leech and Partners came on board in 2005 when the



company went through a difficult patch, which led to restructuring. They provided valuable advice then and have continued to provide us with financial and accounting advice," says Paul.

"In fact, Philip McDonald and Kim Flintoff have been great in providing advice on tax and other specialised information, assistance with banking and financing activities, and attending as an advisor at our board meetings."

Paul says he has greatly appreciated having Philip "keeping an eye over my shoulder" and now, with the solid base re-established, Power Jointing Limited is ready to build and expand its services.

"By better control of our costs, we have improved operations. We want to re-establish ourselves in some sectors of the market, and explore other opportunities."



■ Personal interviews

The process for your individual interviews with our staff has recently undergone a change.

Rather than trying to see everyone within a short time frame, we are staggering the interviews so that they take place between now and November.

We will send out the questionnaire as usual, and will organise the subsequent interview for a mutually acceptable time.



■ UK AND NEW ZEALAND TAXATION - DON'T GET IT WRONG

The UK tax system is hopelessly complex with a myriad of different taxes, rates, reliefs and allowances, and when combined with the New Zealand tax system, often presents 'interesting' technical issues.

Taxation rules never stay the same, however, and recent changes to UK rules for non-domiciled individuals will potentially impact heavily on Kiwis resident in the UK.

At Leech and Partners we have developed considerable expertise on these two tax systems and how they interact. The following points represent a sample of some of the main issues for those bound for, or already resident in the UK. It is by no means exhaustive and detailed advice should be sought in each case, as circumstances can vary from person to person with significant impact on the net result.

- Recent rule changes mean that non-domiciliaries (i.e. those that consider their home to be other than the UK) can no longer claim exemption for their foreign income and gains because they do not bring it into the UK (known as the remittance basis), without either losing their personal tax allowances or having to pay a 30,000 pound levy, or both.
- In the right circumstances, new residents in the UK can make pension payments to NZ superannuation schemes and get full UK tax relief at up to 40%. Salary sacrifice and employer contributions can also save National Insurance of up to 12%. This can also avoid the cost and hassle of transferring the funds back to NZ upon return.
- In NZ the residence of trusts is effectively

determined by the residence status of the Settlor (i.e. the original benefactor). In the UK it is determined by the residence of the trustees and Settlor, with the result that a NZ trust can become UK resident and chargeable on its worldwide income and gains, if one or more of the trustees and/or the Settlor become resident in the UK.

- Existing NZ trusts that are Complying Trusts may become a Non-Complying Trust without the correct election being made by a strict deadline. This can result in income and gains being charged to tax in NZ at 33% and at a further 45% when distributed to beneficiaries.
- UK Inheritance Tax works like NZ Gift Duty in that the tax can apply to assets situated in the UK, regardless of the domicile or residence status of an individual. In the wrong circumstances, Inheritance Tax of up to 40% can therefore apply to gifts of assets (whilst alive or on death), where their value exceeds 312,000 pounds in any seven-year period.

The tax cost of missed opportunities or of "getting it wrong" are therefore potentially huge and are likely to dwarf the cost of professional advice in these areas. On the basis that no-one knows what they don't know, if you have any UK involvement or have family living there, it is recommended that you seek our help.

Chris Heffernan, Associate at our Ashburton Office, is a UK Chartered Tax Adviser. Call him on (03) 307 6688 or 027 255 0805 to discuss any issues you have, or email him at chris@leech.co.nz

BULL PACKAGE TO ASSIST CANTERBURY FARMERS

The difficulties of low commodity prices, compounded by the past season's crippling drought, mean Canterbury sheep and beef breeders have just faced one of the toughest seasons on record.

"Many people have been severely affected. It has been a most difficult time for them, and it will take some time for them to recover," says Lindsay Smith, PGG Wrightson Finance.

"Deferred payment options for this year's sire bull season reflect an attempt by our company to allow customers to keep the focus on the end game - productivity through quality genetics - but defer the payments to reflect a very difficult trading environment.

"While this offer can only form a small part of a total solution, the impact of cutting costs with regard to genetics can have a big impact on future productivity gains," he says.

"No-one wants to compromise on their genetics. We acknowledge the fact that a bull purchased now has an effect on your breeding programme for a number of years."

The Sire Bull Finance package is available for all bulls bought through PGG Wrightson. To be eligible you must own a minimum of 50 hectares and receive credit approval.

The package provides you with ownership of the bull, with annual equal repayments which can be structured to suit individual cash flows and spread



over a number of breeding seasons.

"This allows you to spread the cost of bulls over time, while deriving the benefits straight away. It also provides the opportunity to update your genetics without the drain on working capital."

Insurance is mandatory for the first 12 months of the finance term.

For more information call PGG Wrightson Finance on 0800 878 4829.

EFFECT OF THE CHANGE IN COMPANY TAX RATE

From the 2008/09 year, the income tax rate for companies decreases from 33% to 30%.

To ensure that companies with retained earnings and imputation credits are not unduly disadvantaged, a two-year transitional period has been introduced.

Who is affected and when?

Everyone whose income is taxed at the company rate is affected by the change, which takes effect from the start of your business's 2009 income year. For most, this is 1 April 2008.

You will need to start using this reduced rate from when you calculate your first 2009 provisional tax payment onward.

The main aspects of tax affected by the change are calculation of income tax and imputation and foreign dividend payment credits.

Imputation credits

As a result of the change in the tax rate, the ratio imputation credits attached to dividends will also change to 30:70 (previously 33:67).

During the transitional period, a company will continue to be able to impute dividends at 33.67 to the extent of the balance carried forward at 31 March 2008.

The short transitional period forces a company to consider paying out reserves, otherwise a further 3% tax liability will arise if the reserves are paid out after 31 March 2010.

The situation is worse for a Qualifying Company, to the extent of imputation credits attached to capital reserves if the imputation credit account is not paid out within the transitional period.

Particular care will be required with respect to the payment of dividends, as any errors could

lead to over imputed dividends at 33:67 instead of 30:70, and the imposition of the new imputation penalty tax.

Resident Withholding tax rate

The rate of resident withholding tax has remained unchanged despite the change to the corporate tax rate.

This means that a fully imputed dividend after the decrease in company tax rate (30 cents in the dollar) would require the company to pay 3 cents in the dollar RWT.

Despite the change in the tax rate and the potential effects that arise, we will endeavour to work closely with you in order to plan for the most tax efficient utilisation of imputation credits at 33%.

Please contact us if you have any concerns.

DIRECTORY

ASHBURTON

PO Box 180
248 East Street
Telephone: 03 307 6688
Fax: 03 308 1203
E-mail: office@leech.co.nz

CHRISTCHURCH

PO Box 13 638
Pyne Gould
Corporation Building
233 Cambridge Tce
Telephone: 03 366 2203
Fax: 03 366 1455
E-mail: office@leech.co.nz

DIRECTORS

Gary Leech
027 433 7060
gary@leech.co.nz

Philip McDonald
027 435 0558
philip@leech.co.nz

Neil Donaldson
027 435 0665
neil@leech.co.nz

ASSOCIATES
Brett Dudley
DDI 03 363 6489
027 457 0535
brett@leech.co.nz

Glen White
DDI 03 363 6492
027 222 7083
glen@leech.co.nz

Chris Heffernan
DDI 03 347 6742
027 255 0805
chris@leech.co.nz

Ashburton
Perpetual Trust Manager

Matthew Hall
DDI 03 307 8752

www.leech.co.nz



IT'S THE GOLF COURSE FOR BRIAN

Leech and Partners' associate, Brian Tutty was farewelled in style with a special dinner in April, attended by many of our staff.

It was a fitting send-off to a well-respected long-serving colleague, who is now likely to be found on the golf course, following the Black Caps, or entertaining the grandchildren.

Shown here are some of those enjoying Brian's farewell occasion.



IN BRIEF

New late filing penalties for GST returns

From 1 April 2008, a late filing penalty will be imposed for failing to file a GST return on time.

The amount of the late filing penalty is \$250, if the registered person accounts for GST on an invoice or hybrid basis, or \$50 if the registered person accounts for GST on a payments basis.

Late filing penalties for other tax types

A standard penalty of \$50 applies to the late filing of an annual tax return, increasing to \$250 if net income is \$100,000-\$1m, and \$500 if net income exceeds \$1m. The penalty for late filing of a reconciliation statement, annual imputation return or employer monthly schedule is \$250.

Late payment penalties for all tax types

On all tax types, except student loan obligations, an initial late payment penalty of 5% of unpaid tax is chargeable where the due date for payment is missed, with monthly incremental penalties of 1% of unpaid tax.

The initial late payment penalty of 5% is charged in two stages. The first 1% is charged on the day immediately after the due date for payment. The remaining 4% is charged if the tax remains unpaid seven days after its due date.

For late payment of student loan obligations the penalty is an initial 1.5% on the amount of default. The penalty then compounds monthly at the rate of 1.5% until the amount in default is paid. (Prior to 1 April 2007, the initial and compounding late payment penalty rates were 2%.)