



Paul Duggan & Associates Limited  
Chartered Accountants



## tax + business newsletter

### Risk and Reward

#### Holiday pay - best practice

Kiwi businesses, especially those involved in contracting and service industries, often close for annual holidays just prior to Christmas and re-open in the New Year. Many businesses encourage their staff to take leave over the festive season 'when things are quiet'. Staff employment agreements will include provision for staff to take at least part of their annual leave during this close-down period. The calculation of holiday pay is an integral part of employees' final pay for the calendar year.

Employees are entitled to receive their pay for annual leave before they commence their leave. This provision provides an employee with money to pay for travel and accommodation.

The employer and employee can agree to leave the normal pay cycle undisturbed by the time off work. If so, it's recommended that the employees' employment agreements reflect this.

### Summer 2011



A verbal contract is not worth the paper it's written on. **Samuel Goldwyn**



*Merry Christmas!*

#### Christmas closing period

Our offices will be closed from **Thursday 22nd** of December at noon, until **Tuesday 10<sup>th</sup>** of January...

To all of our wonderful clients, business associates and supporters, we wish you a wonderful Christmas and an exciting and successful 2012. From the team at Paul Duggan & Associates:



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#### Calculating annual holiday pay

Whichever of the following is the larger becomes the rate of the weekly holiday pay:

1. **'Average weekly earnings'**: Calculate 'total gross earnings' for the 12 months before the end of the last pay period before the annual holiday and divide this figure by 52.
2. **'Ordinary weekly pay'**: Multiply the ordinary hourly rate of the employee's pay as at the start of the holiday by the number of hours worked in a 'normal' week.

#### Calculating pay for statutory (public) holidays

1. **'Relevant daily pay'**: Find the amount of pay that the employee would have received if he or she had worked on the day concerned.
2. **'Average daily pay' is used when using relevant daily pay is not possible or practicable or there is variation in the daily pay during the pay period when the holiday occurs.** Calculate gross earnings for the 52 weeks before the end of the immediately preceding pay period and divide by the number of whole or part days during which the employee earned those earnings including days of paid holiday or leave.

In the case of employees who have commenced employment during the year, their average weekly earnings are calculated by taking the amount of their gross earnings from starting work until the last pay period before the holiday and dividing that amount by the number of weeks worked. For examples on holiday pay please visit the Department of Labour's website: <http://www.dol.govt.nz/>

Pay calculations can be complex especially when employees receive allowances, (e.g. travel) and have deductions made (e.g. KiwiSaver, student loan) so contact us if you need assistance in getting these important calculations right.



## Year end computer detox!

By December most computers are feeling the effects of over-indulging. Perhaps not on Christmas wine and chocolate but as the result of viruses, document hoarding and other accumulative hangovers. Detox your computer to get it working faster, safer and more efficiently.

- Empty your recycle bin!
- Check that all necessary updates have been installed
- Is it time to look at upgrading to Microsoft Office 2010 or 365...?
- Update your security passwords!
- Double check your antivirus protection is up to date and won't expire while you're on holiday
- Clean it. Literally. You'll be amazed what appears when you tip that keyboard upside down (only use anti-static wipes or a soft brush. NOT water!)
- Remove clutter, delete unwanted documents off the desktop and tidy up your folder structure
- Remove any programs that are no longer required
- Make sure your firewall is active
- Perform a last minute virus scan - check out Spybot Search & Destroy
- Perform a disk cleanup and disk defragmentation (set this to run overnight as it may take several hours)
- Perform routine backups of all files and settings
- Archive files offsite

Computer systems vary. If you use an external IT provider to manage your computer requirements then liaise with them as to what they have planned and what you can carry out yourself.

And remember... your computer needs a holiday too - make sure to shut down and turn off before you leave the office!

## Tax Talk

### Let us entertain you

Let's look at the tax treatment of saying thanks to customers and staff typically with gifts, wining and dining.

Inland Revenue's IR268 guide gives the following examples of where entertainment expenses are 50% deductible:

- Taking customers, suppliers and business associates out for dinner or putting on a function for them
- The traditional Christmas party for staff
- Shouting customers, suppliers and staff to an event, e.g. a rugby game or a show
- Taking them on a jaunt in your launch (running/hireage costs and food and alcohol)
- Giving them the use of your bach or time share apartment as a thank you gesture (the occupancy costs)

We've been asked 'why only 50% deductible?' Apparently it's because we get some personal enjoyment or benefit from quaffing a wine and tucking into a steak (too right!).

In lieu of a Christmas party you may give your employees restaurant vouchers to use at their discretion. This cost is fully deductible but is subject to fringe benefit tax (FBT), although there is an exemption of \$300 per employee per quarter (a maximum exemption can apply).

The same treatment applies to staff gifts, again fully deductible but subject to FBT under the 'other benefits' category.

As a thank you gesture many firms give their customers gifts during the festive season. The cost of the gifts is fully tax deductible as marketing and promotion expenditure.



Many firms pay their staff a Christmas cash bonus. These payments are classed as 'extra emoluments' and are fully deductible but have PAYE deducted at the employee's marginal tax rate e.g. 33% if earning over \$70,000 per annum.

If in doubt about where you stand tax deductibility-wise with your generosity to customers and staff, check with us and we'll help you get it right.

## Book out your bach: avoid the tax headache

Recent years have seen a surge in popularity in the short-stay rental of holiday homes. The internet has made it easier to list, book and review baches and cribs which are available when owners aren't in residence.

Inland Revenue have recently issued a paper proposing new rules on mixed-use assets (including holiday homes) where there is a mixture of business and personal use, with revised criteria that should be adhered to when booking out the bach. But until the rules are formally changed, the current policies still apply.

Firstly, it's vital that your intentions are bona fide. You must market the holiday home in a commercial manner such as setting up and using a website for the property, registering the property with a reputable holiday home website or listing the property for short stay rental with local real estate agencies. These efforts cannot be seen to be 'token', you

should be accepting offers from suitable renters.

Secondly, your own (plus family and friends') use of the property must be diarised so you can determine the days in a year that the property was available for renting out.

If the property is owned by an individual or a family trust the expenses relating to the property including the utilities (power, rates, insurance), maintenance and interest on debt will be apportioned according to the number of days in a year the house was available for rent.

There are GST issues too. Short stay accommodation is a taxable supply for GST purposes so if the annual rent you are receiving exceeds \$60,000, the owning entity (individual, partnership, company or trust) is required to register for GST and return GST on the outputs (rent) and inputs (expenses and improvements) made and received.



This threshold may seem high but some do have more than one holiday home in the same entity! This threshold includes the market value of free or cheap use of the bach by persons associated to the owner.

The value of the property becomes a taxable supply when registration occurs and when the property is sold or the entity de-registered. Both the income tax and GST issues can be quite tricky so we recommend consulting us to make sure all the tax bases are covered correctly.

## Business Perspective

### 'Tis the season to be jolly!

It's officially the silly season and you're probably faced with the dilemma of how to reward your team for their year's efforts. 2011 hasn't been easy but there are ways to make your team feel appreciated and boost job satisfaction without hemorrhaging cash.

#### Fun and fresh present ideas:

- A voucher for The Nile - NZ's biggest online book store
- Magazine subscriptions
- Get photos printed onto photo blocks or create a calendar online
- Send the girls off for a manicure
- Make your own gift baskets
- Secret Santa - cheesy but fun, and cheap!
- Make vouchers for an afternoon off to be used in December
- Hit Trade Me and source some retro desk ornaments, or wall hangings
- Organise a masseuse with a mobile massage table and treat everyone to a half hour de-stress
- Check out [www.mrvintage.co.nz](http://www.mrvintage.co.nz) - for hilarious T-shirts to suit everyone

And some of these ideas may work wonders with your clients too...

**Remember** - It's not what you do but how you do it. Nothing beats the gift of giving. And so on with the corny yet true clichés...



#### Frugal ways to treat the team and boost morale:

- Don't be a Grinch, a few decorations and a tree brighten the season spirit
- Take the team to a local walking track and enjoy the sights
- Organise a picnic at the beach
- Borrow a boat and head out fishing
- Arrange a potluck BBQ at your house
- Have you ever played a round of bowls?
- Take the team wine tasting at a local winery
- Surprise the crew with Friday sushi or pizza



## A year in New Zealand business resilience

A year ago our nation was reeling following the Pike River Mine disaster and the first earthquake in Christchurch. One year on Christchurch has suffered another devastating quake with tragic loss of life and major property damage; the Hawke's Bay has been hit by a huge storm that washed out large areas of productive farm land; across NZ gold kiwifruit crops have been decimated by the Psa virus (with infection confirmed to green crops also). Most recently the Bay of Plenty's beaches were polluted by oil and debris from the Rena grounded on Astrolabe Reef.

These critical events apart, businesses have to cope with localised crises, such as losing a contract, a major bad debt or a key staff member leaving. How to cope when adversity strikes? Dr Sven Hansen of the Resilience Institute succinctly advises 'be calm, advance steadily, prevail.' We expand on this approach.



*'The celebration of success overshadows the challenges that were encountered along the way.'* **Jeffrey Benjamin**

**Be calm**, a clear head will deliver decisive, thoughtful action. Mayor Bob Parker's calm strength in the aftermath of the Christchurch earthquakes is a classic example.

When a business crisis hits don't be afraid to communicate with your staff, customers, suppliers, advisors, and bank manager! The load gets shared and a solution may come from any quarter.

**Advance Steadily**, focus on the basics and mobilise the resources you need to plan your recovery. Plant and Food Research are doing just that in developing Psa resistant strains of kiwifruit and when oil spilled from the Rena, thousands of volunteers were marshalled in the clean-up.

Look for innovative bounce back solutions to stem the loss. The newly opened Cashel Street 'pop-up' Mall has bought retailing back to central Christchurch in a vibrant way.

**Prevail**, recovery from business crises can be slow and frustrating but a relentless approach will get you there...

Our isolation has made us a resilient nation. When the chips are down we're generous and supportive towards each other. As 2011 comes to a close, be uplifted by our amazing 2011 Rugby World Cup win (24 years in the making) - when an All Black team troubled by injury, securing scraps of possession and facing an impassioned French Les Bleus, stoically won the final. They remained calm, advanced steadily and prevailed.

### Disclaimer

*This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.*



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