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The Client Link

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Taxing Grass & Fertiliser

There has been discussion recently about whether farmers Grassing and Fertiliser costs were capital or revenue, after the Commissioner of Inland Revenue issued an Operational Statement in July 2004 concerning the treatment of the costs of converting land from one type of farming to another.

Grassing and fertiliser costs were traditionally treated as deductible expenditure, but in the Operational Statement, the Commissioner concluded that such costs should be capitalised when incurred as part of a capital project to convert farmland from one use to another.

The position is to be clarified by amendments to the tax law that will:

- * confirm the immediate deductibility of grassing and fertilising expenditure that is not part of a significant capital activity on a farm, such as a dairy conversion;
- * provide that grassing and fertilising expenditure that is part of a capital activity is capitalised and amortised based on both having useful economic life of three years;
- * define a significant capital activity as one that changes the nature or character of a farming activity, and that to qualify, the changes must involve a programme of other work and physical improvements.

Use of Money Interest Rates Increase

Use of money interest rates were recently increased by Inland Revenue Department with effect from 8 March 2005. Interest on underpayments of tax will increase from 11.93% to 13.08% and on overpayments from 4.83% to 5.71%.

Use of money interest is charged by IRD on short paid income tax by Trusts and Companies, and high taxpaying individuals, and where PAYE, GST and other taxes are in arrears.

The previous rates have applied since November 2001.

Taxpayers with Overseas Income

Since New Zealand tax residents are taxed on their worldwide income, any income earned from overseas assets needs to be returned in New Zealand by applying New Zealand tax rules. For example, if a taxpayer derives rental income from an overseas property, then the gross rental income is returned and all deductions claimed under the New Zealand tax rules. If the calculation results in a loss, then the loss can be used against the taxpayer's other taxable income.

If tax has already been paid overseas on that income, foreign tax credits will be available to offset any tax payable in New Zealand on that income. Foreign tax credits are limited to the lesser of the overseas tax paid or the recalculated tax payable in New Zealand.

☞ New Employees ☞

Hannah Cranch has taken a full-time position with us as Receptionist, having farewelled Deb Berry after 7 years with us. Hannah worked part-time for us in 2004 doing work for us after school. This is Hannah's first job having finished School at the end of 2004.



Damien Bedford joins us as a trainee Accountant having completed his schooling at Paeroa College. Damien will be studying Accountancy through Correspondence and aiming to become a member of the Institute of Chartered Accountants. Damien is an addition to our existing staffing levels and is enthusiastic about the opportunity for working with us.



IMPORTANT: This is not advice. Clients should not act solely on the basis of the material contained in **The Client Link**. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. **The Client Link** is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.

Recent amendments in employment relations

The Employment Relations Amendment Act (No 2) 2004 came into effect on 1 December 2004 and amended several aspects of the Act mainly by expanding the scope of 'good faith'.

The Act now states that the objectives are to build a productive employment relationship through good faith by:

- * Recognising the relationship is built not only on trust and confidence, but also on legislative requirements for good faith;
- * Addressing the inequality of the employment relationships;
- * Promoting collective bargaining;
- * Protecting the integrity of individual choice; and
- * Promoting mediation and reducing judicial intervention.

Good Faith

Before the amendments, the duty of good faith at a minimum required that the parties in an employment relationship not mislead or deceive each other or do anything likely to mislead or deceive, ie it was based on implied mutual obligation of trust and confidence. Good faith now requires:

- * The parties to be responsive and communicative by being active and constructive in building a productive employment relationship; and
- * Employers to provide access to information on a proposed decision and give an opportunity to comment on it before the decision is made where it may adversely affect the continued employment of one or more employees.

Breaches of good faith will include employer actions:

- * Which might encourage non-union staff to remain non-union staff; or
- * Where they pass on conditions agreed to in a Collective Employment Agreement ('CEA') to non-union staff if the employer intends to undermine the CEA; or
- * Where the employer advises or does anything that may induce an employee not to be involved in collective bargaining or be covered by a CEA.

Individual Employment Agreement

The duty of good faith now requires the employer to ensure that the employee has available all the resources to understand the proposed agreement (or changes to an existing agreement) from the employer, and for the employer to respond to any issues raised by the employee.

Collective Employment Agreement

The employer and the union are now required to conclude a collective agreement under the duty of good faith unless there is a genuine reason not to. Even then, the parties are

encouraged to ask the Employment Relations Authority to assist in facilitating with collective bargaining if there is a deadlock on a particular issue.

Where a new recruit is not a member of the relevant union and a CEA is in place, then the recruit needs to be advised of the existence of CEA of which a copy should be given. If the recruit rejects the CEA, the employer may offer an individual employment agreement. However, once the employee enters into an agreement, for the first 30 days the employee will be covered by the terms and conditions in the CEA as if the employee was a member of the union and any other conditions mutually agreed to.

The amendments make it difficult for employers to pass on the same or similar terms and conditions in the CEA to an individual agreement. This is to ensure that the conditions secured by a union are not available to the non-union staff. What this means is that the employer needs to be very cautious of what is said to prospective employees during the recruitment stage. The best procedure would be to provide the employee with both the collective and the individual agreement and leave them to draw their own conclusions.

Smoke Free At Last

No more smoking in the workplace! As from 10 December 2004, employers must not allow employees to smoke in the workplace. This will mean that employers cannot provide a dedicated "smoking room" for employees to smoke in.

The exception to this rule is where the workplace is, or is part of, a hospital care institution, residential disability care institution or a rest home, and smoking takes place in dedicated smoking rooms which are ventilated.

Companies Office Fees

Those clients that operate through Limited Liability Companies may wonder what has happened to the \$15 (previously \$30) fee that was payable to the Ministry of Commerce.

If Annual Returns are filed electronically with the Ministry this fee is waived. If the Return is filed manually the fee is still charged by them.

You will be pleased to know we file your returns electronically.

