footprint
an occasional newsletter
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Working for Families Tax Credits

Taxpayers may/may not be aware that a further nine categories of "income" are included in addition to a person's taxable income in order to calculate the Working for Families Tax Credits (WFF) from the 2012 income year.

- Attributable trustee income;
- Attributable fringe benefits;
- PIE Income;
- Passive income of children;
- Income of non-resident spouse;
- Tax exempt salary or wages;
- Pensions and Annuities;
- Other payments; and
- Income equalisation scheme deposits (excludes "adverse events" deposits)

The intention to include the above categories is more about the "economic" income rather than your usual income. This is so that a family's true economic income is captured from all sources to best target those who need Government assistance. Each of the above categories is explained in detail on the Inland Revenue website (www.ird.govt.nz/wff-tax-credits). However, an explanation of "Other Payments" is in order since this appears to be a 'catch-all' category. According to the government, these would include the "value of payments…from any source" received by a family for day to day living expenses or to replace lost or diminished income.

This is a fairly wide inclusion on which the Inland Revenue has attempted to provide further clarification as follows.

Value of payments means:

- cash payments (including any amount credited to an account); or
- market value of benefits provided (does not intend to extend to free babysitting or Sunday dinners but yet to be seen!); or
- soft loans (loans made available to a person on favourable terms such as no or little interest payable and no set repayment

A payment is considered to be used to meet day-to-day living expenses if it is:

- replacing lost or reduced income (e.g. payments from an insurance policy that covers loss of earnings/employment); or
- used to pay regular liabilities (e.g. car payments, hire purchases, mortgage, loans); or
- used to meet the family's usual living expenses (e.g. monthly phone bill or power bill); or
- paid directly by another person on behalf of the principal caregiver (or their family members) for regular expenses (e.g. paying the power, phone, gas bills directly).

If the total amount received is more than $5,000 for the tax year, then the total amount must be included as family income. However if the total amount for the year is less than or equal to $5,000 then there is no need to tell the Inland Revenue.

Items specifically excluded from "Other Payments" are:

- any one-off capital payments (e.g. payment from the sale of a house);
- any payments that have specific purposes other than income-related purposes such as funeral grants, educational scholarships, lump sum ACC compensation payments, non-taxable payments under the Social Security Act 1964, charitable distributions or compensation based payments;
- any student loan payments including the living costs component;
- any income from a specified source that is declared not to be income for the purposes of the Social Security Act 1964 by regulations made under s 132 of that Act (e.g. payments to victims of crime);
- periodic payments received from the repayment of loan principal or when the recipient of the sale of an asset is paid in instalments

INCOME EQUALISATION FOR FARMERS

The income equalisation scheme allows farmers to deposit money in a good year and withdraw when affected by “adverse events” to enable them to better manage the peaks and troughs in their income.

The recent drought is likely to affect their income for the 2013 and later years. For the farmers whose current or future income is significantly affected by the North Island and West Coast drought, the Commissioner of Inland Revenue allowed late deposits for the 2012 income tax year up to 30 April 2013, regardless of when the 2012 return is filed or what the due date is for filing the tax return.

Normally, income equalisation deposits are not available for refund until 12 months after the deposit is made. However, the Inland Revenue has discretion to allow early refunds, particularly in the case of "adverse events" or when the person is suffering serious hardship.

The Inland Revenue will allow those North Island and West Coast (limited to the Buller and Grey district) farmers materially affected by the drought to make early withdrawals. Materially affected here means that net income has been or will be significantly decreased as a result of the drought and the withdrawal is needed to cover the income gap that results in a following year.

All applications for an early refund must be in writing and will take approximately 20 days to be processed. Note that the refund will be income in the year that the application is made unless it is elected to treat the refund as income in the prior income year provided the application for refund is made in the specified period.

For further information on this topic, we refer you to our article in the Oct-Nov 2009 Newsletter.

A Reminder about....

Changes to KiwiSaver

The minimum contribution rate for employers and employees increased from two per cent to three per cent of gross salary or wages from 1 April 2013.

Employers will need to change the contribution rates for existing KiwiSaver members if the employee’s contribution rate is two per cent. If the employee currently contributes at either four per cent or eight per cent, there is no need to change the contribution rate. The default rate for new employees over the age of 18 years that are automatically enrolled into KiwiSaver has also increased from two per cent to three per cent of gross salary or wages from 1 April 2013.

There are also changes in relation to employment of primary and secondary school children. As noted in our previous newsletter, the tax credit that covered the tax on their first $2,340 of income from employment was repealed from 1 April 2012 and the entitlement to claim it was withdrawn in May 2012. Employers will now have to deduct PAYE/tax from their wages/schedular payments respectively. As a result, if the employee is a KiwiSaver member, the employer will have to make deductions at three per cent. However, if the employee is less than 18 years of age, employers will not need to make employer contributions.

and finally...Congratulations to one of our own!

Joe Butterfield, a consultant at Footes and former partner in the firm, was appointed a Member of the New Zealand Order of Merit (MNZM) in this year’s Queen’s Birthday Honours List for services to health and the transport industry. Joe held the chairmanship of the South Canterbury District Health Board from 2000 to 2009 and has been chair of the Southern District Health Board since 2010. He has also held directorships in companies including Intercity Holdings Ltd, Ritchies Transport Holdings Ltd, the Port of Timaru and the South Canterbury Regional Development Board. Joe has also been heavily involved in yachting – serving as president of Yachting NZ from 1992 to 1995 and as its representative on the international body’s council from 1994 to 2008. Warmest Congratulations on this well deserved honour Joe!

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