

Client Newsletter

April & May 2009

Financial Reporting Standards in Limbo

In December 2002, the Accounting Standards Review Board (ASRB) announced that New Zealand entities would adopt international reporting standards for periods beginning on or after 1 January 2007. The aim was (and still is) to harmonise New Zealand reporting of financial statements to the international standards. Entities have since been adopting New Zealand equivalents to these reporting standards (NZ IFRS) which were developed by the Financial Reporting Standards Board and approved by the ASRB.

There has been extensive debate since as to whether NZ IFRSs are applicable to Small and Medium-sized Entities (SMEs). Financial reporting requirements for SMEs are under review by the government as advised by the Hon Lianne Dalziel in late 2007.

Because of this, the ASRB is delaying the mandatory adoption of NZ IFRS's for certain small entities. This applies to companies who are:

- not Issuers as defined in the Financial Reporting Act 1993
- not required to file financial statements with the Register of Companies
- not large as defined by the Financial Reporting Act 1993 and the Framework for Differential Reporting
- not publicly accountable

To be defined as large, a company or entity must meet with two of the following requirements:

- Total assets exceed \$10 million;
- Total turnover exceeds \$20 million;
- 50 full-time equivalent employees.

Currently, the only entities that are required to register audited financial statements (that comply with NZ IFRS) with the Register of Companies are:

- Companies defined as Issuers
- Overseas companies that carry on business in New Zealand
- A subsidiary of a company or body corporate incorporated outside of New Zealand
- A 'large' company (as defined above), in which 25% or more of the voting power is held outside New Zealand.

Although a company may not have to register audited financial statements, they may still be required to appoint an auditor and have their financial statements audited as per section 196(3) of the Financial Reporting Act 1993, which, although currently under review, has not yet been changed.



Credit Giving

With the slowdown in the economy and the effect of recessionary times felt especially by traders and retailers, suppliers of goods and trade creditors should be wary of giving credit to its customers.

In case of retailers and traders who sell directly to consumers, credit giving may not be an issue as consumers usually pay by cash or credit card. Those who do have a credit policy should determine a limit and stick to it rather than relaxing the credit policy in order to secure a sale.

Suppliers or trade creditors on the other hand, may have developed a long-standing business relationship with their customers and may give large credits to them based solely on their previous history. This approach may not be in their best interest as it does not protect them if the customer is in financial trouble or worse, in liquidation.

Suppliers can protect title to goods supplied on credit by registering a security charge against their customers on the Personal Property Securities Register (PPSR).

The PPSA (Personal Property Securities Act) which came into effect some 10 years ago provides trade creditors with an excellent vehicle to retain title to goods they supply on credit.

It is easier to register priority over other creditors for their goods than trade creditors think, because the on-

line PPSR is cheap, easy to use and does not require much time to secure an interest.

The process of registering an interest can be summarised as follows:

- The buyer of goods has to agree to the registration on PPSR by the supplier of goods.
- Ensure that the terms of trade include a security interest – this strengthens the ability of the supplier to obtain priority over and above the other creditors (such as a bank) in the event of liquidation.
- Ensure that there is an umbrella description of goods supplied from time to time in the financing statement.
- Register the financing statement on the PPSR (termed “perfecting the security interest”) within 10 working days of starting trade with the buyer.

There is no harm in also having a retention of title clause in the terms of trade although it is not a requirement for registering a security interest.

The PPSR is the perfect vehicle for retaining specific title to goods supplied on credit, and trade creditors should use it.

GST Group Registration

A group of companies can register as a group for GST purposes for convenience and to help reduce cost. Provided the companies forming the group meet certain criteria, there are many advantages of registering as a GST group. Some of these advantages include:

- Transactions between the companies will not generally be liable for GST.
- One member represents the group.
- The representative accounts for GST on all the members taxable activities and files the returns with Inland Revenue.
- All notices from Inland Revenue are sent to the representative.

Please go to www.ird.govt.nz or see GST guide (IR375) for more information including the criteria to form a GST group.

Low Income Tax Rebate

A number of taxpayers have asked why early 2009 income tax returns have not received the under-\$38,000 low income tax rebate. One of the tax rate changes that took effect from 1 October 2008 was the removal of the low-income tax credit on income under \$38,000 from 1 April 2008. A new tax rate of 12.5% on income up to \$14,000 has applied from 1 October 2008.

Under the previous rates the tax rate on income under \$38,000 was 19.5%, so the low-income rebate ensured the correct amount of tax was paid.

The annual rates for the 2009 tax year mean the correct tax is paid without the need for the low-income tax credit.

The tax credit for income under \$9,800 remains the same.

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