

## THE OFFICIAL NEWSLETTER OF MATLEY FINANCIAL SERVICES

# Changes announced in budget

*Budget 2008, delivered on 22 May, announced changes to personal income tax and the Family Tax Credit which have now been passed into law. These changes take effect from 1 October 2008.*

### PERSONAL INCOME TAX RATES

The low income rebate has been removed from the 2008/09 tax year and a new bottom tax rate of 12.5% on income up to \$14,000 introduced. Income thresholds for the 21%, 33% and 39% rates also increase over the next three and a half years, as set out below.

CURRENT RATE		NEW RATES from 1'10'08	
Income to \$9,500	15%	Income to \$14,000	12.5%
\$9,501-\$38,000	21%	\$14,001-\$40,000	21%
\$38,001-\$60,000	33%	\$40,001-\$70,000	33%
\$60,001 and over	39%	\$70,001 and over	39%

\* Includes the low income rebate. The statutory rate on income under \$38,000 is 19.5%. The low income rebate gave an effective rate of 15% for income under \$9,500 and 21% for income between \$9,501 and \$38,000.

The introduction of new income tax rates part-way through the income year means an average of the new and old rates needs to be applied. These are called composite rates and represent the actual amount of income tax that applies in the 2008/09 income year.

### ESTIMATES OF REDUCED TAX

The table below gives an estimate of the reduction in tax deducted on a weekly basis from 1 October 2008.

Annual Taxable Income	Est. weekly reduction in tax
\$20,000	\$11.92
\$25,000	\$11.92
\$30,000	\$11.92
\$35,000	\$11.92
\$40,000	\$16.54
\$45,000	\$16.54
\$50,000	\$16.54
\$55,000	\$16.54
\$60,000	\$16.54
\$65,000	\$22.31
\$70,000	\$28.08
\$75,000	\$28.08
\$80,000 and over	\$28.08

### PROVISIONAL TAX PAYER

Your existing calculations apply until 30 September 2008. We'll provide more information about your options shortly. However if you:

- Use the standard option, a new formula will apply to instalments due after 1 October 2008
- Estimate you can decide to apply the new composite rates for the 2008/09 income year
- Use the ratio method IRD will recalculate the ratio for you and advise you accordingly.

### PROVISIONAL TAX PAYER STANDARD METHOD

If you pay your provisional tax by the standard method, the formula to calculate your provisional tax liability will change from 1 October 2008. We will need to reduce your residual income tax (RIT) by \$730 before applying the standard uplift. Therefore the new formula will be:

$$(2007-08 \text{ RIT} - \$730) \times 105\% \text{ or } 110\% \text{ if you are using 2006-07 RIT.}$$

This new provisional tax liability is then used when working out provisional tax instalments due after 1 October 2008. You may want to discuss your options with us at Matley Financial Services.

### WHAT IMPACT DO THE NEW RATES HAVE ON FRINGE BENEFIT TAX (FBT)?

The multi-rate fringe benefit rates for 2008/09 have changed. For the 2008/09 year the following composite rates will apply:

Income Range	Tax Rate
\$0 - \$8,194	0.1594
\$8,195 - \$11,940	0.2012
\$11,941 - \$30,900	0.2658
\$30,901 - \$32,360	0.3699
\$32,361 - \$45,760	0.4925
\$45,761 - \$52,160	0.5625
\$52,161 upwards	0.6393

You still have the option of paying fringe benefit tax of 64% on all fringe benefits rather than applying the multi-rates.

### WORKING FOR FAMILIES TAX CREDITS

From 1 October 2008 the Family Tax Credit rates and income abatement threshold will increase to take account of inflation. If you receive your Working for Families Tax Credits weekly or fortnightly, you'll automatically receive the new rates from your first payment after 1 October 2008. The table below shows the existing weekly Family Tax Credit rates and the new rates that apply from 1 October 2008.

Age/No. of children	Current 1'4'08	From 1'10'08
First child if under 16	\$82.00	\$86.29
First child if 16 or over	\$95.00	\$99.96
Subsequent child -U13	\$57.00	\$59.98
Subsequent child 13-15	\$65.00	\$68.40
Subsequent child 16 & over	\$85.00	\$89.44

If you receive your Working for Families Tax Credits in a lump sum after the end of the tax year, we'll use an average (composite) of the old and new rates to work out your correct entitlement. The table (over page) shows the existing annual Family Tax Credit annual rates and the new average (composite) rates that apply for the 2008/09 income year.

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## ECOMatley

You may have noticed (if the cold hasn't completely cut off your circulation to your brain!) that you received this Matley Communique Newsletter via email rather than in your post box.

This is our attempt to reduce, recycle and reuse. We have a much larger client base now than when we started our practice, and we want to be able to keep in touch with each of you and email is the most cost effective and eco-friendly way to do it.

This way we are able to keep in contact on a more regular basis with information that is pertinent to you all in the accounting world.

## The goss

Although it is almost too late to introduce her, Charlotte Wadey has been employed on contract since February this year for six months.

For those of you that recognise the last name – yes she is Maggie's cousin. Charlotte is filling the role of "Girl Friday" taking care of general administration and office duties. Charlotte is working part time in and around her course at Polytech and finishes with us in August. So if you hear a lovely English accent on the end of the phone when you call the office – you now have a name to match to it!

With Ben working more hours in between his accounting degree, and David alongside him, we needed more office space. We have hired a Cabin from Highlander Waikato Ltd (0800 226 227) which now houses 'the lads' more than comfortably with room for future growth. This is a temporary measure until we build a large studio office next to the house in the near future.

# Changes announced in budget

Age/No. of children	Current 1'4'08	New Rate 08/09
First child if under 16	\$4,264	\$4,376
First child if 16 or over	\$4,940	\$5,069
Subsequent child -U13	\$2,964	\$3,042
Subsequent child 13-15	\$3,380	\$3,469
Subsequent child 16 & over	\$4,420	\$4,536

The income abatement threshold increases from \$35,000 to \$36,827 from 1 October 2008. Because the threshold change is mid-year, a composite threshold of \$35,914 will apply for the 2008/09 income year. You can use the Inland Revenue Department's Working for Families calculator to get an estimate of what your entitlement will be from 1 October 2008.

## The pitfalls of valuations

*Valuation is not a precise art or science. There is often room for considerable differences of opinion, depending on each valuer's view of the risks and various factors that contribute to the overall value.*

However, a professional advisor who is called upon to provide a valuation must do everything reasonable to ensure that the valuation he/she provides is both technically competent and commercially realistic.

Sometimes however, valuers simply "get it wrong". Why? **Failure to choose an appropriate method for valuation.**

Don't rely on any one method of valuation. Valuation methods are based on different principles and economic models. They will produce different results. By reconciling the differences, the valuer must review a number of assumptions and perspectives, which in turn will lead to a better understanding of the value of the subject business. There are a number of different methods of arriving at a valuation. Valuation methods developed for publicly listed shares are normally not relevant to small owner/operator business, (SMEs).

**Over-reliance on number crunching.**

Standard models of valuation and computer programs have their use in valuation, but are unlikely to cope with the multitude of variables in small businesses, and the differences between various sectors of enterprise. Valuation procedure is just as important as processing the numbers. Valuers who rely on computer models risk overlooking the key variables. Remember, there is no substitute for the appraisers own informed judgment.

**Failure to apply the "Sanity Test".**

Does the value reflect the prices being paid for this type and size of business in the market? Each business sector has its own entry barriers and risk factors. Is the Value consistent

with valuation results obtained by other methods? Ask yourself, would I recommend this transaction price to a friend, my family? Would I be prepared to pay this price myself if I had funds? Conversely, if I owned this business would I be willing to sell it for this price?

Valuation is becoming an increasingly specialized field. David's Masters Dissertation was in valuing small to medium sized enterprises and he is often called upon by other chartered accountants and real estate agents to supply valuations for a variety of purposes. Please call if you or someone you know is looking to sell or buy a business.



## Our monthly incentive for accounts

*You may have noticed that we have made a few changes to our invoice system starting from 1st January 2008.*

We have moved to invoicing through our accounting software based on a timesheet basis which means greater accountability of our time and more accurate billing for you our client. It also has resulted in a change in look to our invoices. We now invoice on a weekly basis, with payment due 14 days later.

We still have our monthly prize draw of a \$50 gift basket from Cambridge Cuisine for those of you who pay your

account on or before the due date stated on the invoice. We are pleased to note that competition in recent months has been fierce to be in the draw!!

We understand that as the costs of being in business skyrocket, it can be difficult to pay your accounts as promptly as you would like, which is why we have this incentive.

Congratulations to John and Pamela, Sarah and Dave, Nigel, Pam and Gavin, Caroline, Faye and Graeme and Tara who have been our lucky winners since our last newsletter.



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