

BC'S BUSINESS BRIEFS

Welcome to the first edition of BC Bulletin for 2006. We trust that you have had a relaxing festive season and are now looking forward to a positive and profitable 2006. So what are this year's prospects and how should we all be reacting to prospects ahead?

What are the Economists saying?

The messages coming from the economists continue, in the main, to be that the economy is heading for a landing somewhere between soft and hard (depending on who you listen to) after substantial growth in the last 2 to 3 years. Some of the recent data released shows:

- 1** December 1/4tr inflation figures (0.7%) were below the Reserve Bank expectations;
- 2** December house sales from the REINZ showed a decline to a level more indicative of 10% annual house price inflation than the 14% level confirmed by November data;
- 3** Retail trade sales for November were weaker than expected, indicating that consumer spending growth has retreated from peaks achieved earlier in 2005;
- 4** With the heat coming out of the economy, the Reserve Bank is under less pressure to continue raising the OCR (interest rates);
- 5** While the pressure to raise rates has eased, rates are not expected to decrease significantly until late 2006/early 2007;
- 6** The NZ currency is currently overvalued and when a correction downward occurs, it could happen quickly.

What are the implications to businesses of these trends?

- 1** Exporters, who are currently suffering from the overvalued kiwi \$, may well start to get some relief;
- 2** Importers can expect to be paying more for their goods at the end of the year than now and consequently need to be thinking of ways to protect themselves when purchasing stock, particularly where there are delays between ordering stock and paying for it, by using tools such as hedging. Likewise, we as consumers can expect to see price pressures on consumable goods this year;
- 3** With the tighter local economy this year, all businesses need to ensure their cost structures are regularly reviewed to ensure they are remaining competitive with their competition;
- 4** **Remain positive.** While the economy is unlikely to be as robust this year as last, it is not all doom and gloom. The economic fundamentals for the country are still relatively sound. The government has significant cash surpluses which will start impacting this year and will ensure that as some of the other factors constrain the economy, their increased spending will to some degree provide some insulation.

BAIGENT CONSULTING LIMITED

3 Parliament St, Auckland

P O Box 251419, Pakuranga

5th Floor, Windsor Towers

Ph: (09) 375 0033

Tax Titbits – IRD Instalment arrangements

The IRD issued a new Standard Practice Statement (SPS) in November covering guidelines that they will adhere to in negotiating instalment arrangements for outstanding tax. While the guidelines are relatively complicated, the basic principles are as follows:

- 1** Upon receipt of an application, the IRD is not bound to accept the proposal, but has a number of options including rejecting the proposal, making a counter offer, or seeking further information;
- 2** IRD will take into account a number of factors when considering an application, including whether the proposal will place the taxpayer in serious hardship, whether the proposal will maximize the overall tax take, whether the taxpayer is able to make the entire payment immediately, whether the proposal is realistic, whether all required returns have been filed, whether there are any other relevant factors;
- 3** If the IRD requests further supporting information a minimum of 20 days will be allowed for this, although a longer period may be allowed;
- 4** If the taxpayer fails to provide the further required information within the required timeframe, the application will be treated as if the application had not been received;
- 5** If an instalment arrangement is accepted by IRD, Use of Money Interest charges will be applied for the term of the arrangement;
- 6** So long as the taxpayer complies with the terms of the arrangement, Late Payment penalties will only be applied to a maximum of 5% of the outstanding tax, depending upon the timing of the acceptance of the proposal;
- 7** The taxpayer may renegotiate an instalment arrangement at any time but the IRD may only initiate a renegotiation after 2 years from the date the arrangement was signed, so long as the taxpayer has complied with their commitments under the arrangement;
- 8** If the taxpayer fails to honour their commitments under the arrangement the IRD may cancel the arrangement and reimpose Late Payment Penalties along with incremental Late Payment Penalties of 1% per month. The same penalties can be imposed if the taxpayer supplies misleading information in negotiating an arrangement.

The availability of the SPS may become valuable to more taxpayers over the next couple of years as the economy moves into a period of slower growth and cash flow becomes even more paramount.

We have had considerable experience in negotiating repayment arrangements with IRD over the last 2 years and while the SPS is a new document, the principles laid out have in fact been applied relatively consistently in that time.

Authors Prediction

Interest rates will decline faster than predicted, and an easing cycle will have commenced before the last quarter of 2006!

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