

BC'S BUSINESS BRIEFS

Welcome to the second edition of BC Bulletin for 2006. The year is now well and truly in full swing and the Christmas break seems a long time ago. Following the rapid changes in our exchange rate over the last couple of months, what may happen for the remainder of the year?

What are the Economists saying?

The messages coming from the economists continue, in the main, to be that the economy has probably landed but the question as to how long it is likely to be grounded is not as easy to answer. Some of the recent data released shows:

- 1** Our current account deficit for the December 1/4tr hit **8.9%**, an extremely large number;
- 2** The economy basically stalled for the second half of 2005 with 0.1% growth in the September 1/4tr followed by a decline of 0.1% in the December 1/4tr. (I suspect some of us didn't need the economists to tell us this, but are the Reserve Bank now listening?);
- 3** Retail trade sales have continued their decline, as have the number of house sales, providing further evidence that the domestic economy is finally cooling down;
- 4** Business confidence surveys are currently showing anecdotal evidence that businesses are generally pessimistic for the next 12 months;
- 5** Unemployment rates are showing some signs of increasing for the first time in approx 4 years, meaning there maybe less pressure on wages fuelled inflation as the supply and demand equation moves closer to an equilibrium position;
- 6** The NZ currency has dropped dramatically in value over the last 2 months which will eventually assist exporters, although there could be a lag effect on the current account deficit and it may be that the deficit peaks over 9%.

What does this mean to all of us in business?

- 1** It is unlikely that the domestic economy will improve dramatically this year;
- 2** The recent economic data should put more pressure on the Reserve Bank to consider the first drop in interest rates in more than 3 years;
- 3** Exporters can expect to see benefits flowing through to their international competitiveness over the remainder of the year;
- 4** The latest data is reflective of an economy that has slowed down more quickly than the "experts" were predicting. The government is injecting significant spending in the economy. This should ensure that the domestic economy at least remains positive to some degree for the remainder of this year.

BAIGENT CONSULTING LIMITED

3 Parliament St, Auckland

P O Box 251419, Pakuranga

5th Floor, Windsor Towers

Ph: (09) 375 0033

Tax Law Changes

The Taxation Reform Bill was passed into law earlier this month, although royal assent is not yet complete. The major changes enacted that effect most of us are:

- 1 "9 to 5 leases" have been made ineffective for tax purposes. These leases have been commonly used. One of the benefits of the leases up to now has been to exclude cars from the FBT regime when they are used for business purposes. IRD have moved to close what they perceive to be a loophole and ensure that all cars used by a company and driven by any shareholder or employee is subject to FBT, if it is available for private use, regardless of who is supplying the car, a change which appears to this author to cut right across all principles of contract law. How can a company make a car available to an employee if it in fact does not have the legal right to do so under the contract by which it obtains the use of that car only for certain work hours?;
- 2 If you currently are a user of a "9 to 5 lease", you need to be considering your options going forward. Please call if you have any queries in this area;
- 3 There have been a number of other changes in the FBT area which will have benefit to employers by excluding some items from the FBT net, which are currently included. Additionally a number of the maximum benefit thresholds have been increased to exclude more minor benefits;
- 4 There has been a major overhaul of Depreciation rates. In essence, many short life plant rates have been increased while rates for buildings have been decreased. Additionally the minimum threshold recognizing fixed assets has been raised to \$500, backdated to 19 May 2005;
- 5 From 1 April 2007, the GST due date will change to the 28th of the month. It is intended that GST payment and income tax payment dates will be aligned with effect from the 2008/2009 tax year;
- 6 Certain deductions have been increased on Research & Development expenditure for companies that introduce new equity investors. This is a change targeted at encouraging developing technology companies.

Authors Food for thought

With the government's ability to shoot itself in the foot well and truly entrenched, and it not having a clear majority, what are the chances of an early election? Now that we have a stalled economy, they will undoubtedly come under increased political pressure, and an early election, perhaps in the first 1/2 of 2007, may become a possibility.

Disclaimer of Liability: The views contained in this article are the personal views of the author. No liability will be accepted for actions taken in reliance on those views by any other person.

BAIGENT CONSULTING LIMITED

3 Parliament St, Auckland

P O Box 251419, Pakuranga

5th Floor, Windsor Towers

Ph: (09) 375 0033