



## Risk and Reward

### Holiday pay - best practice

Kiwi businesses, especially those involved in contracting and service industries, often close for annual holidays just prior to Christmas and re-open in the New Year. Many businesses encourage their staff to take leave over the festive season 'when things are quiet'. Staff employment agreements normally include provision for staff to take at least part of their annual leave during this close-down period. The calculation of holiday pay is an integral part of employees' final pay for the calendar year.

Employees are entitled to receive their pay for annual leave before they commence their leave. This provision provides an employee with money to pay for travel and accommodation.

The employer and employee can agree to leave the normal pay cycle undisturbed by the time off work. If so, it's recommended that the employees' employment agreements reflect this.

## Summer 2011



The Gilmore Brown  
team wish you a  
Merry Christmas  
and a happy holiday  
season.

Our offices will be closed from  
Thursday 22nd of December,  
until Monday 16th January 2012.

Minimal staff will be available the week  
commencing  
9th of January 2012.

## Business planning for 2012

### Enter our draw to win Business Advisory services!

Go to our website and click on the link to enter  
the prize draw for a \$500 voucher to be used for  
Business Advisory services in 2012  
(over and above your annual accounting work)

[www.gilmorebrown.co.nz](http://www.gilmorebrown.co.nz)

### Calculating annual holiday pay

Whichever of the following is the larger becomes the rate of the weekly holiday pay:

1. **'Average weekly earnings'**: Calculate 'total gross earnings' for the 12 months before the end of the last pay period before the annual holiday and divide this figure by 52.
2. **'Ordinary weekly pay'**: Multiply the ordinary hourly rate of the employee's pay as at the start of the holiday by the number of hours worked in a 'normal' week.

### Calculating pay for statutory (public) holidays

1. **'Relevant daily pay'**: Find the amount of pay that the employee would have received if he or she had worked on the day concerned.
2. **'Average daily pay' is used when using relevant daily pay is not possible or practicable or there is variation in the daily pay during the pay period when the holiday occurs.** Calculate gross earnings for the 52 weeks before the end of the immediately preceding pay period and divide by the number of whole or part days during which the employee earned those earnings including days of paid holiday or leave.

In the case of employees who have commenced employment during the year, their average weekly earnings are calculated by taking the amount of their gross earnings from starting work until the last pay period before the holiday and dividing that amount by the number of weeks worked.

Pay calculations can be complex especially when employees receive allowances, (e.g. travel) and have deductions made (e.g. KiwiSaver, student loan) so contact us if you need assistance in getting these important calculations right.



## Gilmore Brown Ltd Scholarship 2011 won by Georgia Walker

Gilmore Brown Ltd places a very high value on education and as part of this commitment wish to help tomorrow's Chartered Accountants achieve maximum potential during their academic studies. This year we introduced the Gilmore Brown Ltd Scholarship to help a Northland student get their professional career off to the best start possible.

We were looking for a student who had consistent academic success and made a positive contribution to their school and local community. The student would be intending to study commerce at a tertiary institution with a long term ambition to qualify as a Chartered Accountant through the NZ Institute of Chartered Accountants.

Students were nominated through their School Principals and we were very impressed with the high calibre of applications received.

We are delighted to advise the winner of the inaugural Gilmore Brown Ltd Scholarship is Georgia Walker a student at Whangarei Girls High School. Georgia was presented the award at her school prize giving. The 2011 Scholarship has a value of \$2,000 towards Georgia's first year of tuition fees.

The Scholarship will be offered each year and more information can be found on [www.gilmorebrown.co.nz](http://www.gilmorebrown.co.nz)

## Book out your bach: avoid the tax headache

Recent years have seen a surge in popularity in the short-stay rental of holiday homes. The internet has made it easier to list, book and review baches and cribs which are available when owners aren't in residence.

Inland Revenue have recently issued a paper proposing new rules on mixed-use assets (including holiday homes) where there is a mixture of business and personal use, with revised criteria that should be adhered to when booking out the bach. But until the rules are formally changed, the current policies still apply.

Firstly, it's vital that your intentions are bona fide. You must market the holiday home in a commercial manner such as setting up and using a website for the property, registering the property with a reputable holiday home website or listing the property for short stay rental with local real estate agencies. These efforts cannot be seen to be 'token', you

should be accepting offers from suitable renters.

Secondly, your own (plus family and friends') use of the property must be diarised so you can determine the days in a year that the property was available for renting out.

If the property is owned by an individual or a family trust the expenses relating to the property including the utilities (power, rates, insurance), maintenance and interest on debt will be apportioned according to the number of days in a year the house was available for rent.

There are GST issues too. Short stay accommodation is a taxable supply for GST purposes so if the annual rent you are receiving exceeds \$60,000, the owning entity (individual, partnership, company or trust) is required to register for GST and return GST on the outputs (rent) and inputs (expenses and improvements) made and received.



This threshold may seem high but some do have more than one holiday home in the same entity! This threshold includes the market value of free or cheap use of the bach by persons associated to the owner.

The value of the property becomes a taxable supply when registration occurs and when the property is sold or the entity de-registered. Both the income tax and GST issues can be quite tricky so we recommend consulting us to make sure all the tax bases are covered correctly.

### *Disclaimer*

*The information contained in this newsletter is of a general nature and should be used as a guide only.*

*A senior representative of Gilmore Brown Ltd should be consulted for specific advice before any action is taken.*

### *Contact us*

Telephone 09 4701800 or 0800 FOR GBL  
accounting@gilmorebrown.co.nz

[www.gilmorebrown.co.nz](http://www.gilmorebrown.co.nz)

 *our focus: your business*