Robertson Fulton
CHARTERED ACCOUNTANTS

NEWSLETTER DECEMBER 2016

Best Wishes to all our clients and business associates for a Happy and Safe Holiday Season. Generally 2016 has been a good year for most with business confidence picking up, the farming sector looking forward to $6 per kgms, house prices soaring and unemployment down. Not so good for all those in the Kaikoura and Wellington areas who have had huge challenges thrust upon them with the recent earthquakes. Hopefully Christmas will provide a short respite from the clean up and reinstatement work to relax and recharge. We appreciate that you choose to trust us with your accounting, tax and business affairs and value the relationships we build. We always welcome new clients and appreciate your referrals.

In this Issue:

Holiday Office Closure:

Our office will close at 1pm on Thursday 22 December 2016 and reopen at 8.30am on Monday 16 January 2017. Arrangements will be made with individual clients who require any regular services during this time.

October/November GST Returns:

With our Christmas closedown, all GST returns that we prepare will need to be done before we close on 22 December 2016. Please make a special effort to bring your papers in by 12 December and answer any queries promptly. Remember payment is required by 15 January 2017.

Provisional Tax Payments 15/01/17

Tax Payment Notices will be sent out mid December for payment by **15 January 2017**. **DO NOT FORGET THEM!** If you have any queries regarding the amount you are being asked to pay, please contact us before Christmas so we can resolve these.

Land Sales:

On 1 July 2016 a new Withholding Tax, the Residential Land Withholding Tax (RLWT), was introduced. It will apply to New Zealand Residential Property:

- Owned (or part owned) by an offshore RLWT person and,
- Purchased or acquired on or after 1 October 2015 and
- Sold/disposed of within two years of purchase.

If a property sale triggers the above scenario, an IR1101 will need to be completed and RLWT will need to be deducted from the sale. Lawyers and conveyancers will deal with this at sale. Note an 'offshore RLWT person' includes a NZ resident company or Trust where 25% or more of shareholders or the Trustees are foreign persons.

Note:
The information contained in this newsletter is of a general nature only and readers are cautioned not to act or rely on it without first consulting a senior representative of this firm for specific advice relative to individual circumstances.

Staff News:

Another busy year for us all. We have enjoyed a team building exercise - 'Blo Karting' at Papamoa - which was huge fun and required a little more concentration and skill than we had anticipated. The team and their families took part in the Annual Round the Bridges Run resplendent in bright pink Robertson Fulton Team Tee shirts and all did well whether running or walking the course. Keith this year ran the 12km track for the first time and was very happy with his time. A big shout out to his trainer George!

Neilen has been working hard on his Chartered Accounting Program plan and has now passed the Auditing Module.

In the style of John Key, Keith has made a decision of his own, to ease back while our strong team is in the position to move forward ably into the future.
Having cut his work days down to four days a week since April 2016 **Keith** has decided to reduce his days further from April 2017. As it is not practical to continue as an owner/director of the firm on this basis **Matthew** (who has been with the firm since 2003, and a Director for the last 10 years) will be taking over full management and ownership of the practice.
Keith will continue to work as a Consultant to the firm and have an ongoing role, although working reduced days per week.
To ensure all clients continue to enjoy the same level of priority and service, **Mary-Lee Hight**, one of our Senior Managers, will become an Associate Director and take responsibility for most of Keith's clients. Mary-Lee has worked for Keith for most of the last 30 years, and is very familiar with his clients.
We want to ensure that this change does not impact on clients and wish to stress there will be no significant change to the way we provide service to you. There have been no changes in our staff for the last three years, with everyone experienced, loyal and keen to work hard for you.

Provisional Tax Payment Rules To Change:

As from 1 April 2017:

- The Use of Money Interest (UOMI) threshold will increase from $50,000 to $60,000 (this covers $210,000 of income) for individuals, companies ($ 214,000 of income) and trusts ($182,000 of income).
- UOMI will not be charged on the first and second provisional tax instalments.
- Where taxpayers over $60,000 tax level use the standard uplift method, (last year's tax increased by 5%,) to pay their provisional tax, they will also only incur UOMI from the third instalment. Applicable late payment penalties will still apply.
- Businesses with a turnover less than $5m will be able to pay provisional tax every 2 months which will spread their cashflow more evenly over the year.
- The threshold to correct GST returns will move from $500 to $1,000 per return.
- The monthly incremental penalty of 1% late payment penalty on new debt will be removed from 1/4/17 onwards for Income Tax, GST and Working for Families Tax Credits.
- Increase in the threshold for annual fringe benefit tax returns from $500,000 to $1,000,000.

Cash Contribution from the Bank on Taking out a Loan:

If a business or owner of a rental property buys a property and receives a cash contribution from a lending institution at the time of arranging a mortgage, the amount received will be taxable. Under the financial arrangement rules this money is taxable if it is not specifically designated to be for a non deductible item. When receiving the cash you are able to spend it as you wish, not necessarily on a deductible item.

The Bright-Line Rule a Year On:

This rule applies to residential property bought on or after 1 October 2015, and sold within two years of purchase, where it is not a person's principal residential home.

IRD have set up a special division to review property sales, and now there is an extra form in the Sale and Purchase Agreements requiring information about the purchaser and vendor, and their IRD numbers.

We have seen Property Compliance Review letters come to clients seeking more information about property sales. This shows that the IRD is serious and it has the resources to follow through on checking all sales and determining where property activities are taxable. There are now a whole lot more 'Property Developers'. Many had thought they could take advantage of New Zealand's huge residential property boom to make some tax free money. It is important now to seek our advice before you undertake a project so you know what your tax and GST liabilities will be. There are issues and penalties for not paying what you should, when you should, and ignorance is not an excuse.
This new legislation gives IRD another way to tax some property transactions – clarifying that 'Capital Gains' are sometimes not tax free.

The Bright-line Rule requires that people selling residential property ***within two years*** of buying it to pay income tax on the gain on sale price, unless:

- It is their main residential home
- They inherited the property
- They receive a property as part of a relationship settlement.

All existing property tax rules, for example the intention test, still apply. The 'main home' exclusion cannot be used if it has been used twice in the last 2 years.

So yes, you will pay tax on the profit on sale of your rental property if sold within two years. Excuses for multiple changes to your 'family home' don't work any more, and on top of this, all the old property tax rules still apply. So even if you only do one 'deal' but the intention was to make a profit, it has, and always will be taxable but now the IRD has a better chance of tracing the transaction.

GST Treatment of Credit Card Fees/Surcharges Charged By Some Retailers:

It is becoming common to see a surcharge added to the purchase price if you pay for goods or services using your credit card. This is to help offset the fees charged to retailers from the card merchants. **If you are GST registered and:**

- charge a fee or surcharge to customers who pay by credit card, include it as income in your GST return.
- are charged a fee or surcharge for paying by credit card, include it as an expense in your GST return.

New Online Services for GST Fast Approaching:

IRD are committed to their Business Transformation Project which is intended to 'Make Tax Simpler' and also to completely renew their aging Computer Systems capability and how they deal with their customers. This is a huge project, and GST is the first tax type that will be changed over to the new system. This is expected to happen early in 2017.

The basic premise of the new system is that communications to and from IRD will ideally be online. Payments to and from IRD will also be online. IRD are encouraging all taxpayers to set up myIR Accounts online through the IRD website www.ird.govt.nz. These accounts will be the portal of communication both ways. PAYE and Wage and Salary administration will be the next tax type upgrade after GST. IRD are working with Accounting software and payroll package suppliers to ensure that their products will have the ability to communicate online directly into clients IRD accounts. This will change the method and possibly the frequency of filing IRD returns.
Where we do your GST returns you do not need to worry about the changes; but you can set up a myIR account to enable access to look at statements and assessments if you wish.

For those who file their own GST returns note:
IRD will contact you about updating your GST account access in myIR, if you haven't heard from them by 12 January 2017 call 0800 377 774.

- The new online GST return form will be available online early in January 2017
- The current online form will become unavailable from June 2017.
- The myIR mobile app will become unavailable in early 2017. You will need to use your myIR account on your computer to file your GST returns.

The new section in your myIR account called 'GST' will look different and you will be able to do more things eg: amend returns; apply for an instalment arrangement and get a quick response; and access electronic statements and notices. **Call us if you are having any problems dealing with this.**

IRD Approved Vehicle Mileage Rate Reduction:

A reminder that for the 2017 income tax year IRD have announced that Mileage rates are 72 cents per km. For those who are claiming or paying business-use mileage travelled in privately owned motor vehicles, the rate should have been adjusted.

ACC Stat of the Month:

In 2015, there were 33 claims relating to papercuts, 7 relating to vending machines, 62 that were chair related and 3,836 claims relating to stairs. Guess what they all had in common? They were all work related! Reducing injury in the workplace is important. Accidents at work have a cost, whether it's personal, social or economic.

KiwiSaver Jitters:

A Think Piece:
During this year some people may have noticed that their KiwiSaver balances have been shrinking. It's not a great feeling when you see retirement savings melting away. It's important not to panic before racing off to make rash decisions on the type of fund you have your money invested in. Lots of funds invest people's money in shares here or overseas. Share Markets are notorious for being

volatile to national and international events. Switching funds across to a lower-risk KiwiSaver fund, perhaps one that only holds cash, may seem like a safer option but it could actually be a bad decision. The ups and downs of share values are only paper gains and losses until you sell or change funds. Eventually, markets recover. It could be in 2 days or two years time, but you will never know 'exactly' when to get back in. In the meantime, everyone who has stayed in the fund with shares will have been buying up stocks at bargain prices, month after month. Once the markets fully recover they will come out with a good profit. In the GFC 2008, NZ shares fell 32%. The NZX50 has since more than doubled from that low, soaring well past its original value on the way back up.
The moral of the story is "for every buyer there is a seller". Both think they've got the better end of the deal, and they can't both be right! KiwiSaver Investments are designed to work over long timeframes, and absorb volatility on the premise that in the long run, across almost any period, markets have historically gone up. When making decisions use your head not your stomach.
This is in no way intended to be personal investment advice. We advise that you talk to an investment adviser, and do your own research.

Farmhouse Expenses:

IRD has for a long time permitted a standard deduction of 25% for farm house expenses and 100% deductions for interest and rates expenses. They have recently announced that the concessions are to be withdrawn from the start of the 2017/18 year. It will be replaced with a new approach that will 'more accurately' capture the business versus private costs of farm house maintenance.
Under the new methodology it appears that claims will be brought into line with other business home office claims, where costs are apportioned on the basis of square footage, usage etc. There will still be a claim on some default basis, so watch this space.

Private Expenses – Still Not Deductible:

We continue to get enquiries from clients as to what are deductible expenses for taxation purposes. These enquiries tend to focus on what is mainly 'private expenditure'.
The basic rules for claiming expenses have not changed for many years. There needs to be a nexus between the income and the expenses. If you incur a cost to generate taxable income, those costs will be tax deductible against that income. For example, paying wages, renting a building to operate from, paying the office power bill, repairing your machinery etc. What has never been deductible is private expenditure, and yes we know that in some cases private and business expenses get very 'close together' and need to be apportioned, like vehicle running costs, travel costs and entertainment expenses.
Blatant private expenses cannot be apportioned and are always private even though we do see some logic in arguments that they should be deductible, like 'these clothes must be deductible because I cannot see clients with no clothes on'.
Unless the clothes are of a protective nature, or a monogrammed uniform, IRD hold that we all need to wear clothes therefore clothes are private expenditure and not deductible. Similarly expenditure on dental work, glasses, cosmetic surgery, hair dos, healthcare etc are not deductible.
The coffee club culture that we have moved into is deemed private or entertainment, the latter requiring effectively a logbook listing clients, dates, etc.
Vehicle running has always been a big one, requiring a log book in most cases to support a business claim.
It is important to remember that tax deductible does not mean you get the money spent back. It means that the expense is deducted from your taxable income. For example, if you can claim a further $200 taxable expenditure, and you are earning say $47,000 pa, you can claim $26.09 back as GST, and the net cost of $173.91 will be a deduction which will save a further $30.28 in Income Tax. You do not get $200 off your tax bill.

Have a Laugh With Us:

1. Two Accountants go to the cemetery to pay their respects at the grave of a colleague. However, they search and search and can't find his tombstone anywhere. Eventually one turns to the other and says, 'Perhaps he put it in his wife's name?'

2. My friend reviewed her young son's fill-in-the-blank homework. One line: "At Christmas, we exchange gifts with ____."

   His response: "Receipts."

3.

Christmas

Is a time when kids tell Santa what they want and adults pay for it.
Deficits are when adults tell the government what they want and their kids pay for it.

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