

# NEWSLETTER

Feb – Apr 2018

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Welcome back to our first edition for 2018. We hope you all are refreshed after the holiday period and prepared for the new year ahead.

Next month we will be posting out our annual Client Questionnaires for March balance dates. Please keep an eye out for these, when they are completed please send them back with your records so we can make a start on your 2018 books.

## STAFF NEWS



*Congratulations to Cherie – who has announced her engagement and will be getting married at the end of the year!*

This coming weekend the Robertson Fulton Social Club is taking our braver staff to Wero Whitewater Rafting. This comes complete with crash helmets, life jackets, and a waterfall! We are looking forward to sharing survival stories on our return.

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## Internet of Things

You may have heard the term ‘internet of things’ (IoT) banded out recently, but what exactly is it?

IoT is the name given to interconnected devices that can communicate with each other via the internet, through the sending and receiving of data. The IoT is rapidly changing the world in which we live, albeit somewhat behind the scenes. It affects how we work, communicate, drive, make plans, shop and even how our homes are run.



The IoT works through sensors embedded in various objects that transmit signals to an online platform. Sensors are in almost everything. Location sensors in your smartphone, car, tablet or watch mean someone can locate you with ease and this generates valuable data about how things work and work together. These sensors are taking information from the world and uploading it to the internet, possibly without us noticing or without our permission. Eg, after visiting a website, adverts for that same website suddenly pop up on your Facebook news feed and when you arrive in a new location your smartphone preferences are automatically updated. That’s the IoT.

Although we are aware of this with smartphones and laptops, an increasing number of everyday devices can connect to the internet, such as air conditioning, lighting and even fridges. It is estimated that by 2020 50 billion objects will be connected to the internet. With a global population of 7.6 billion that equates to 6.6 objects connected to the internet per person. 328 million new devices are being connected each month, so in the time you’ve taken to read this paragraph, an estimated 4,000 new devices have been connected to the internet.

A common complaint is that we’re now so inundated with so much data that we don’t know what to do with it or what’s important. IoT allows companies to capture data to learn more about customer’s behaviours and model services to fit their needs.

Real time data collection takes the guesswork away and allows businesses to tailor their services to deliver customers something of real value.

As an example, the car industry increasingly exploits IoT to their advantage. In many new vehicles, cars can be connected to the manufacturer's server. Every time the car is turned on, an alert is sent to the server which can perform an analysis of the data and send text alerts to the driver if something is wrong with the engine. This can detail how serious the fault is, the closest dealer to get it fixed, directions to get there, a



discount voucher for the service, and an indication whether the service is under warranty or not.

An additional advantage to the manufacturer is that they can quickly identify any trends with the faults. IoT allows them to easily identify cars made at the same factory, or with common parts, and send warnings to drivers of other vehicles that may be affected, much like Subaru and Mazda did last year. This leads to streamlined inventory management for the dealer, a better and safer car, and means the driver can get back on the road faster.

It is clear that IoT will impact all industries, and businesses need to be aware of it to ensure they aren't left behind.

## Mixed Use Assets

When an asset, such as a bach or a boat, is used both privately and to generate income, prescriptive rules exist within the Income Tax Act that determine the extent to which a tax deduction is available.

Expenses broadly fall into three categories: fully deductible, non-deductible and apportioned.

An expense is fully deductible if it is incurred solely to generate taxable income. Non-deductible expenses arise directly from any private use of the asset. Finally, apportioned expenses arise when an expense relates to both income-earning and private use of the asset, with a tax deduction available based on the number of days the asset is used to derive income, as a proportion of the total number of days the asset is used for either purpose.

Private use is defined as the owner's personal or family use of the asset, and any other person who pays less than 80% of the market value for the use of the asset.

For example, if a bach is rented to your sister for full market rent and a friend for 70% of the market rent, both instances qualify as private use and the income is exempt from tax. Similarly, expenses incurred relating to this use of the asset are non-deductible.



Keeping a bach in mind, an example of a fully deductible expense would be advertising costs. Conversely, if the owner of the bach purchased a kayak that was unavailable for tenant's use, the cost would be non-deductible. While general holding costs such as rates, general repairs and insurance are apportioned based on the proportion of days the asset is used to derive income.

If a net loss arises from the asset, that loss is typically ring-fenced and cannot be offset against other income. Instead, the loss must be transferred forward and offset against future profits from the asset.

In addition to Income Tax, there are separate GST rules that apply to mixed-used assets. GST recovery is broadly based on the anticipated split of private / income use. However, unlike the income tax rules summarised above, GST can be recovered on use by the owners and their family, providing market value is paid for use of the asset. Hence, different recovery percentages can arise between income tax versus GST.

Before you consider putting the bach up for rent, it is worth checking whether the mixed use asset rules will apply and what records you need to keep to ensure you can apply the rules correctly.

## Mini-budget – Families package

The Labour coalition made immediate changes when they were elected into government, starting with repealing National's planned tax bracket changes. Labours new 'mini-budget' is intended to benefit low-income earners, middle-income families with children and lift children out of poverty.

The package entails:

- Increasing the Family tax credit by between \$575 to \$1,400 per year.
- Increasing the Working for Families tax credit abatement threshold from \$36,350 to \$42,700.
- Increasing the Working for Families abatement rate from 22.5% to 25%.

- Reinstating the Independent Earner tax credit (IETC) of \$520 annually to individuals with incomes of \$24,000 to \$48,000.
- Introducing a \$60 per week per child Best Start tax credit for families with children under 3 (if born on or after July 1, 2018).
- Implementing the Accommodation Supplement and Accommodation Benefit increases.



However, higher income earners, especially those without children, will not be seeing any direct financial benefits from the changes. Other Government commitments are also set to take a big slice of the budget. The KiwiBuild programme, aiming to deliver 100,000 homes for Kiwi

families over the next ten years, and the first year of free tertiary education, will leave the Government with a slim margin for fiscal error. Furthermore, they have placed long-term fiscal focus on the reduction of net government debt to between 0 and 20 per cent of GDP, along with keeping government expenses below 30 per cent of GDP.

While current Treasury forecasts are positive, economic outlook can change quickly with budget shocks such as natural disasters. Another large earthquake could spell the end to the Governments current forecasted cost buffer. Only time will tell whether or not the Government has budgeted correctly.

The Government is also introducing a new winter energy payment for recipients of benefits, superannuation and veteran's pensions. The payment will comprise \$450 per year for single individuals without dependent children and \$700 for couples and singles living with dependent children. Orphaned and unsupported children will also receive an increased allowance of \$20.31 per week.

The changes are aimed at bringing many New Zealanders out of hardship.

## Foreign property owners slapped with fee for vacant property

Australia has followed the international trend of penalising foreign owners of Australian residential property who keep their property vacant for extended periods of time.

In November, the Australian parliament approved legislation that imposes an annual vacancy fee on foreign owners of residential real estate. If the property is not occupied or genuinely available on the rental market for at least 183 days in a particular 12 month period, a fee applies.

Foreign owners can avoid the fee by living in the property (or have a family member live in the property), leasing the property, or making it available for rent, for a total of 183 days in a 12 month period. A property is genuinely available

for rent if it is made available on the rental market, advertised publicly, and available at a market rent.



Interestingly, the law requires the property to be let for a minimum of 30 days so short term rentals arranged through platforms such as AirBnB are not an option unless the rental period is 30 days or more.

If owners fail to comply with the new law the Government has the capacity to recover any outstanding fee as a debt and/or by the creation of a charge over Australian land owned by the foreign person.

Will this have a flow on effect into New Zealand and have our Government consider policy change? Time will tell.

## Terminal tax payments – 7<sup>th</sup> April 2018

Tax notices will be sent to you in the next few weeks for 2017 Terminal Tax which is due 7/4/18.

If you have any queries regarding these or issues regarding payment please contact us as soon as possible so we can resolve this for you.



## Snippets

### After work drinks



A recent study found that up to one in five office workers enjoy going for a drink with co-workers at least once a month.

This begs the questions as to whether after-work drinks are good for a person's career. Although there is clearly no direct link, there can be undeniable benefits to socialising with co-workers outside work hours. Although it may seem like an extension of the work day, do not underestimate the value of staying for a drink, even if just one.

The study found 82% of people relished the chance to bond with teammates, whilst 11% of those questioned stated that their reason for attending was to spend time with and get to know their boss in a not so serious environment.

Not a drinker? Well, that's fine! There are no rules that say you have to drink alcohol, grab a non-alcoholic drink and enjoy the time spent with co-workers. A more casual atmosphere can allow colleagues to get to know each other better. But remember to keep it professional, you do not want to be the talk of the office for the wrong reason. Have fun but know your limits. It can be your chance to make an impression on co-workers, but make sure it is a positive one.

### Provide your IRD number for interest income or be punished

From 1 April 2018 new investors in multi-rate PIE's will have to provide their IRD number to the PIE or they will not be able to invest in it.

For those investing in fixed interest, the non declaration rate will be increased from 33% to 45% starting from 2020.

### Employment Income to be reported on a daily basis

From 1 April 2019 (or 1 April 2018 for those who volunteer to adopt early), employment income information will have to be provided to Inland Revenue electronically for those with PAYE and ESCT deductions of \$50,000 a year or more.

Electronic filers will have two days to report. Those below the threshold for electronic filing will have seven days to report. Reporting will include all information required on the employer monthly schedule.

### Auckland Transport

Those of us that don't regularly drive in Auckland already sympathise with those of you that do. Unfortunately it's about to get worse. Filling up the tank in Auckland will soon cost more than the rest of the country.



A 10 cent per litre petrol tax is expected to be in place by July 1st. The tax will be added to the price of petrol and is hoped to contribute 10% towards Labour's \$15 billion 10-year Auckland transport programme.

It is intended that the money raised will fund a rail link from Auckland CBD to the airport, West Auckland and along other key Auckland roads, as well as new busways, bike paths and roads. It will also contribute to the cost of a rail network between Hamilton and Auckland. In addition to improving transport, it is hoped that the anticipated traffic decongestion will allow for more intensive housing development around transport hubs, bringing economics benefits to those areas.

Most people agree that change is needed to fix Auckland's traffic problems and a fuel tax is a straightforward way to raise the much needed funds. The tax might help decrease congestion and make Auckland's dire public transport move into the 21st century, which is long overdue.

### Year-end interest certificates from banks



From 1 April 2020, the banks will not be required to send out certificates of annual interest to those who have provided their IRD number. This is because the Inland Revenue Department will have sufficient information to provide the tax payer with the figures through MyIR.

*Finally, be sure to ask for our office 'barista' when you next come for a visit. She will be more than happy to attend to all your coffee needs!*



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