



TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Newsletter

Autumn 2011

New GST rules from April - how this will affect you

FROM April 1, special GST rules have been created when a sale involves land.

The buyer has to declare, in writing, whether the property is going to be used for a GST activity, such as commercial rent. If it is and the buyer is GST registered, then the whole transaction is zero rated (no GST involved) just as though it were a business sold as a going concern.

Cars and other assets

For companies, cars will be treated as fringe benefits in the usual way. The rules for sole traders and partnerships are now much more logical.

If you buy a car and intend to use it say 30% for private running, then you claim only 70% of the GST. Full marks to IRD for getting this right. However, if you underestimate your private running by 10 percentage points or more, *or* when you recalculate the GST claim, the difference exceeds \$1000, you have to make an adjustment.

Percentage points are the difference between two percentages. If you start with 70% and move down to 61%, you have moved 9 percentage points.

Suppose you bought a car for \$46,000. The GST content is 3/23 of \$46,000, or \$6000. You claim 70% (\$4200). If your business use goes down to 61%, no adjustment is required because the movement is less than 10 percentage points.

But you must also see if the effect is more than \$1000. Sixty-one percent of \$6000 is \$3660. You claimed \$4200. The difference is only \$540 so no adjustment is needed.

Inland Revenue does not have a reputation for great generosity. When you sell the car, there is a wash-up. Assume your actual business running averages 61%. You will repay most, but not all, of

the \$540 at that time. Why not all? Well, let's just say there's a complicated formula which is not easy to explain. If you ask when we see you next, we'll tell you the details.

When you exceed the 10 percentage points or the \$1000, we also have to apply the formula. It involves going back each year to the beginning and redoing the calculation. That takes time and adds to costs.

One of the nice thing about these new rules is that you don't have to go on year after year making private use adjustments, because it all comes out in the wash-up.

IRD has decided you can claim all the GST if the asset costs \$5000 or less. You make just two adjustments, if needed, up to \$10,000, five adjustments from there to \$500,000 and 10 adjustments if the cost is more than \$500,000.

How does it affect you?

Be accurate with your private use estimate. If you think it is going to go up over time, aim a little low with your GST claim. In the above example, a 60% adjustment would have been a better choice. Remember, it will all come out right in the wash-up when you sell.

Other changes

Income from farmstays and homestays is subject to GST from 1 April 2011. If your business does not generate \$60,000 revenue, you will still not need to register.

Property developers, who generate domestic rental income while their project progresses, have a new and easier formula for working out their GST adjustment.

Check those invoices for advertising

IT'S ALWAYS worth checking invoices received for advertising.

Some outright scammers will send an invoice for advertising which is never published.

Other legitimate businesses sometimes scan your ad from another publication in which it has appeared, then print it in their own publication

without your authority. They then send you an invoice, along with a copy of your ad as it appeared in their publication.

Always ensure you or someone in your organisation has authorised the advertisement before paying an invoice. Unscrupulous businesses count on you not checking.

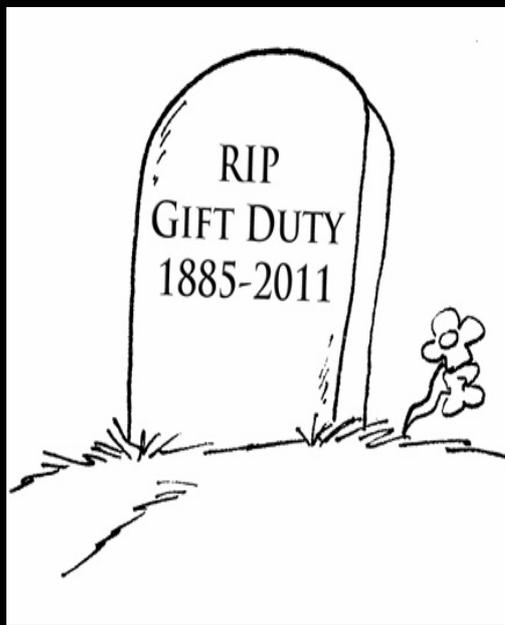
An income tax trap for property owners

THE income tax rates for the year starting 1 April 2011 will be lower than those for the year starting 1 April 2010. This means your provisional tax calculation will be reduced for the 2012 year (ending 31 March 2012 for most people).

If you own property on which the building depreciation is going to be cancelled, you could find yourself underpaying your income tax for the next year. For entities such as companies and trusts, this could give rise to Use of Money Interest, which you might not be expecting. Therefore, if you are not going to be able to claim

depreciation, recalculate your estimated profit for the 2012 year and base your provisional tax payments on that recalculation, not on the automatic Inland Revenue calculation.

If you buy new equipment after 20 May 2010 the depreciation claim will be lower than normal. Previously, there was a 20% loading on the depreciation rate if an asset was new. This has now been abolished, so your depreciation claim for the March 2011 year might be a little lower than normal if you buy a reasonable number of assets each year.



Horrible old man laid to rest aged 125

GIFT DUTY lingers on painfully until 1 October 2011.

The duty was born in 1885 and in October it will be officially dead. Its demise means:

- No more annual gifting.
- You can gift as much as you like whenever you like to whoever you like (or don't like if you prefer it).
- No more carefully worded agreements for loans between family members for fear that not charging interest will be considered a gift. For example, if you lend your children money to buy a house you will no longer need a formal agreement with them, although a mortgage document might be prudent.

Keep a record of efforts to recover bad debts

RECORD your attempts to collect bad debts. Refer to your notes when talking to bad payers so you can remind them of what they said previously.

Your notes will also be useful if you have to write off the bad debt and you are later required by Inland Revenue to justify your write-off.

If you have made a charge which should never have been invoiced, this is **not a bad debt**. If you have to issue a credit note after balance date and the invoice was issued before your balance date, you should remind us, when preparing your annual accounts, to reduce your sales figure by the amount of the credit note issued.

Important

If you have bad debts, you must write them off before your balance date (for most people 31 March).

Writing off can mean different things to different people. If your records are very simple, it might be enough to write across your copy of the invoice "written off on (date)". Before you are allowed to write off a debt, you must have taken all practical steps to recover your money.

Writing off a debt does not stop you from continuing efforts to get paid. If you get some of your money, it is taxable income.

Spreading ACC payments

IF YOU can, pay ACC by the due date. It's very expensive to spread payments because:

- The charge at 10% per month is effectively an interest rate of about 18%.
- When we prepare your annual accounts we need to get details of unpaid ACC and incorporate the debt in the books. This involves extra work and hence extra costs.

Working for Families loopholes closing

LOOPHOLES have been closed which allowed families to access the Working for Families (WFF) rebate when they had a reasonably good family income.

When calculating income for WFF purposes, the following sources of income may have to be included (there are some rare exceptions):

- Family trust income.
- Fringe benefits.
- Deposits into an Income Equalisation Account (for farmers).
- Half of pension or annuity scheme income.
- Passive income of dependent minors, like rent and royalties and money attributed in a PIE, unless it is locked up until retirement as well as any distributions from a PIE, but excluding any payments to minors from a family trust totalling less than \$1000.

Non-residents' foreign-sourced income of the person's spouse, civil union partner, or de facto partner.

- Income replacement payments.
It includes the value of payments
 - (a) paid or provided to the person from any source; and
 - (b) used by the person to
 - (i) replace lost or diminished income of the person or the person's family;
 - (ii) meet usual living expenses of the person or the person's family.

There are exceptions to this, one is student loans.

If the amount paid to the two partners is no more than \$5000 in total this source of income can be ignored.

How does it affect you?

You must tell the IRD if you are getting money or income from these sources. Therefore you need to give us this information when we prepare your annual tax return.

Keep your feet firmly in just the one boat

A CHINESE proverb says "Do not have each foot on a different boat!"

From time to time, we have a client who wants to run two (or more, sometimes) businesses at

the same time. It rarely works.

Why? It's hard enough to promote just one business. If you do this properly, there won't be enough time in the week for a second one.

ACCOUNTANT'S TIP



YOU are keen on sport. The club you belong to asks you for money as sponsorship. Is this payment tax deductible?

If you claim a tax deduction for sponsorship it must be a real business expense. Your payment must provide a reasonable amount of profiling for your business. It is asking for trouble to make a payment to your favourite club and put it down as sponsorship when the value provided by the club bears no relationship to the amount paid. Any arrangement needs to be in writing.

Sponsorship can be a handy alternative to making a donation. If a company makes a loss as a consequence of donations, that loss is not tax deductible. However, sponsorship does not affect the tax deductibility of a loss

Getting to the top

GOOGLE ranks search results according to popularity. If anyone asks to use some of your copyright material, such as from a newsletter, it can help you to get to the top of the Google ranking. The trick is to allow your material to be used but ask for recognition to include reference to your website.

If the person using the material sends it by email, reference to your website will be spotted by Google. The more often people use your material, the better for you.

Disputes Tribunal a useful tool for debt recovery

IF YOU HAVE a disputed debt of \$15,000 or less, a convenient way of getting the issue resolved is to use the Disputes Tribunal.

Both parties conduct their own case. If you have to use the Disputes Tribunal, here are some points which might help you:

- Go to the Ministry of Justice website, www.justice.govt.nz/tribunals/disputes, for some useful advice on conducting your case.
- If your claim exceeds \$15,000, you can still use the tribunal, but you have to accept you will not get more than \$15,000.

- You can search the tribunal decisions on the website above. If you type in key words, cases will come up on your computer. This means you can compare your case with others previously decided.
- Remember you should send any exhibits you are going to use to the tribunal and the other party at least a week before the case is heard. If you come up with a late piece of evidence and there is no time to get copies to the adjudicator and your opponents, take copies for each of them with you to court.

Different market - different prices

OUR client told us this story.

"I wanted to rent a car in Australia. When I went to book, I was asked whether I was an Australian. I ticked the box yes. I then went to hire an Audi for a week and was quoted A\$826.28.

"I thought it would be interesting to see what happened if I said I was a New Zealander. I was quoted A\$1294.25 for the same car.

"I rang the company and was told it had to do with insurance, particularly if I had an accident and needed hospital treatment. It seemed expensive insurance.

"I went to the website of one of the big rental car companies and got a price of just over A\$600. This was in spite of my declaring I was a New Zealander."

This story illustrates the importance of market knowledge. If you are not an Australian you might not know the normal car rental prices. Further, with the prices quoted in Australian dollars, it could look like the sort of prices we pay at home.

We are not commenting on whether we think the rental car company was ethical. The points we make are:

- 1 Price is governed by what people will pay. You might notice in supermarkets a kilo of a product will often cost more than two packets of 500gm each.
- 2 For most products the customer has a far poorer knowledge of the market than the supplier.
- 3 Customers with a poor knowledge of the market have a poor basis for comparing prices and are more likely to accept the price asked.
- 4 Shopping around takes time. Some people assume the price differences are not sufficient to warrant spending extra time on the purchase. They accept the first price.
- 5 If you can segment your market, you might also be able to get better prices in one market than in another. Hint: Those spending their own money are much more price-conscious than those who spend other people's money.

Years ago a client sold the same item in both Australia and New Zealand. She used the same price in both countries. She had noticed the cost of food in both countries was much the same in terms of their individual currencies and reasoned there was no sense in reducing her prices to our friends over the ditch. If she charged \$25 in New Zealand then why not A\$25 in Australia? The Australian sales were very profitable!

Different prices for the same product within the same country are also common. Rental cars, again, offer a good example. Regular users and those who have loyalty cards usually get a better price than casual hirers.

Can you get better prices by segmenting your market?



TAX CALENDAR

April 7

**2010 Terminal Tax
(March balance date)**

May 7

**3rd Instalment 2011
Provisional Tax
(March balance date)
GST for March 2011**

May 28

**1st Instalment 2011
Provisional Tax
(December balance date)
GST for April 2011**

Maximise results with a good phone script

A CLIENT does most of his business with big organisations.

The managers of these organisations move from time to time and the email newsletters he sends them bounce back. His database needs updating.

His solution is to employ someone working from home to get in touch with the firms and find out where the contact has gone. She also finds out who the new manager is.

She has a set phone script, which increases the likelihood of getting the information. Our client can then update his database and continue to send his personalised newsletters.

When you ask someone to make repeated, identical calls, use a phone script to maximise the results. Confer with the caller to ensure he/she is comfortable with the words being used.

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