D&D
FINANCIAL CONSULTANTS

TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Newsletter

WINTER 2019

Losses from rental properties

The following is the proposed tax law, which has yet to be enacted. Some of it could be changed.

As you will know, losses on residential rental properties may no longer be claimed as a deduction in your annual tax return.

They will have to be carried forward to the next year and set off against any rental profits in that year. Any surplus losses get carried forward again.

What happens when you sell your property? The losses can still not be claimed. Your only solution would be to buy another rental property. You would then be entitled to use those past losses as a deduction against profits on the new rental property.

If you own several properties, you can treat each separately, if you wish, but there doesn't seem to be much achieved by doing this. If you do nothing they will be treated as a "portfolio" and you will be entitled to set off profits and losses on each of them against the others. Any surplus losses then get carried forward.

There are occasional situations where your rental losses can be set off against the profit on the sale of the property. This is only allowed if that profit on sale is taxable, i.e. not a tax-free capital gain.

Take care with tax when winding up your business

If you're considering selling your business and you run it through a company, you could have a tax problem.

You may not take out, straight away, large amounts of your capital gain on sale of the business. If you do, you might find you get an unwanted tax bill.

Generally, when a company makes a capital profit, the shareholders may only distribute this money to themselves if it is in the process of winding up the company. If they pay out before the company is officially in liquidation, they have to pay tax on the capital gain.

If there's no evidence to the contrary, the money taken out could be interpreted as a loan from the company to the shareholders, in which case Fringe Benefit Tax would apply, or you would have to pay interest to the company on the amount of its loan to you.

From your point of view, the interest is not tax deductible and it is subject to tax in the company – a waste of money.

Your solution is to wind the company up promptly. You should consult us to make sure this is done properly and enable us to check for tax pitfalls.

Facebook can kill your job

Facebook is a marvellous way to let off steam to your friends and tell them what you really think.

Employee Bert ran into trouble at work and his wife thought he had been shabbily treated. She sounded off on Facebook.

This led to Bert being dismissed immediately.

Sure, he could have taken an action against his employer for wrongful dismissal, but where would that get him when he next applied for a job? Does anyone want to employ a person who looks as though he/she might stir up trouble in their firm?

Mrs Bert's intemperance led to friction between her and her husband, and ultimately the end of the 30-year marriage.

Anything you put on Facebook is likely to be there forever. Just be careful what you write on social media.

Newsletters get customers

Use newsletters to get more customers

A client once said he didn't want to send out newsletters because he didn't want to appear to be too pushy.

If you are constantly sending people material to promote your business, they will naturally get fed up with you. They will press the unsubscribe button pretty quickly.

Newsletters are not used to promote a business. They should not contain advertisements (or if they do, be very sparing). They are there to help you keep in touch with your customers and prospects and to add value for them.

Why do you want to keep in touch with them? Because if you don't, they might be tempted to go elsewhere, or they might even forget all about you when next they want a service you provide.

A good newsletter will contain material valuable for the reader. It will not be seen as an intrusion, but rather appreciated because it provides useful information.

If you are going to send out newsletters, you must be disciplined. It is easy to get started, but it is much more difficult to maintain a constant supply of newsletters on time. It is doubtful if one person in 100, who starts newsletters, ever continues them consistently year in and year out.

How often?

Quarterly newsletters have a lot going for them, particularly if there is plenty of material in them.

However, if you feel you can maintain it, you could break down a quarterly newsletter into three monthly newsletters. Some people manage more than one newsletter per month and some sharebrokers are in touch with their customers almost every day.

One broker sends out a newsletter almost every hour of the working day and he rarely gets the delete button because his customers and contacts know sooner or later they're going to read something of value to them.

How many?

We have heard of a small law firm which claims to be emailing 7000 to 8000 people each time.

Boost up your database with anyone you can think of who might be likely to read your newsletters. Don't overlook your suppliers.

Whenever you get the opportunity, grab your customer's contact details. If you are a retailer getting a lot of customers walking in off the street, a weekly competition for a small prize might enable you to do this.

Conclusion

You are most unlikely to upset any of your customers with frequent newsletters. Just make sure each article contains something of value to your readers.

More to Tax Working Group than meets the eye

You might be forgiven for thinking, as a result of all the media attention, the only thing the Tax Working Group ever did was to make recommendations about a Capital Gains Tax.

You might be interested in some of the other suggestions contained in clause 37 of working group's report:

- Increase the provisional tax threshold from $2500 to $5000
- Increase the automatic deduction for legal fees from being just in connection with the buying and selling property to other types of professional services
- Increase the threshold at which you don't have to count your stock to $20,000 - $30,000
- Simplify depreciation rates
- Simplify FBT
- Possibly remove the 50 percent limit on claim for entertainment expenses
- Up the threshold for writing off low-value assets

Let's hope the Government implements them all as soon as possible.

Check on ACC

Always check ACC invoices. Sometimes they record your occupation incorrectly.

If you have a PAYE salary and also a provisional tax salary from your company, you could find your total income is greater than the maximum threshold for paying ACC, and be overcharged. ACC charges on the basis of information it gets from Inland Revenue. It then makes a provisional charge for the following year. If you are winding up your business, you may care to ask ACC to lower its provisional charge.

Get it right and save money when winding up

If you are winding up your business and you're on a payments basis, save GST by paying as many bills as possible before you deregister.

If you are an ordinary company and incur expenses in the year after giving up business, you're not going to be able to claim them because there will be no income. You will have an unusable loss.

Have as few bills as possible in the year after ceasing business.

ACC and accounting costs come to mind. You might be able to adjust your provisional payment to ACC for the following year. To be a valid income tax claim, it would have to have been invoiced and be payable before balance date.

For accounting costs, get your financial statements completed, invoiced and paid before balance date. A signed agreement (before balance date) agreeing the amount of the accounting costs would also work if the accounts are completed after balance date.

If you're winding up about the time of balance date, you could save accounting fees by not continuing in business beyond the end of the financial year.

On the other hand, if your income has been taxed at the top rate and your future income is going to be attracting a lower rate of tax, you could be better to sell (or cease business) part way through a year.

The income for the part year could be taxed at a much lower rate than would have been the case if it'd been part of a full year's income.

BRIEFLY

Donations rebates

You can now send in your donations receipts to Inland Revenue as you get them, as long as you submit them electronically. Or, you can continue as usual and save them up for the end of the year and attach them to the IR526 form.

65+ KiwiSaver

The requirement to pay the employer's contribution of 3 percent for Kiwisaver ceases when the employee reaches 65 years of age. If you are over 65, you are going to be allowed to have a KiwiSaver scheme, but you won't qualify for the government subsidy of $521 a year.

Hire for attitude

Attitude counts more than aptitude. Hire somebody with a great attitude over someone who is only offering greater technical skill. You can teach skill.

Help your accountant, and yourself

Here are some of the problems we strike when preparing your annual accounts and what you can do to help us:

- Avoid supplying too much information – our questionnaire will list what we need. Too much information means we have to wade through it, in case there is something you intend us to see.
- Respond to our questions as soon as possible, while your work is fresh in our mind – maximum a couple of days.
- Answer all the questions in the questionnaire – if you don't know what to put, mark the question and when you have finished completing the questionnaire, call us or send us an email to get the points clarified. Please don't leave blanks.
- Our systems are designed so we can complete your job as efficiently as possible. If you are contemplating providing us with summaries, please discuss this with us before going ahead, so we can agree what works for both of us.
- Getting stuck – if you can't give us the answer because something is missing, let us know as we can usually work out a solution.
- If you think a cost is borderline, please ask us. When we find a personal cost has been put down as a business expense, we have to check to see if there are any other mistakes of this nature and this adds to the time taken to complete the job.
- If you want to provide us with additional information, it is best to include this in the questionnaire. Sometimes you may want to include a separate document, so please show on the questionnaire a reference to the separate document and on the document a reference back to the questionnaire. For example, (on the questionnaire) write "please see A attached" and on the document write the capital letter A at the top.

Put transactions through one business account

To minimise the risk of error, put all your business transactions, which should include expenses paid out of your own pocket, through one business bank account.

In this way, you will avoid confusion over whether GST has been claimed, and minimse the risk of errors arising from misunderstandings.

How to do this?

- If you have accidentally used your personal account, make a payment from your business account to reimburse.
- If you are short of money in your business account, transfer an amount from your personal account by way of a loan to the business. Make sure we know the deposit is your own money.
- If you are paying your credit card account, pay the personal portion out of your personal bank account and the business portion out of your business bank account.
- For small items of expenditure, collect them up in a notebook and when you get to about $100, make a payment from your business to yourself as a reimbursement.

DIY'ers risk losing out on tax credits

Do-it-yourselfers need to be very careful when it comes to tax.

It's particularly dangerous to change the shareholding of a company. You could lose the tax (imputation) credits the company has built up for distributing with company dividends unless you know how to do the job correctly.

This will mean you will pay more tax than you would otherwise have paid. If there are losses, you could lose the right to use them.

If you're declaring dividends, you must follow the process correctly, both from a tax and a company law perspective. It's not just a case of making a payment from your company and calling it a dividend.

Some people believe they can not only form their own companies, but also make them into "loss" companies (LTCs). They often get this wrong, to their later cost.

TAX CALENDAR

May 28
1st Instalment of 2020 Provisional Tax (December balance date)

May 31
Last day to put in final FBT return for 2019

June 28
Last day to apply for annual FBT returns for those who qualify

July 29
3rd instalment 2019 Provisional Tax (June balance date)

August 28
1st instalment 2020 Provisional Tax (March balance date)

Don't make customers hit the red button

Chris said he was pleased with the attention at his doctors' surgery. Soon after he was asked to complete a survey, which was to take only 10 or 15 minutes.

"I felt I owed it to my carers to respond and started answering questions. They wanted my age, my ethnicity and a string of other barely relevant details before getting down to the meat of the issue. After 10 of these questions, I gave up."

If you're going to do a survey and really want to know what people think, keep it brief. There are far too many surveys competing for your time.

Have you ever watched *Britain's Got Talent*? Think of Simon Cowell with his finger on the red button.