The Bulletin

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CHARTERED ACCOUNTANTS • BUSINESS ADVISORS

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What's New in the World of Tax?

Payday filing

We have mentioned this in the past, but don't forget payday filing for employers is compulsory from 1 April 2019. With the introduction to payday filing, many of you who are currently using a manual payroll system and filing paper returns might like to consider switching to an online (cloud based) system.

There are quite a few different options available. The following are the common ones we recommend but be aware each have different pricing models with some being quite a bit cheaper than others. Some have the option to use a payroll intermediary whereby they file all the returns to IRD and pay the IR on your behalf, reducing your workload enormously (you pay them your staff gross wages by DD each payday, they pay the staff and also the PAYE to IR on the due dates and file all returns)

You can check out the different options on their websites-most have trial periods and demos you can use / view. If still confused don't hesitate to contact Irene at our office for help.

MYOB Essentials Payroll
Paysauce (also ideal for farmers)
iPayroll
Xero Payroll
Smart Payroll

If you prefer to keep to your manual system, check out this link to see how you can file online via MyIR rather than sending in paper forms, risk being late and save on postage.

How to payday file through myIR Secure Online Services

No more cheques for IRD

Do you send post-dated cheques for tax payments? It's time to go digital! IRD is encouraging payments to be made online. Plus, if you're one to put your tax payments in the IRD's dropboxes, you'll now have to head to an IRD office reception area (during office hours) to do so.

Writing off bad debt? Get your ducks in a row.

If you're expecting a tax break from writing off bad debt, you may also expect to hear from the IRD asking you to prove the debt is, in fact, bad. A new ruling means the IRD could request evidence of any steps you took to recover the debt (before writing it off) and proof there is no reasonable likelihood the debt will be paid. So, get your paperwork in order!

Ring-Fencing Rental Losses - Will This Affect You?

When will ring-fencing of rental losses apply from?

The Taxation (Annual Rates for 2019-20, GST Offshore Supplier Registration, and Remedial Matters) Bill, which had it's second reading in Parliament on 19 February 2019, has a proposed application date which will impact tax losses produced from the 2019-2020 income year, which for most taxpayers with a balance date of 31 March will therefore apply from 1 April 2019.

What does ring-fencing of rental losses mean?

Under current tax legislation, tax is applied on a person's net income, meaning that there is generally (with exceptions) no restriction on losses from one source reducing income from other sources. The proposed Bill would result in ring-fencing applying in full from the outset of the proposed application date to tax losses produced by residential rental property held by speculators and investors. This means that speculators and investors will no longer be able to offset tax losses from their residential properties against their other income (ie. Salary, wages, business income etc.) to reduce their income tax liability. Tax losses accumulated prior to application date are not ring-fenced however.

What type of properties will be captured?

Residential rental property referred to in the proposal specifically refers to land with a dwelling on it that is occupied residentially or bare land that could have a residential dwelling built on it. Serviced apartments are included as residential rental property, as are overseas rental properties. The proposed new rules would not apply to a person's main home, a property that is subject to the mixed-use assets rules (eg. A bach that is sometimes used privately and sometimes rented out), or land that is on Revenue Account because it is held in a land-related business (ie. A business of land dealing, development of land, division of land, or building).

(Note, that the CIR needs to be notified of land on Revenue Account that is taxable)

What happens to rental losses?

In essence, the proposed legislation will mean that any excess expenses over rental income which would otherwise produce a tax loss, is carried forward to the next income year and will only be able to be offset against future rental profit or taxable gains on the sale of residential rental properties.

When are ring-fenced losses released?

Ring fencing is to be applied on a portfolio basis, however taxpayers will be able to elect to apply the rules on a property-by-property basis. A portfolio basis refers to the fact that losses of one property can be offset against the profits of another. A property-by-property basis implies that the losses arising from a particular property can only be offset against future profits in relation to the same property. If a taxpayer is applying ring-fencing on a portfolio basis, all properties must be sold within the portfolio before ring-fenced deductions can be released. If applying ring-fencing on a property-by-property basis, in the event where the property ends up with a taxable gain upon sale, ring fenced deductions would be released. Where residential rental properties are held under various companies, conditional upon these companies being in the same wholly owned group, transfers of ring-fenced losses will be permitted, but ring-fencing will still apply.

Can I get around loss ring-fencing?

Avoidance provisions have been considered in the proposal to prevent taxpayers from gearing the shares in companies that own residential rental properties. If more than half of a company's assets comprise of residential rental property, any interest on money borrowed to either purchase shares in the company or capitalise it has to be apportioned on a pro-rata basis between residential rental property and the other assets, ie. Will be subject to the same ring-fencing rules.

What will be the effect of ring-fencing rental losses?

The introduction of the ring-fencing of losses, in combination with the previous extension of the bright-line rules to 5 years, points to a reduced appetite for investors to purchase residential rental properties. Whether this may in fact translate to an uptake in commercial property investment instead, where losses are not ring-fenced and properties are not subject to the bright-line rules, only time will tell. What is yet to be seen, is whether the introduction of the Bill will result in an increase in rents to compensate for the loss of deductions. Either way, the proposed ring-fencing of losses will impact future tax planning and structuring.

We welcome you to discuss how these new rules may affect your individual circumstances and to check whether your current structures are best suited to take you forward.

Another home business calculation

There are now two ways of working out the use of home calculation.

Inland Revenue will provide a standard rate per square metre for variable costs such as power, telephone/ mobile/ Internet services and house/ contents insurance. The rate is $41.10 per square metre. A share of fixed costs such as rent or rates and interest on mortgage can be added to this.

The following expenses do not seem to have been considered by Inland Revenue when calculating the square metre rate: repairs and maintenance, rubbish removal, house cleaning and gardening.

The square metre rate has the advantage of saving you time because you don't have to work out the actual costs. However, there might be a price to pay for your laziness!

You will also notice telephone and Internet service are included in the square metre rate. This means you cannot claim them separately.

Alternatively, you can stay with what you have always done and use the actual figures. For many, this may be the more attractive alternative. You are also entitled to choose which method you want to use, each year.

10 smart year-end tax tips

1. **Fill your drawers:** Can you stock up on stationery, postage and courier bags before 31 March? Claim now and save.
2. **Staff expenses:** If you owe employees holiday pay, bonuses, long service leave or redundancy payments, you can claim for these now — as long as they are paid within 63 days of the balance date.
3. **Can you fix it?** If you've got any significant maintenance or repairs on the cards, do it before year-end and save on tax.
4. **Turn fun into savings:** Do you know which entertainment expenses you can claim 100% of? It's worth finding out — ask us if you need clarification.
5. **Look at your fixed assets:** Do you have any you're no longer using or don't plan to use in the future? If so, you may be able to write off the book value.
6. **While you're at it, check your stock:** Look at your stock as well, especially obsolete stock. There may be an opportunity to write off some of this off as well — check with us on what could be done in this area. For March balance dates, remember to complete your stock take on 31 March.
7. **Income boost:** Earnt a lot more this year? Consider making a voluntary provisional tax payment.
8. **Logging car use?** Remember to jot down your odometer reading at year-end and if you've kept a logbook of business and personal use, mileage and costs, good work!
9. **Home office:** It's also a good time to review what home office expenses may be available for deduction, especially your home office. We can help with calculating this.
10. **Saving time saves money!** Accountants are required to ask for information to comply with AML-DIA obligations plus the IRD may ask you, via your accountant, for extra information in relation to your EOY tax. Having your identification and tax documents collated and correct saves your accountant time. Which saves you money, so get started this week.

Are you managing all aspects of risk in your business?

In 2006 ACC research showed that, of all the businesses that ceased trading, 67% did so because of illness or injury to a key person in the business. What that says is too many businesses are not applying a "risk management plan" across all aspects of their business.

Putting an effective plan in place requires a relatively small commitment by owners in time but can be instrumental in ensuring the continuity of a business following the temporary or permanent loss of a key person or owner.

A fairly straightforward plan can help, for example, with the following:

- Identify who is a key person in the business
- The amount of revenue or service delivery that person is responsible for
- The impact on the business in the unexpected absence of that person
- How long it will take for the impact to be felt on the business
- Is that person replaceable and, if so, how long and at what cost would it be to have an effective replacement up and running

Of course, any plan needs to be funded. You can use personal savings, borrow money or sell business assets to raise the necessary funding. But those are not the only, let alone the best, options as there is unnecessary impact on the (remaining) owners, their personal estates and on the business. A simple and cost-effective method is to use an insurance contract to fund the risk management plan- ensuring the right amount of money ends up in the right hands, at the right time and from the right source.

Another risk often overlooked relates to the untimely departure of an owner from the business due to death or total disability. How do the remaining owners secure the "departed" owners shareholding? And, just as important, how does the estate or disabled owner secure fair value for that shareholding?

Without an appropriate agreement in place, these are some of the potential pitfalls:

- They could end up with a wholly unsuitable business partner in the deceased owner's spouse or other family member
- The estate or disabled owner could sell that shareholding to any willing buyer, including a competitor
- What value is attached to the business? Certainly, if the valuation is done after the fact then the value has already been impacted- to the detriment of the estate or the disabled owner
- Even where a business is valued, is there a mechanism in place to ensure the valuation is regularly updated
- Even where a shareholder's agreement or company constitution grants the remaining owners the first right to purchase that shareholding, they are not compelled to do so- let alone offer the fair price for it
- And how will the purchase be funded?

Without a properly funded agreement the simple fact is the business may end up being sold or closed down. By ensuring the bases are covered in an agreement, certainty of outcome can be provided for all parties. The disabled owner or estate is able to receive fair value for the asset, because a proper valuation has been (regularly) done; and a structure has been put in place to ensure transfer of the shareholding against payment of the purchase price. Funding it through the simple and cost-effective method of an insurance contract also means the owners do not need to use personal resources, borrow money or sell business assets to fund the purchase- none of which would lead to great outcomes. Putting a properly funded plan in place could be one of the best investments you make in your business.

Get an NZBN

Get an New Zealand Business Number (NZBN), a unique identifier available to every business in New Zealand. One of the benefits of having an NZBN is that it allows you to share and update your business information with other businesses, including those that you do casual work for.

An NZBN identifies you as a real New Zealand business, and makes it easy for you to check details for new clients. As more businesses get and use their NZBN, it will become easier to invoice and to pay bills. You won't have to repeat the same basic information multiple times, saving you time and money.

All registered companies have been allocated NZBN's and are automatically included on the NZBN register. Find your NZBN on the companies register or by searching www.nzbn.govt.nz

ACC Levies

ACC levies are separate from general tax, and cover the cost of injuries caused by accidents. The business industry classification (BIC) code you provide to Inland Revenue when you file a tax return or register for GST, along with your earnings, is the basis for your ACC levy.

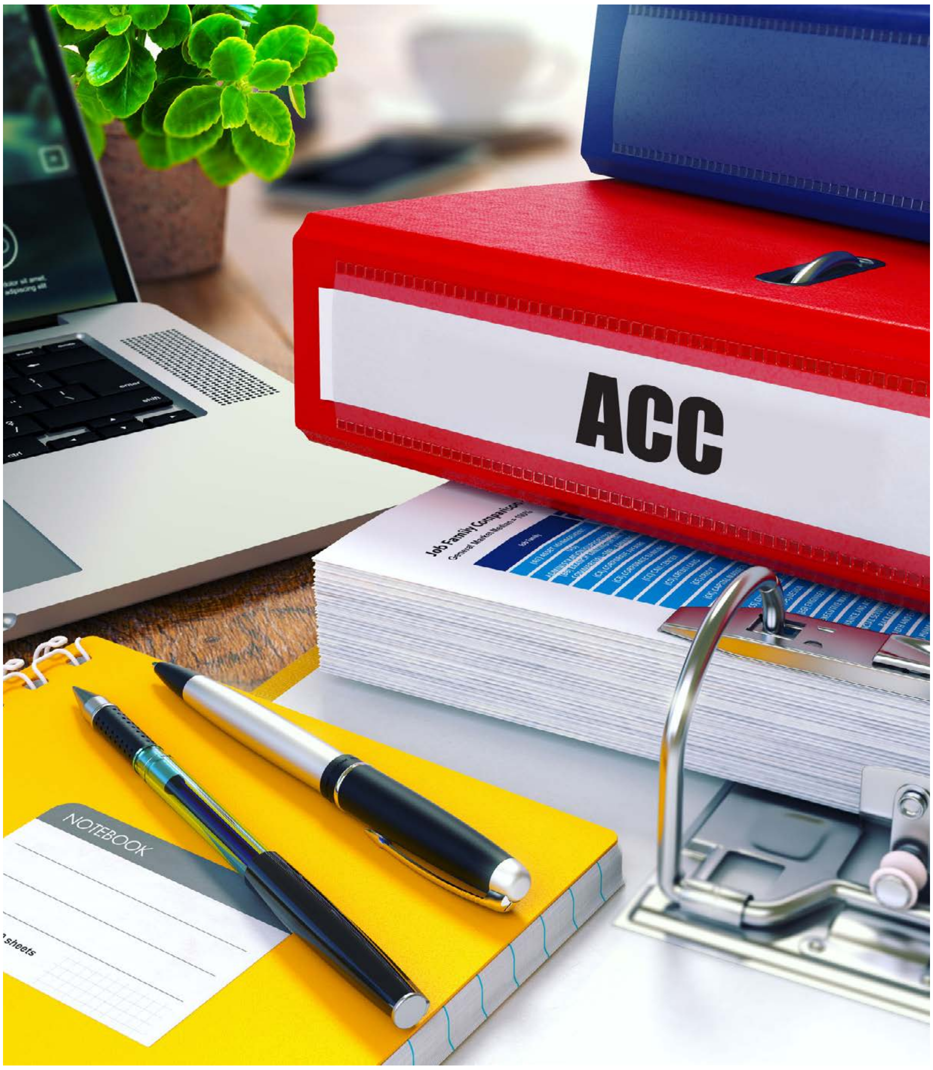
Inland Revenue passes your BIC code, liable income or payroll, and your contact details along to ACC so they can invoice you for levies based on your business activities.

Some jobs have more risks than others, so some industries pay higher levies than others.

As a self-employed person, you'll pay three levies: the Earners' levy (currently $1.21 per $100 (excluding GST) of your liable income), the Working Safer levy (currently 8c per $100 of your liable income), and the Work levy which goes in to the Work Account to fund injuries that happen at work (this differs for every business).

You'll be invoiced by ACC once a year - most people receive their invoices between mid-July and mid- August.

FACT: When you work in more than one role, ACC may use the code of an activity you undertake that attracts the highest levy rate, even if it isn't the role in which you spend the most time working.



Proposed new rules for GST on low-value imported goods announced

The proposed changes will require offshore suppliers to register, collect, and return New Zealand GST on goods valued at or below $1,000 that are supplied to consumers in New Zealand.

A bill amending the GST Act will be introduced this year, with the changes expected to come into effect from 1 October 2019.

Change to IRD Requirements regarding "Authority to Act"

We have been advised by IRD that from 1 April 2019 we are required to hold updated "Authority to Act" forms for all existing clients. These updated forms need to be signed for every individual and entity. (For Companies all Directors, and for Trusts all Trustees, are required to sign)

You will be receiving these letters via post or email over the coming weeks. If you would please sign and send these back at your earliest convenience it would be greatly appreciated.

Take Note! Minimum Wage Glides Closer To $20

More than 200,000 New Zealanders and their families will benefit from the minimum wage going up to $17.70 an hour on 1 April 2019 — an increase of $1.20.

The starting-out and training minimum wage rates will increase from $13.20 to $14.16 per hour (remaining at 80% of the adult minimum wage) and the Government has set indicative rates of $18.90 from 1 April 2020 and $20 from 1 April 2021.

Key TAX Dates - MARCH 2019

DATE	CATEGORY	DESCRIPTION
5 March	PAYE	Large employers payment due
		Large employers returns for those who have not yet opted in to payday filing
20 March	RWT	RWT return and payment due for deductions from dividends and deductions of $500 or more from interest paid during February
20 March	PAYE	Payment due for small employers for February, and large employers for March
		Returns for small and large employers who have not yet opted in to payday filing
20 March	NRWT / Approved Issuer Levy	Payment and return for February
28 March	GST	Return and payment for February

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