Changes to house deductions

As highlighted in previous newsletters, IRD have been looking at deductions applicable to housing for farmers and orchardists. They have recently released their decision.

Until now there has been no difference between deductions applicable to "real" farmers and those deemed to be "lifestylers". From the 2018 tax year, there will now be a difference.

If a farmer/orchardist buys a property and the house makes up more than 20% of the value of the property, the farmer will be a "Type 2" farmer. As a Type 2 farmer, you will be not be able to claim a full deduction for rates or interest on mortgages. Those expenses and others related to the property (such as electricity for the house) will need to be apportioned between the business and the private use. Each case will vary and will depend on the facts of a particular situation.

All other farmers will be deemed to be "Type 1" farmers. This is where the house value is 20% or less of the overall value of the property. In these cases, full deductions are allowed for rates and mortgage interest. When it comes to claiming things like electricity, previously farmers were allowed a "no questions asked" deduction of 25%. This was an historic deduction with no proof needed. From the 2018 year this will now be limited to 20% for Type 1 farmers and orchardists. For Type 2 farmers, the deduction is limited to their actual usage – so a calculation is needed.

In most cases (particularly in relation to farms), it will be obvious whether the property is a Type 1 or Type 2. Orchards, however may be a little different. IRD has provided some guidelines on how the difference between Type 1 and Type 2 properties should be made. If historic purchase prices are not appropriate, you are able to use rateable valuations. In examining rating valuations for orchards however, we have found them not to be particularly helpful when determining the split between the house/section and the rest of the property. In these cases, it may be that some sort of valuation is needed to determine the value of the house compared to the total value of the property. IRD have said this can be done by a real estate agent or of course a formal valuation by a registered valuer is ideal.

Other Tax Changes

With the start of the 2017/2018 tax year there are a couple of other changes which kick in.

For individual tax payers who have a total tax bill in excess of $50,000 per annum, use of money interest has been a payable by these taxpayers (usually use of money interest is only payable by individuals if they file a provisional tax estimate. From the 2017/2018 year the limit will be increased to $60,000.

Where tax payers are subject to Use of Money Interest (e.g. companies, trusts, individuals that estimate or individuals with tax to pay of over $60,000), it used to be thet interest was charged from the date of the first instalment of provisional tax. This will change for the 2017/2018 year so that interest is only charged from the date of the third provisional tax instalment.

Both of these changes make the tax system a lot fairer and we welcome them.

IRD is still working on a new way of paying provisional tax. This system is called AIM – Accounting Income Method. It will be applicable to taxpayers with a turnover of $5 million or less. Instead of paying provisional tax based on the income you earned in the previous year, you will pay it with your GST returns and it will be based on what your accounting profit is in each of the GST periods. To use the system, you must use computer software. The start date for this system is 1 April 2018. No further information is available at the moment – IRD are still working through the details but expect to have some further information released towards the end of the year.

So what do you need to do now....

From the start of your 2018 income year you need to change your 25% deduction to 20% - so if you have previously been claiming 25% of house power and other expenses, you need to alter that to 20%. For clients with a March balance date, this will be from 1 April 2017 and for clients with a May balance date, you will need to start this on 1 June 2017

If you think your property may be borderline Type 1 vs Type 2, then please call us to discuss how we can determine which Type you fit into. This will impact on more than just your house power.

Houses owned by companies are covered by different rules. These are "rented" to the shareholders so fall under the Domestic rental rules – this means the company can claim 100% of the expenses on the house – but can't claim the GST on those expenses.

BRG News

In our last newsletter some of the BRG Team were about to embark on the Spirited Women's Adventure race in Taupo.

Over the weekend of 31 March/1 April, Kate, Lesley, Trudi and Vicki (team name: BRG Cash Cows!) went to Taupo and took part in the short course event. Start time was midday on the Saturday on the Aratiatia Landcorp station. Throughout the afternoon much time was spent on their mountain bikes – in all around 40 km was covered – some on farmland and some on walking trails. They also did some Stand Up Paddle boarding on Lake Aratiatia, some traipsing through farmland and had a go at clay target shooting. Through the whole course they were looking for various check points using maps and clues provided. The finish line was finally crossed 6 hours, 24 minutes after starting. Some much-needed bubbles were handed to the team as they crossed the finish line. Upon hearing that the 2018 event will be held in Whakatane three of the team members were immediately keen to sign up for next year – the fourth member was not so keen. However – given the passing of time, the team is all keen to give it another crack next year!

We recently welcomed a new senior accountant to BRG – Adrienne Lawson.

Adrienne has moved to the Bay of Plenty from Kumeu, north of Auckland. Adrienne's daughter and grand children live in the area so she is enjoying being near them and getting to play the grandmother role on a regular basis.

While Adrienne has been able to find some temporary accommodation, she is still on the lookout for a more permanent rental. Ideally she would love to find something rurally that incorporated some grazing for her horse. If you know of anything that may suit, please feel free to contact Adrienne on 07-573-5569 or email her adriennel@busres.co.nz.

Trudi will be away for a few weeks soon.

Trudi and her husband Pete are about to go overseas for a bit of a trip. She will be away from the 4th June until the 12th July. They will be spending most of their time in Scotland – no set agenda – just seeing where the road takes them. Trudi's emails will be monitored by Leonie while she is away to ensure nothing is missed. Leonie will pass anything on to the rest of the team as needed. There will also be arrangements in place for if there are any Trust documents that need signing during this time. Trudi will be touching base regularly during the weeks away to check in and give guidance as needed.

Never make judgements about potential customers

Carl and Carole were buying a new kitchen.They needed new appliances so they went to one of the large retail stores.

While they were talking to the salesman, he was called over by his manager. The couple only found out why later.

In due course the salesman pulled off a pretty useful sale, but then confided in them what had happened. He said the manager had told him not to waste time on them because the manager considered them tyre-kickers. This was in spite of the store being relatively empty.

Another couple, Barry and Betty, had a similar experience when buying a car. They sent a list of questions to a dealer in new cars and instead of getting the answers they needed, they were supplied with three or four paragraphs of standard car information.

The couple like driving cars but didn't want to know how they're made and other technical details.

They found it very hard to interpret what they received and decided to send a letter of thanks to the company but stating they were no longer going to buy a car. About a month later, they still had not found the car they wanted so they made further enquiries at the dealership.

While out walking, they received a cell phone call from the manager. He wanted to know whether they were really serious.

In due course they bought the most expensive new car in the dealer's fleet.

These are both true stories although the names have been changed.

Our message is, never prejudge your potential customers by their looks or their actions, and never assume they're not going to buy from you.

Many people who look like hoboes are quite rich. They don't have to dress up to be a big spender.

Danger in cashing up when company sells

If your business is in a company, you need to understand tax on capital gains.

Tax law dictates you must not take any capital gains out of the company except when winding up.

Here is the big danger. You sell your business for a nice profit of, say, $200,000. Naturally, the first thing you think of is how you can use this. So you take the money out of the company and, whoops, you've "broken the law".

What should you have done?

If you're going to wind up the company, you should first have passed a special resolution of shareholders to this effect. Not until then are you entitled to have that money. If you want to continue using the company, you must leave the money in it.

We can repair the damage by treating the withdrawal as a loan to you but this can be expensive. You would have to be charged interest at Inland Revenue rates, which are currently a little under 6%, if you have been working for the company and been paid a salary.

So often we see clients who have sold their businesses and not been aware of the rules. This can occur a year or more after the transaction and the interest bill referred to above can be quite significant. When it comes time for you to sell, please remember to talk to us before you take out any of the money.

A few of our clients are look through companies. This rule does not apply to them because, from a tax perspective, they are partnerships.

Nothing beats asking the customer

A couple were having lunch in a cafe...

"If you owned this cafe, how would you improve it," Bert asked. They discussed decor and menu.

"Ask the customers what they would like," Betty said. "Why not put a notepad and pencil on each table asking for suggestions?"

She also suggested writing at the bottom of the page: "If there is sufficient interest from others, we will put your request on the menu and get in touch with you. We'll also tell you when we change our menu. Please leave us your email address."

This idea is a great way of interacting with customers, showing them their opinion matters, and getting their email address so you can keep in touch. An email database can be gold.

If you want to know what to sell, nothing beats asking the customers what they would like, whatever industry you're in.

Does your cash register always balance?

People make mistakes. Every so often there'll be less in the till than you expect.

It's easy to give the wrong change and customers are unlikely to complain if they receive too much. If your cash register always balances, it could be someone is manipulating the figures.

You can get more in the till than receipts show if staff don't ring up every sale. Also, if the customer can't see what's being rung up, it could be a smaller figure than the price of the goods.

These are two ways the till can have too much in it and an unscrupulous employee can keep the excess cash.

Modest till shortages are a good sign. The till always balancing is a bad sign. It may indicate there's a thief in your business.

Money laundering hits accountants

From 1 October next year accountants are going to have to start behaving like banks. If you want us to create a company for you or you want to send more than $1000 overseas, we are going to need identification. We will have to save this in our computer. We'll have to keep a record of your name, birthdate and address. That's not too difficult. But we will also probably have to take a copy of your driver licence or passport and evidence of who you are acting for, in case you are setting up the company for someone else. Similar rules are going to apply to lawyers from 1 July 2018, if they create a company or trust for you. We're sorry if you find these requirements irritating.

Student loan interest

Many students studying overseas, full-time or doing an internship and receiving a government funded scholar-ship, are to be entitled to an exemption from interest on their student loan.

Sell what people want

If you're selling pills to help prevent winter colds and they also have a nice flavour, sell the flavour. Although the main benefit is preventing the cold, the customer wants a tablet that tastes nice, the secondary benefit. A Peanuts cartoon once showed Lucy advertising a kick in the butt for $2. She made no sales all day. She is explaining to Charlie Brown lots of people need a kick in the butt but no one seems to want one. When selling, offer what the customer wants. Don't try to sell a need.

Try a password manager

If you're not lucky enough to have a photographic memory, keeping track of passwords can be a nightmare..

Every time we want to enter a subscription website or do internet banking, we need a password to verify we are who we say we are. Some of us write passwords in a book or in a text document on our desktop, others just use the same one everywhere because they can't remember passwords for every site. Neither method is safe.

The answer could be a password app. There are many now available to download, and some are even free. These apps manage passwords as a browser plug-in. You need to remember only one master password – the one that opens the app.

Most products include a built-in password generator for the secure sites you want to visit, which means you don't have to wrack your brain thinking up a password. These passwords are at least 16 characters long, usually too long for you to remember.

The apps are not for everyone. Some users are wary of any cloud-based program that might be able to access your password. However, the app hosts say their encryption means even they have no idea what your password might be.

In the end, it's your choice. Do the research by looking up 'password managers' in Google.

How to win the email war

We all know we can clear our inbox and then another email swarm arrives. How do we avoid spending too much time on emails?

Prioritise and don't be afraid to delete. Here are some tips about dealing with emails:

Create a separate folder within your Inbox (mine is called "Unimportant Emails").

Use the "Rules" function within Microsoft Outlook to automatically move emails from certain organisations into the Unimportant Emails folder. This will be for emails that aren't essential you read every day – e.g. weekly news updates – but that you don't want to unsubscribe from. You can then check this folder on say a weekly basis and scan for anything you really want to read.

Consider having another folder for where you are in the "CC" line of an email – again set up a rule where if your name is in the cc line rather than the main address line of an email, the email goes directly to this folder. By being in the CC line, the sender of the email doesn't necessarily want you to respond – the email is just for your information.

Only keep emails in your Inbox that you are still dealing with – treat it like a To-Do list. Delete the emails you have already dealt with. These will still be in your Deleted Items folder if you need to refer back to them at any time.

Regularly Unsubscribe to emails that you are deleting without reading.

TAX CALENDAR

June 28 2017

23rd instalment 2017
Provisional Tax
(May balance date)

—

July 28 2017

3rd instalment 2017
Provisional Tax
(June balance date)

1st instalment 2018
Provisional Tax
(February balance date)6

—

August 28 2017

1st instalment 2018
Provisional Tax
(March balance date)

DON'T BE LATE

Windows 10 tips and tricks

Press Alt + Tab and it will show you all the open programs so you can choose which one you want to go to. This is a great shortcut for switching between programs. It also shows you what programs are running and draining your memory resources.

Find a file by clicking on the magnifying glass symbol on the toolbar. Type in the name of the missing file and if it exists, it will be located for you.