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# Newsletter

1 March 2013

## Income Tax Rates

These remain unchanged from the 2012 income year.

<u>Taxable Income</u>	<u>Rate</u>
Up to \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30.0%
\$70,001 and over	33.0%
Companies	28%
Trusts	33%

## Payroll Changes

If you are an employer the following important changes come into effect from 1 April 2013.

### **Kiwisaver contributions increase**

From the first pay period starting on or after 1 April 2013, the minimum contribution rate for employers and employees increases from 2% to 3% of gross salary or wages.

If your employee contributes at either 4% or 8% there is no need to change their contribution.

If no rate is selected use the default rate of 3%.

### **Employing primary and secondary school children (tax free children's wages no longer applies)**

From 1 April 2013 if you employ school children in your business you must deduct PAYE from the wages paid. The details will need to be included on your employer monthly schedule.

They will need to complete a tax code declaration (IR330) form by 1 April 2013 and give it to you so you can apply the correct tax rate. The forms are available on the IRD website.

School children are still able to receive up to \$2340 pa "non wage" income tax free (such as money for mowing the neighbour's lawn).

### **ML & MLSL tax codes can no longer be used**

If any employees are using either the ML or MLSL tax code, deduct PAYE using the M or MSL rate from 1 April.

### **Student loan repayment change**

The repayment rate for student loan deductions will increase from 10 cents to 12 cents.

## Childcare and Housekeeper tax credit/income under \$9880 tax credit

For the 2012-2013 and future tax years, individuals can no longer claim the

- Childcare and Housekeeper tax credit,
- Tax credit for income under \$9,880

## Mixed Use Assets – Holiday Homes, Launches for Charter

From 1 April 2013 there will be changes to the amount of deductions available for assets that are used both privately, and to generate income. The most common example is a holiday home which is occasionally rented.

Previously, expenses such as rates, insurance and interest were deductible if the property was "available for rent". Under the new rules expenses will be apportioned based on the number of days it was actually rented.

The new rules apply if:

- there is both business and private use
- there are more than 62 days in the year when the asset is not used at all, and
- the asset costs more than \$50,000

It is important to note that "private use" includes use, regardless of whether market value is paid by the owner or anyone associated with the owner, eg parents, siblings, grandchildren.

If the annual rental earned from holiday home(s) exceeds \$60,000 you are now required to register for GST as these will be considered commercial rather than residential rental properties.

We suggest that if you believe the new rules apply to you, a careful record is kept from 1 April 2013 of who is using the property.

## GST Adjustments – Mixed Use Assets

From 1 April 2011, there are new rules for mixed taxable and non-taxable use of goods and services.

A registered person must compare the percentage actual taxable use with the intended use or previous actual use.

If a percentage difference arises, subject to certain thresholds an adjustment must be made.

Adjustments are calculated annually.

### So what does this mean?

If you claim GST on an asset that is used privately as well as for your business, and the use changes, you may be required to repay some of the GST originally claimed.

An example:

Jane is registered for GST and purchases a boat for her fishing business for \$1,150,000 including GST of \$150,000. She plans to use the boat 80% for business.

Jane can claim a GST input credit of \$120,000 (80% of \$150,000) when she acquires the boat, to be paid by Inland Revenue Department.

At the end of the first year she determines that she actually used the boat 60% for business.

Jane is required to make an adjustment using the following formula:

$$\text{Full input tax deduction} \times \text{percentage difference} \\ \$150,000 \times 20\% = \$30,000$$

Jane must therefore return \$30,000 after the first year, ie pay back to Inland Revenue.

The number of years adjustments are required to be made depends on the GST exclusive costs.

- \$5,000 - \$10,000 2 adjustment periods
- \$10,000 - \$100,000 5 adjustments periods
- \$100,000 + 10 adjustment periods

Therefore in the example above, Jane will be required to calculate adjustments for ten years.

## Does GST time give you a headache?

- Never quite sure what is claimable?
- Worried about getting it wrong and being audited?
- Not sure how to account for private use?
- Would rather spend the time fishing/golfing/playing tennis?



We can complete your GST returns for you or give advice if there are any areas you are unsure of. Very handy, as we process your accounts for end of year, each two months – so final accounts are very prompt, and provisional tax can be altered to prevent unnecessary payments in advance.

## Student Allowance



With a new university year about to get under way, a reminder that from 1 January 2012, the definition of parental income was widened to include income such as

- Portfolio Investment Entity (PIE) income
- Attributable trustee income
- Income held in a closely-held company (fewer than five shareholders)

In most instances, if you trade through either a Company or Trust, and income is retained in those entities, that income is considered your income for student allowance purposes.

If your children have previously received student allowance they may no longer qualify.

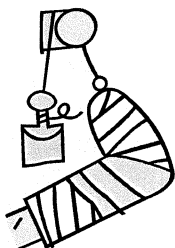
Further details are available on the Study Link website [www.studylink.govt.nz](http://www.studylink.govt.nz).

## Are you paying too much in ACC levies?

We are often asked by clients to check their Self Employed ACC invoices.

Common problems identified are:

- Being charged at the full time rate instead of the part time rate (<30 hours per week).
- Incorrect classification rate used. ACC has not been notified when the nature of your business changes.
- Levies being charged when you are a silent or passive partner.
- The same classification rate has been used for both partners in a partnership business when one may qualify for a lower administrative rate. For example, Jack and Jill are in partnership, Jack is a builder, Jill handles the accounts. Jill is able to choose a lower rate.
- Continuing to be invoiced after you have ceased self-employment or retired (or even after you have died when presumably you have no further need for ACC cover!)



Please thoroughly check your ACC levy invoices before paying and contact us if any changes are required.

You may also like to consider whether you may have overpaid your ACC levies in the past. ACC will go back several years, or more on written request and issue refunds if you have overpaid.

## ACC Cover Plus Extra

ACC Cover Plus Extra is an optional product that lets self employed people and non-PAYE shareholder employees negotiate a pre-agreed level of loss of earnings compensation.

Advantages over the standard ACC product are:

Because the cover is agreed you know exactly what you will receive in the unfortunate event of an accident.

If you need to make a claim, there is no need to prove your earnings, or prove you have suffered a loss of income.

If you choose a level of cover that is less than your actual income your levies may be less.

For example, Bob is a self-employed builder earning \$80,000 per year. As he has private income protection insurance, he does not require \$64,000 (\$80,000 x 80%) cover with ACC, so he negotiates a CoverPlus Extra cover of only \$25,000. A comparison of the estimated levies including GST is:

Standard ACC CoverPlus (\$64,000)	\$4,424
ACC CoverPlus Extra (\$25,000)	<u>\$2,204</u>
Estimated saving – per year	\$2,220

Whichever option you choose, ACC will provide assistance with treatment and rehabilitation costs.

## Look Through Companies (LTC's)

If you wish to either enter or exit the LTC regime for the 2013-2014 year your election or revocation must be received by the IRD before 31 March 2013.

LTC's replaced LAQC's (Loss Attributing Qualifying Companies).

## Subdivisions

The Income Tax and GST consequences of undertaking a subdivision can be significant. It is a complex area, with the outcome dependent on the facts and circumstances of each particular case.

Please contact us prior to undertaking any subdivision so we can best advise you of your Income Tax and GST obligations.

## Taxation arrears

Should you find yourself in the unfortunate position of being unable to meet your taxation commitments as they fall due, it is important that you contact the IRD to establish a mutually acceptable payment arrangement before the due date. Once the arrangement is in place, provided the terms of the arrangement are met, late payment penalties are likely to be reversed when the arrangement is complete.

## Working for Families (WFF)

From 1 April 2011 the definition of 'family income' has widened to include an extra nine types of income.

- Attributable trustee income
- Attributable fringe benefits
- PIE income (received, but tax-free)

- Passive income earned by children (interest, dividends, rent) over \$500
- Worldwide income received by a non-resident spouse
- Tax exempt salary or wages under specific international agreements
- Income Equalisation Deposits
- Certain pensions or annuities
- Other payments received from any source, that are used for your family's day to day living expenses (only if in excess of \$5000)

We will need to rely on you to inform us if your family has any of these types of income that we would otherwise be unaware of.

Increasingly over the past 12 months the IRD have been querying WFF claims where the family has little or no taxable income.

This does not mean that your WFF entitlement is not legitimate, but you may be asked for a written explanation as to how your family meets its day to day living expenses, and to provide proof of this.

A common example is when your living expenses are met from company drawings which are not family income for WFF.

IRD often places WFF refunds "under review", particularly if the amount is significant. Once under review a phone call is required, to confirm family and income details, before the refund will be released.

If you have not received your WFF refund a few weeks after you have returned your signed tax return declaration to us, let us know and we will contact the IRD.

## Lease Inducement Payments, Lease Surrender Payments

Lease Inducement Payments are lump sum premiums paid to tenants by landlords to encourage them to sign up to long term leases on commercial properties. Up until now, lease inducement payments were deductible for the landlord but not taxable in the hands of the tenant.

From 1 April 2013, lease inducement payments made in relation to leases entered into on or after 1 April 2013 will be taxable income to the recipient. Both the income (tenant) and deductions (landlord) will be spread over the term of the lease, previously the landlord was able to claim in full in the year of payment.

At the time of writing, the legislation was only in draft form. What remains unclear is the significance of the

1 April 2013 date, and in particular, whether this date represents the date the inducement payment was agreed or paid, the date the relevant lease documents have to be executed by or whether the lease must have actually commenced by this date.

While the position may yet change, those due to receive or negotiate lease inducement payments would be well advised to commence their lease arrangements, and receive the payments well in advance of 1 April 2013.

Also, from 1 April 2013, lease surrender payments will be deductible to the tenant, and taxable to the recipient.

## Herd Scheme – Elections to exit

As from the 18 August 2011 elections to exit the Herd Scheme can no longer be made except in narrow circumstances.

There is no longer the option to change to an alternative valuation method such as National Standard Cost (NSC).

You can however, value any increase in a class of livestock under a different method.

For example:

2012 R1 yr Heifers (HS)	120
2013 R1 yr Heifers	170

50 head may be valued at NSC. For 2012, HS for Friesian were \$1234, and NSC \$473.30, or cost price.

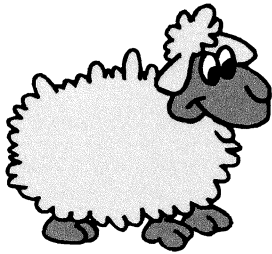
Also, from the 2013 year the HS Friesian and Jersey dairy classes will be combined. All dairy cattle will have the same HS value.

We are expecting HS Values for dairy and sheep to drop more than 10% from 2012 values.

## Depreciation on farm buildings

Although the depreciation claim for buildings, in general, is no longer available, there is an exception for the following type of farm buildings which can still be depreciated:

- Glasshouses
- Milking sheds
- Roofed livestock yards
- Wintering barns and simple loafing barns
- Temporary buildings
- Other barns, which includes hay sheds and implement sheds but excludes woolsheds



### **State of the Nation**

For the first time North Island sheep numbers exceed those of the South Island. North Island Sheep numbers were estimated at 16.07 million at 30 June 2012, with South Island sheep numbers estimated at 15.86 million.

New Zealand now sits at approximately 7.19 sheep per person.

## **Drought in Northland**

On 27 February 2013, Primary Industries Minister Nathan Guy officially declared what we had known for some time, Northland is in a state of drought.

He advised that "Farmers should contact IRD if they need help or flexibility with making tax payments, and standard assistance is available from the Ministry of Social Development."

If you believe your 2013 farm income will be considerably less than 2012, we can reduce your third 2013 Provisional Tax Instalment due June/July accordingly.

## **Farm Dwelling Expenses**

The farm homestead is the management and administrative centre of any farm. The dwelling has the phone, computer, business records and the boardroom. The kitchen table sees staff meetings, stock agents, bank managers, fertiliser reps and countless other farm 'visitors'.

It becomes difficult to differentiate between the **domestic** and **business** aspects of the use of the dwelling.

The commissioner permits farmers to claim 25% of farm dwelling expenses, provided the dwelling is situated on the farm property and the farmer is involved full-time in farming activities.

If the farmer is not working full-time on the farm and the dwelling is not used to the same extent for farming matters, the Inland Revenue Department requires an adjustment to reduce the 25% allowance. The amount of adjustment should be calculated on a case by case basis to reflect the circumstances of each client.

Where the farmer's dwelling is off farm, a home office calculation is required.

### **Last Word ...**

Death and taxes are both certain ... but death isn't annual.

It would be nice if we could all pay our taxes with a smile, but normally cash is required.

*Unknown*

### **Disclaimer**

*This newsletter is of a general nature only and should not be used as a substitute for detailed professional advice.*