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THE Client Link

IN THIS NEWSLETTER 

THE MAGIC OF PROPERTY LEVERAGE

Have you thought about the possibility of being able to create leverage? We explain it here.

AIM COULD BE HELPFUL

If you have seasonal income or pay more than \$60,000 a year in tax then the new Accounting Income Method could be good for you.

IRD IS SEEKING MORE DATA, QUICKER

Be aware of the changes the IRD are making and if they affect you.

ATTENTION LANDLORDS

We explain the changes to tax laws contemplated by the government for those who own property.

CRYPTOCURRENCY...the buzz word of the digital age

Cryptocurrency is the new buzzword for trading and investment in the digital age. It's gained fame – and some notoriety – in recent years as a form of money that's designed to be secure and anonymous. In this article, we look at the history of money and explain the basics of cryptocurrency.

For thousands of years, people have used objects of value to carry out transactions. The Chinese and Indians used cowry shells as an early medium of exchange. In other parts of the world, gold and silver became legal tender and coins were made from these precious metals. Later, paper money was produced. Anything of value, of course, has been used for trading, relying on trust to determine its worth.

Gold in the 19th century became a standard currency. The "gold standard" adopted by many countries held that "fiat currency" (paper money) could be converted to gold at a set rate. Wealthy countries accumulated gold, but other countries lost it as they paid off debt. The First World War created new political alliances and government finances deteriorated. A new, more flexible system was required. The British pound and US dollar became standard currencies and smaller countries began holding these currencies instead of gold.

At the end of World War Two, the Bretton Woods agreement meant the United States dollar became the international standard, itself being valued against gold valued at \$35 an ounce. In 1971, the US dropped the gold standard and the world entered the flexible world of "fiat" money, the value of which is determined by governments. Fiat money has held sway since, as the international means of exchange, but we're now entering the age of cryptocurrency.

As its name suggests, cryptocurrency uses web-based cryptography, which converts traditional data into code to track purchases and transfers. The same sort of code is widespread on the internet to protect private information. Cryptocurrencies such as Bitcoin allow users to buy things of any value electronically and store money anonymously without going through a traditional bank. No money is ever printed, no coins minted.

There are no fees nor government control, making it an attractive proposition for people tired of bank fees and wary of market manipulation. It's the decentralised nature of cryptocurrency that sets it apart from traditional banking. No one controls the network on which it runs. This lack of control worries many central banks, though most admit cryptocurrency won't go away soon and might well be the future of money. All are studying its implications for the global financial system. Some countries, such as South Korea, have banned bitcoin trading via exchanges in their nation. What are the implications for taxes, inflation, GDP, trading in illegal goods etc?

Be Generous in Business

People come to you because they know, like and trust you. Be generous. It helps people to like you. An elderly couple regularly visit a cafe and share a meal. They ask for two knives and forks. They get two plates, half a pie each and some salad on each plate, together with relish. A home-stay proprietor, (admittedly at an expensive hotel) invites his guests to phone anywhere in the world for as long as they like.

The Magic of Property Leverage

If you're using rental properties for your nest egg, consider adding value by making alterations to your property worth more than their cost. For example, you buy a house for \$500,000. You subdivide it into two flats for \$100,000 and, because of the increased rent, the property becomes worth \$670,000. This is called leverage. It increases your equity. You should keep money aside, when you buy, and leverage at the beginning. Pick locations which lend themselves to subdivision into flats or rooms such as near a hospital or university.



CRYPTOCURRENCY...the buzz word of the digital age

So how do you buy cryptocurrency?

You can buy units or "coins" from brokers with traditional money or cryptocurrency. Your coins are stored in a virtual wallet from which you can spend them. You can also earn cryptocurrency by "mining", which involves solving complicated online maths problems. All transactions are updated and held on a public ledger called a blockchain. Bitcoin was the first major cryptocurrency and is the best known. It was created in 2009 and last year rocketed in value before diving 30 percent by year end. Even so, it's a big player that financial authorities have to take seriously as the possible future for transactions of all kinds, including stocks and bonds. Bitcoin's market capitalisation was more than NZ\$300 billion at the end of 2017. About 17 million "bitcoins" are in circulation.

In New Zealand, Inland Revenue is considering whether profits from Bitcoin and other cryptocurrencies should be taxed just as it taxes trading in conventional currency.

AIM COULD BE HELPFUL...BUT BEWARE

If you have seasonal income or will pay more than \$60,000 of tax in the year, the new Accounting Income Method (AIM) could be good for you.

From 1 April 2018 you're going to be offered another opportunity to avoid the interest charge on the shortfall of your provisional tax. If you use accounting software approved by Inland Revenue, you may be able to calculate and pay your tax on a two-monthly basis in tandem with GST. Provisional tax will no longer apply to you. If you don't pay GST, you can still use AIM.

You will need to make several adjustments, but these are not difficult. Those who wish to use the new system will need to notify Inland Revenue before the beginning of the financial year for which they wish to use it. We recommend checking with us, first.

The following adjustments will be required for each return:

- Private expenditure included in business payments.
- The stock adjustment is perfectly easy. We won't detail it here.
- If you're on a payments basis or not registered for GST, you don't need to adjust for money owing to you and money owing by you (accounts receivable and accounts payable).
- If you make losses, these are adjusted period by period so you don't have to pay any income tax until they are used up.
- You can choose whether or not to adjust for depreciation, but you must conform with the IRD depreciation rules if you decide to claim a deduction for depreciation.
- There are special rules for livestock.

However, be aware that if you use AIM you will be exposed to Inland Revenue having direct access to your accounting system. Some may be concerned about this.



TAX CALENDAR

April 9

2017 Terminal Tax
(March balance date)

May 7

3rd instalment 2018 Provisional tax
(March balance date)
GST for March 2018

May 28

1st instalment of 2019 Provisional tax
(December balance date)
GST for April 2018

May 31

Deadline for Fringe Benefit Tax returns

IRD SEEKING MORE DATA, QUICKER

Inland Revenue is aiming to get as much data from you, in electronic format, as it can. It also wants to get this data much more quickly so it can make regular adjustments to the tax rates to cater for the Working for Families tax credit etc. More and quicker data would also enable the Government to get rid of secondary tax. Most of these changes will occur on 1 April 2019 or 2020.

You're going to have to file PAYE information electronically if your PAYE and ESCT deductions are \$50,000 a year or more. This information will be required within seven working days of making the wage payment.

The department also wants details of interest and dividends reported monthly. It's going to require this information to be filed electronically, unless to do so would cause great hardship. If you don't supply your IRD number to a payer of interest or dividends, there will be a non-declaration rate of 45% applied to the payment you get. The banks will no longer be required to send out certificates of annual interest as these will be available on the Inland Revenue website and taxpayers will be able to access them through MyIR.

AN FBT PARADOX

Fringe benefit tax applies to employees. Subcontractors are not employees unless their income is scheduler income, subject to withholding tax, in which case they are deemed to be employees for Fringe Benefit Tax purposes.

One can envisage a situation where a contractor is required to use a company car, supplied by the firm she is contracted to, possibly for advertising and appearance purposes. All the costs of the car are tax deductible for the employer and there is no Fringe Benefit Tax. The "employee" doesn't have to make an adjustment for private car use because the car is not owned or leased by her. Warning, if the contractor is a company, you have a shareholder employee situation and FBT applies. This unsymmetrical situation only applies where the benefit to the contractor is something that is not convertible to cash, eg the non-transferable right to use a car or an airline ticket. Items that are convertible to cash would be income of the contractor under ordinary concepts.



TAX TIPS, TRAPS AND TROUBLES



Attention landlords

At present you must hold a residential property (that isn't your main home) for at least two years to avoid paying income tax on any capital gain. Labour has firmly stated they intend to increase this period to five years and also because it's just tweaking legislation already there it will be sooner rather than later. The good news is they are not planning on making the legislation retrospective so it will only apply to properties purchased after the law is changed. The Government also plans to abolish the tax benefits of negative gearing but has provided no specifics yet. One scenario is to only allow rental property losses to be offset against rental property profits. Also, we don't know yet whether the law change will apply to residential rental only, or whether it will include commercial property.



New ideas

The new Government has introduced Best Start, a \$60 a week payment for a year following paid parental leave. If your household income is less than \$79,000, the payment will continue until the child is three years old. It has also enacted a "winter energy" payment of \$450 a year spread over five months for people receiving superannuation or a main benefit. These payments will not be means tested. Couples will get \$700 between them to spend how they wish.



Backdated holiday pay

If you back pay an employee or ex-employee for holiday pay, tax this as a lump sum.



A plea from IRD

When paying withholding tax on dividends the payment account type is DWT. When paying withholding tax on interest the account type is IPS. Please ensure you use the correct payment account types.

Mileage Rates – new rules

Inland Revenue has published EDo203 (link below). It sets out the proposed new rules for claiming vehicle expenses calculated on a mileage basis. These rules are to apply to the 2017-18 tax year.

If you make this election, you cannot change back to actual cost until the vehicle has been sold. A 3 months logbook is required in the usual way. In addition to keeping the logbook, you must note the number of kilometres the vehicle has travelled during the financial year. Get a speedo reading at balance date in every year.

The first 14,000 km is described as being "Tier One" and the claim per kilometre is higher than it is for Tier 2 mileage. The 5,000 km limit has been abolished.

The kilometre rate will vary according to the cc capacity of the vehicle and whether it is petrol, diesel, hybrid or electric.

Shareholders in close companies can also use actual cost and apportion this as for a sole trader. Fortunately, the Fringe Benefit Tax alternative, which saves everybody a lot of hassle, is still available.

<http://www.ird.govt.nz/public-consultation/current/public-consultation-EDo203.html>

Beware ACC CoverPlus Extra

From 1 April 2018 all new CoverPlus extra policies will not start until ACC receives the signed policy acceptance form. The department recommends you email your signed form to them at cpx@acc.co.nz

Even more frightening, is the new approach to payments. The policy is automatically cancelled if the premium is not paid on time. It reverts to an ordinary CoverPlus account. You need to check you can see the debit on your bank account.



STAY SAFE ONLINE

Almost everyone is now making financial transactions of some sort online. It's making the job of doing business simpler and more efficient, but it's certainly not without risk. We need to be aware of how to stay safe and stay protected every day. Online hacking and identity theft can have devastating consequences.

The accounting software company CashManager lists what it says are the most important things to do – and not do – to improve your online security.

ALWAYS:

- Choose a password that contains a combination of characters, at least eight characters long.
- Update your website, software and apps as soon as a new update becomes available.
- Be cautious when receiving an email from an unknown sender.
- Keep your anti-malware and antivirus software up to date.
- Report all phishing scams to the official organisations they are trying to replicate.

NEVER:

- Give out your bank details unless you are on a legitimate shopping site with https in the url, or your official bank website.
- Use the same password for your online accounts.
- Store your personal information in unprotected documents.
- Re-enter your passwords and private information in pop-up boxes.
- Click on links that look suspicious.

You can find more information about staying safe online at <http://www.nzba.org.nz/consumer-information/fraud-protection/how-to-keep-yourself-safe-from-online-scams/>



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