

AUTUMN 2019



**LYNCH & PARTNERS**  
CHARTERED ACCOUNTANTS  
YOUR BUSINESS PARTNER

# THE Client Link

IN THIS NEWSLETTER 

## CAN THE SPAM

A clever way to reduce spam and junk mail in your main inbox.

## PAYDAY FILING STARTS 1 APRIL

Make sure you are ready for the introduction of payday filing on the 1 April.

## DONATIONS REBATES

If you donate large sums of money check to ensure the entity is still IRD approved.

## FRINGE BENEFIT TAX

What to be aware of for Fringe Benefit Tax for shareholder employees.



## TURN RENTAL LOSS INTO PROFIT AND SAVE TAX

As you will probably know, 31 March 2019 (or equivalent balance date) is the last year you will be able to offset losses on rental properties against other income.

Could you rearrange your finances so your rental property no longer makes a loss and the interest on borrowed money is absorbed elsewhere? If you have an ordinary company (not an LTC), you might be able to borrow money for your company and use it to reduce the debt on your rental property.

Some clients have built up a substantial credit in their company. This often arises because they have used some of their own money to get into business. It can also come about if salaries attributed to them are more than they are taking out as drawings.

The company balance sheet shows how much the company owes to the shareholders. You are entitled to refinance this amount by borrowing (from the bank for example) so the company can repay its debt to you. You can then use this money to reduce the debt on the rental property. Your company now pays more interest but your rental property pays less and you don't finish up with an unusable loss.

Just in case there is a reason, in your case, why you should not do this, please check with us first. You should also think about completing any needed repairs and maintenance before 31 March as opposed to afterwards.

## PLAN FOR CAPITAL GAINS TAX

**If Capital Gains Tax is introduced (which seems to be becoming an increasing possibility), all assets affected by the tax will have to be valued at the time the new tax starts.**

A rental property will be worth more if it has recently been renovated, repainted etc, so expect some difficulty getting tradesmen as the deadline for getting a valuation approaches. You will minimise capital gains tax by maximising the value of your assets at the start of the regime. You will probably get a better result by using a professional valuer than relying on government valuation. Expect a stampede to get valuers. You could get in early and get the valuer to complete his/her job early. It might be a simple matter to update the figures later, without the need for a second site visit.

Capital Gains Tax, if it comes in, is likely to be as wide-ranging as possible and include your business, your boat, your bach and so on. Above all, documentation is going to be extremely important. Inland Revenue would have the right to ask you how you arrived at the value at the start of CGT and require you to prove it.



### 'Amazon' Tax proposed

As you probably know, Inland Revenue does not attempt to collect GST on low-cost imports (costing \$1000 or less), because it's uneconomical to do so. This has meant Amazon, and other overseas suppliers, have had an unfair advantage over local retailers who have to charge GST.

Following Australia, Inland Revenue is now proposing to get the overseas supplier to register for GST and collect the tax, just as a New Zealand business would. New Zealand is proposing to make this change from 1 October 2019.

### Retentions in trust accounts

If you have a significant amount of money owing to you in the form of retentions by a contracting entity, it would pay to get written confirmation the money has been set aside in a trust account.

You may have noticed a report in the newspaper about Ebert Construction Limited where there was a bookkeeping error and some of the retention money had not been set aside. As a consequence, the subcontractors were not able to be paid, due to the way the law has been worded.

## CAN THE SPAM WITH A NEW EMAIL ADDRESS

**Whenever you sign up to a subscription service or buy something online, it's likely you'll be put on a mailing list – whether you like it or not.**

Sometimes, your email address will be given to third parties, such as advertisers and marketing agencies. After a while, you'll be getting invitations, "special" offers and plenty of ways to enhance your life or your body. If you want to ensure you don't receive any more (it won't stop what you already have), one effective way is to create an email account secondary to your main account. Your main email address will be the one you use for work or to communicate with friends and family. Set up another email address and use it for web activities such as online shopping, booking a hotel or subscribing to a news site.

The second email address won't stop spam from arriving, but those unwanted messages will appear in your secondary email account, rather than your primary one. The beauty of this is it will keep your main inbox free from clutter. Email providers such as Gmail, Yahoo and Outlook can be used to set up a decoy account for free, following the same process you used to establish your original account.

## THINK HARD ABOUT PASSWORDS

**Did you notice a recent newspaper report about a laptop which was unprotected by a password. It contained a whole lot of information about people on legal aid.**

Passwords have become a pain and it is very tempting to use the same one for everything. This, obviously, is unwise. Similarly, it is unwise to choose passwords which can be easily detected by someone who happens to know your birth date or something of this kind. You might like to think about choosing some system for passwords. It requires some ingenuity. Start by thinking of something which is of significance to you. If you were keen on rugby you might like to choose the first names of All Blacks.

Another thing, if you want a pin number and want to choose a date, such as 1987, it is a reasonable assumption, for those trying to get your pin number, that dates will start with 1 (or more recently 2). This means someone trying to get your pin number has only 999 options to try instead of 9999. Try reversing the number – 7891.

If access to your password or pin number would be a serious matter, be more choosy about your selection. Sometimes, the passwords and pin numbers are only for the benefit of the business selling to you. It wouldn't really matter if someone else got your password. If this is the case, you can use more readily remembered passwords or pin numbers for these organisations.

## GET IN QUICK TO GET YOUR INVOICES PAID

**Cash flow is often a problem for small businesses. You could do a lot to improve it. Here are some suggestions about collecting bills:**

1. Send your invoices as soon as you can. Never wait until the end of the month.
2. If it's a large bill, see if you can get progress payments (include this in your quote).
3. Email your invoices. Many people like to pay quickly. They also like to action their emails quickly. Take advantage of this.
4. No law says a person must pay their bill on the 20<sup>th</sup> of the month following receipt of invoice. You can make your terms what you like. Why not make them as short as possible, like "please pay this account within one week of receipt".



## TAX CALENDAR

### April 8 2019

Terminal tax for 2018  
(March April, May and June balance dates)

### 7 May 2019

3rd instalment of 2019 Provisional Tax  
(March balance date)  
GST for March 2019

### 28 May 2019

1st Instalment 2020 Provisional Tax  
(December balance date)

### 31 May 2019

Deadline for Fringe Benefits Tax returns

## PAYDAY FILING STARTS 1 APRIL

### From 1 April 2019 employers must:

- file employment information every payday instead of an *Employer monthly schedule (IR348)*
- provide new and departing employees' address information, as well as their date of birth - if they have provided it to you, and
- file electronically (from payday compatible software or through myIR) if your annual PAYE/ESCT is \$50,000 or more.

*Note: With payday filing you'll continue to pay on the 20<sup>th</sup> of the following month.*

As a paper filer, you won't be able to shift to payday filing before April 2019 unless you change to electronic filing. If you file by paper, you'll file your information within 10 working days after the payday, or 15<sup>th</sup> and end of month if you choose to send us information twice a month.

### SHIFT TO ELECTRONIC PAYDAY FILING NOW.

- > Register for a myIR account today.
- > Consider using payroll software. There's a new software option allowing you to securely submit your employer information directly to us from the software.
- > Opt in to payday filing through your myIR account.

Go to [ird.govt.nz/payday](http://ird.govt.nz/payday) for more information

## USE OF MONEY INTEREST AND PROVISIONAL TAX

**Provided you pay provisional tax on what is called the standard basis (based on 5% increase over last year) there is no liability for Use of Money Interest for the first and second provisional tax instalments.**

However, any short-paid tax, when the figure has been worked out based on your profit for the year, is subject to Use of Money Interest at 8.22% running from 7 May 2019 for 31 March balance dates.

Inland Revenue says you should have a reasonable idea of your taxable income for the year ending 31 March 2019 by 7 May 2019. Therefore, you could adjust your tax payment at 7 May. If you think you might have underpaid your tax, we suggest you top up your 7 May payment to allow for this. If you overpay, you will get a refund and a tiny amount of interest.

## BRIEFLY

### Don't become a dependent business

A dependent business is one which relies on one or a few other businesses to remain viable. Trade cycles are such that buoyant times are followed by high unemployment, business failure and a reduction in demand for goods and services. It is at these times dependent businesses can go to the wall. As a rough guide, make sure no more than 20% of your income is dependent on one source.

### Savings accounts

In the good old days, depending upon your point of view, when interest rates were a lot higher, it paid to transfer money out of a business current account into a savings account. These days, savings accounts offer such abysmal interest, one has to wonder whether keeping them open is worth the hassle. They involve extra accounting and may now be uneconomical to run. It might be time to close them.

### The quick snail mail

A telco customer was overcharged. Fearing a long wait on the telephone for a company with a poor reputation for customer service, he sent them a letter because he couldn't find their email address! Sometime later he received a call to resolve the problem. It all ended happily ever after and the total investment in time was only a few minutes. Snail mail could be a quick option when dealing with large organisations who don't care about how much time you have to wait on the line for them and won't give you an email address

## Ensure donations above board

If you donate large sums to charity, you should check to ensure the entity is still approved by Inland Revenue. To find out, see: <https://www.ird.govt.nz/donee-organisations/donee-complete-list.html>

You can pay donations through your company, but there must be a profit at the end of the year after deducting the donations. Losses resulting from donations paid are not tax deductible. You can claim school donations, so long as they are not designated for a specific activity such as for your child to go on a school trip.

If your child goes to a state integrated school, you may be asked to make donations to various funds such as a building donations fund. These payments would be OK for claiming the rebate. The important issue is that the child cannot be banned from the school if the parent fails to pay the donation. This is a requirement for a school to be integrated.

For non-integrated schools, the general principle is that any donations made must be voluntary. If it is really in the nature of a fee for attending the school, the rebate is not claimable.

The *New Zealand Herald* reported recently "the vast majority of parents are not claiming the tax rebate for donations even though they are entitled to it". Part of the reason would appear to be many parents are on salaries and don't have to put in a tax return. They are overlooking their entitlement to the donations rebate.



## FRINGE BENEFITS – SHAREHOLDER EMPLOYEES

You will be aware a **company** is permitted to provide miscellaneous "unspecified" fringe benefits of no more than \$300 in value per employee per quarter, subject to a total limit of \$22,500 in a year for all employees. Where either of the particular thresholds are exceeded the exemption no longer applies and Fringe Benefit Tax applies to the full amount.

Any benefits provided to an associated person are to be treated as though they were given to the employee. However, if the associated person is an employee for Fringe Benefit Tax purposes in their own right, they can receive this fringe benefits exemption separately.

If an employee makes any payment in return for having a fringe benefit, the payment is deducted when working out the taxable value of the benefit. Therefore, suppose the employee wanted a bicycle costing \$550 and the employer wanted to contribute \$300 towards it, the employee could make a payment to the employer of \$250 and the employer could buy the bicycle and give it to the employee. Would it make any difference if the employee bought the bicycle and the employer contributed \$300 towards this? We suggest it would make a difference because the employer is providing money, which the employee would have spent anyway and therefore the payment is in the nature of a salary.

Some employers provide vouchers to their employees, such as grocery or petrol vouchers and so long as these cannot be exchanged for cash they comply with the fringe benefit tax rules. Shareholder employees can also take advantage of this and give themselves vouchers. If a company supplying the vouchers is prepared to give a cash refund of the part of the voucher not redeemed for goods, you do not have compliance with the rules. These vouchers are not a fringe benefit. They are an additional emolument and should be taxed as wages.