



SPRING 2017

THE Client Link

IN THIS NEWSLETTER 

RECENT TAX CHANGES

Some important tax changes you need to know about.

FAMILY TRUST DIVIDENDS

Why dividend streaming is not permitted.

CORRECTION TO WINTER 2017 NEWSLETTER

In the previous newsletter there was an article "PAYE salaries for company owners". In it we stated if a client switches to a PAYE salary they must do so for the life of the company. This requirement was changed and taxpayers are now required to continue with a PAYE salary for at least three years.

FONTERRA SUPPORT LOANS

Many farmers who are Fonterra suppliers will have received the Fonterra Support loan to help with cashflows in the 2016 season. These loans represented 50¢ per kg of part of the year's production (ie up to the end of December 2015). Generally, these loans are close to 30¢ per kg of the average whole season's production.

Interest on these loans is payable from the 1st July 2017 at the rate of 2.47% initially. This is a very low rate of interest compared to other bank finance rates and in fact is below many short term deposit rates. **Clients are advised not to repay these support loans early.** Repayment of the loans will be made when the milk payout schedule exceeds \$6. The current schedule for the 2017 season shows the milk payout going above \$6 in October 2017 by an estimated 15¢. All of this excess (ie 15¢ per kg on all of last season's production) will be taken as a loan repayment on 20th October 2017. This is about half of the loan balance.

The interim milk payment rates for this 2018 season does not exceed \$6 until August 2018 (\$5.80 advance plus 25¢ on capacity = \$6.05). Another 5¢ per kg on this season's production will be repayable, making total amounts repaid about 20¢ of the 30¢ per kg loan received. The last of the loan should be repaid in September 2018 as the total milk payment rate gets to \$6.40 per kg (\$6.15 plus 25¢).



SERVICE 'FOR' AND 'OF': KNOW THE DIFFERENCE

An employee enters into a contract "of" service but a contractor enters into a contract "for" services. These words can matter. When writing an agreement with a contractor, use the words "for services" in

your agreement. If Inland Revenue checks to see whether the person working for you is an employee or a self-employed person, it may ask to see your agreement. The department will, of course, consider all the factors available. If the case is borderline, the wording of your contract could make the difference between having an employee and engaging a contractor.

If the person should have been an employee, you should have deducted PAYE from your payments and the employee should not have claimed any expenses. Inland Revenue has listed tests it uses to decide whether PAYE should be deducted. These can be found on its website. If you have a borderline case, consult us. It's not safe just to agree that someone working for you does so as a contractor.

Choosing your Insurance firm

Many of us shop based on price. When it comes to insurance, you should also think about how the insurer treats its customers when claims are made. Consumer New Zealand recently did a satisfaction survey and ranked the insurance companies. To find out which performed the best, Consumer New Zealand is the place to go. If you get a bad deal from an insurance company, you can contact the Insurance and Financial Services ombudsman. The website is www.ifso.nz where you will find discussions on case studies arising from common complaints. These could be useful.

Help customers contact you

Do you find, when you visit a website, it's difficult to find out how to get in touch with the business owners? Even finding "Contact us" can be difficult.

When designing a website, make it as easy as possible for customers to buy. If they want to respond by ringing a cell phone, provide that facility as well as email, landline phone, et cetera. You should have a "call to action" **on every page** of your website. If you have a potential customer interested in your product, help them to contact you quickly. Don't make them scratch through your website to find the "Contact us" section. It needs



IMPORTANT: This is not advice. Clients should not act solely on the basis of the material contained in **The Client Link**. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. **The Client Link** is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.



RECENT TAX CHANGES

IRD Use of Money Interest (UOMI)

One of the most significant tax law changes to occur for many years comes into effect from the 2018 tax year. In the past, UOMI has been charged on any underpaid Provisional Tax where:

- A non-individual (ie Trust or Company) had Residual Income Tax (RIT) of more than \$2,500, or
- An individual had RIT of more than \$50,000, or
- Provisional Tax was estimated.

This UOMI was charged from the date of the first Provisional Tax instalment.

New Rules:

From the 2018 Income Tax year (ie the current year we are in), the new rules are:

- UOMI applies only if RIT is greater than \$60,000 (ie up by \$10,000) and
- Applies to all taxpayers (ie Trusts and Companies now also)

UOMI now only applies from the third Provisional Tax date (ie not first), where:

- Provisional Tax on first and second instalments is paid based on the "Safe harbour" rules (ie last year's tax plus 5%), and
- Provisional Tax is fully paid on first and second instalment dates by all associated taxpayers, and
- RIT for current year is over \$60,000, and
- Provisional Tax is not estimated.

If Provisional Tax is estimated, interest still applies from first Provisional Tax due date. The need to forecast Provisional Tax early in the tax year to save interest costs is no longer necessary. Many of our clients, especially Companies and Trusts, will now not incur UOMI with tax levels below \$60,000 anyway.

Farmers – Claimable House Expenses

For decades now full-time farmers had been able to claim 25% of their house costs (ie power, repairs, insurance etc) in recognition of the fact the farming business is run from the home.

This has now been reduced to 20% by the IRD with effect from the start of the 2018 tax year, ie generally 1 June 2017. This adjustment affects the amount of GST claimed on these costs also, which now reduces to 20%. The change in the amount of GST claimable is effective from the first GST return in the 2018 tax year, which may already have been completed and filed.

For example, a March balance date client on two monthly GST return periods, will probably have completed a GST return to 31st May and have another due now for the 31st July. For a May balance date taxpayers the 31st July return will be the first return in which only 20% can be claimed. For clients who use electronic cashbooks to work out your GST, you will need to alter the amount you claim on to 20% of the costs, not 25%.

Taxpayers and clients who are not full-time farmers continue to claim a percentage of their house costs as a home office expense. This claim is based on the floor area of any office/business space as a percentage of the whole house floor area.



TAX CALENDAR

August 28 2017

1st instalment of 2018 Provisional Tax (March balance date who pay Provisional Tax three times yearly)

September 28 2017

2nd instalment of 2018 Provisional Tax (December balance date)

October 30 2017

1st Instalment 2018 Provisional Tax (March balance date who pay GST twice yearly)

November 28 2017

1st Instalment 2018 Provisional Tax (March balance date)

FAMILY TRUST DIVIDENDS

When distributing dividends to beneficiaries of a family trust, you must do so in proportion to the total distribution to each beneficiary. You cannot pick and choose who gets the dividends. The same rule does not apply to other forms of income. For example, you can elect who gets the interest and who gets the rent. You do not have to distribute these in any set proportions. The imputation credits must be distributed in the same ratio to dividends that the trust received them.

Here is an illustration:

If you decide trust income is to be distributed in the following proportions: A is to get 20% of the income, B is to get 30% and C is to get 50% and the income comprises dividends of \$100, rent of \$200 and interest of \$300. You must allocate the dividends to A, B and C as follows: A: \$20, B: \$30 and C: \$50. However, if you want to do so, you could choose to allocate most of the rent to say C and then top up the remainder of the distributions from the interest.

FINDING THE BEST APP

With the huge number of organisations offering apps to help you run your business better, it's easy to be confused about what to invest in. Where there's confusion, there's usually someone ready to simplify. One place where you can find the app you might be looking for is getapp.com



It's a site that says it enables you to "enhance your productivity and your business success". It has a whole bunch of useful apps for small business, many of them free. It lists the apps in helpful software categories (and sub-categories) such as customer management, human resources, marketing, sales, IT management and more.

The site has at least 5000 apps to choose from, and about 170,000 reviews so you can see how others have rated them. Star ratings on each app give a fair indication of how well they've worked. There's also a "compare app" button so you can compare its features, rating and pricing with other similar apps. The "top apps" button is also worth a look, just to see what's most popular.

BRIEFLY



Seismic Assessment – quake repairs

Do you need to strengthen your building to cope with the risk of a big earthquake? Generally, the cost of upgrading your building, for this purpose, is not tax deductible. Perhaps it ought to be. Inland Revenue considers most detailed seismic assessments are tax deductible. The notable exception is where this is obtained as part of a capital project such as seismic strengthening or improving a building. Clearly, you need to separate the assessment from the strengthening.



Send a reminder

You may already be sending reminders to customers. If you're not, perhaps you should. Have you noticed dentists, motels and others send out an email reminder of your appointment or booking. We noticed a restaurant which went one step further. It asked the customer to "Click here" on its website to confirm the reservation.



Trust with only a family home

If you have a family trust, which only owns your home, you should remember, if you have been paying off the mortgage principal, the trust owes you the money you have paid on its behalf. If you overlook this, you may be defeating the main purpose of the trust, which is to protect your wealth. In the event you can't pay your debts, your creditors can call on the debt owing to you by the trust and make the trust pay. Your solution is to periodically forgive the debt.

VEHICLE PURCHASE DECISIONS NEVER BEEN TRICKIER

It has never been trickier to analyse the costs and benefits of buying a new car, especially because of the claims about electric and hybrids cars saving you money. But will they in the long run?

It's worth comparing costs for equivalent petrol or diesel cars. List them, and include the loss in value of your car each year and calculate the annual cost of ownership. The things you need to consider include:

Obsolescence: Electric and hybrid cars are new to the market. They will improve. For example, electric cars in the future are likely to have a longer range than at present.

There's a similar problem with petrol cars. With the trend towards electric cars one might expect less demand for second-hand petrol cars in the future. Depreciation of petrol cars might be rapid. Will the hybrid be superseded by the fully electric car? If you think yes, how long might it be till this happens? Deciding on the cost of ownership has never been trickier.

Road user charges: There are no road user charges on hybrid and electric cars at present. However, it's a reasonable bet the Government will eventually introduce them once there are plenty of electric cars on the road.

If you have a fleet you will constantly need to update your decisions on what to purchase.



AVOID THE BAD PAYERS

The first rule about debts is to try and avoid customers who don't pay what they owe you. If the amount is going to be large, get a deposit first, get a credit report, or both.

When you get a bad payer:

- Get onto the customer quickly.
- Follow up on a planned basis and minimise the time between each follow-up.
- When ringing the customer, get a commitment of how much will be paid and when.
- When following up by phone, write notes of the commitment made and preferably the actual words used by the customer.
- If you still have trouble collecting the debt, confront the customer with each of the promises and what was said.
- If you still can't get paid, warn the customer you are going to take debt recovery action. If this does not produce results, carry out the threat promptly.

If you're dealing with a company, the threat of winding it up can be very effective for those who are first in. That's why it pays to act quickly. You don't want to be last in line when the money runs out. The second rule is to avoid having your business dominated by one firm. If you possibly can, diversify your customer base as quickly as you can.

What if the company is too big to be concerned about your threats? There is little you can do other than reread rule 2. If the bad-paying corporate is only a small customer, some people load their bills to them to allow for bad payment practices.