

WINTER 2017



THE Client Link

IN THIS NEWSLETTER 

BUSINESS USE OF HOME

From 2018 the tax rules are changing regarding business use of home.

Look at the choice of methods available for calculating a claim for home use.

FBT ON WORK RELATED VEHICLES

A closer look at how this works..

PAYE SALARIES FOR COMPANY OWNERS

How to reduce provisional and terminal tax by taking a salary but also consider the consequences of making the decision.

DANGER IN CASHING UP

A look at the consequences of cashing up when the company sells.

LOW RATES NOT SO GOOD

Don't be taken in by very low interest rates for hire purchase, or even those offering zero percent.

Many retailers occasionally offer "special deals" of 0% percent interest on hire purchases. Does it mean you pay only the ticket price over the term of the loan? The answer is no, and in fact the total price can be very expensive. If you add up establishment fees, annual fees and any other cost the vendors may add, you will get some idea of the cost of the borrowing.

For example, an appliance costing \$700 could be financed by one of the leading dealers at 0% finance. The deal included an establishment fee of \$55 and what appeared to be an annual account fee of \$52. The salesperson was a bit vague. That would make a total of \$211 (\$55 + 3 times \$52) for a 30-month agreement.

If you take the average between the debt at the start of the contract and the debt at the end of the contract, you get an average debt of \$350. You can now see why the \$211 is such an enormous figure to be paying. Divide it by 30 months and multiply by 12 months and you have the cost per year of about \$84. That's an interest rate of 24% (\$84 divided by the amount borrowed being \$350).

Even if these figures are not entirely accurate, do your homework and determine the true cost of borrowing. You might be a lot better off with a bank overdraft.



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, birth date 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.

FBT on work related vehicles

You must pay FBT on a work-related vehicle, if it's available for private use. It doesn't matter that the vehicle is a commercial vehicle and not a car, nor that it's been sign-written to comply with Inland Revenue requirements. What matters is whether the travel to and from home is necessary in, and a condition of, employment. A plumber usually goes to different jobs every day. It would be impractical to return to the employer's premises. The employee's home becomes a place of work. The employer should give a written instruction to the employee about taking the vehicle home and state it is not to be used for private purposes. We recommend getting the employee to sign confirming he/she understands the instruction. If you comply with this, no fringe benefit tax has to be paid.

If the employee doesn't deviate significantly from the route home and stops off at, say, the supermarket, that's not counted as being available for private use. The work-related vehicle exclusion is applied on a daily basis. If the employee has unrestricted private use on work days but is not allowed to use the vehicle on days he isn't working, the fringe benefit tax liability can be reduced proportionately.

FREE ACCOMMODATION

For our farming clients in particular, the rules around houses provided to staff provide much debate. From 1 April 2015 the rules changed such that employers were required to include the **market value** of the free accommodation in their wage calculations. There was however, no interpretation on what was market value. This has now been provided by the Inland Revenue Department.

Valuation Methods:

- Valuation from a registered valuer
- Estimate from real estate agent or property manager
- Review of comparable properties (reasonable sample)
- Documentation of how basis was reached should be retained
- Reasonable care
- Review from time to time (at least every 3 years)

How to Value:

Employee Contribution - answer

- Market rental taxable
- Do not consider
 - Need to respond to emergencies
 - Not available for rent
- Do consider
 - Run down Nature
 - Noise / opportunity for guests

Example

Run down farm cottage located in heart of farm provided for employer's convenience as available to respond to emergencies. Little peace and quiet, no opportunities for guests. Cottage not available for rent and no established rental market in nearest town.

PAYE SALARIES FOR COMPANY OWNERS

The law has just been changed. Provisional taxpayers will be permitted to take a PAYE salary and still remain provisional taxpayers.

Some people have been doing this already, but it has never been entirely correct. If you are a shareholder employee of your company and want to get some of your tax paid as you go, you can be an employee of your company and come into the PAYE system. Any profits left over at the end of the year can still be credited to you in the usual way. However, the profits will be much smaller and although you will still have to pay provisional tax and year-end tax, the amounts will be much less daunting.

You should note if you do put yourself on PAYE, you must continue with a PAYE salary for the life of your company. You cannot change your mind and be a full provisional taxpayer again. This doesn't mean you have to continue with the same amount of salary. If the company is not performing too well, it's logical to reduce your pay.

You should also note you will have to guess your provisional income in the year you make the change to a PAYE salary. If you underpay the provisional tax, Inland Revenue will require use of money interest at a rate more than 8% a year. If the company makes a loss as a result of your PAYE salary, you will not be able to reduce your income by the amount of the loss unless your company happens to be a look through company. The loss will be locked into the company until it can be set off against profits in future years.

There has been no provision for allowing a self-employed person to have a PAYE salary. If you are one of these, one thing you can do is make monthly payments in advance into your account at Inland Revenue, which is not entirely satisfactory. Consider regular savings into a separate savings account for tax until due.



TAX CALENDAR

May 29

1st Instalment of 2018 Provisional Tax
(December balance date)

May 31

Last day to put in final FBT return for 2017

July 28

3rd instalment 2017 Provisional Tax
(June balance date)

August 28

1st instalment 2018 Provisional Tax
(March balance date)

TRY A PASSWORD MANAGER

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.

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.

KEEPING A LOGBOOK MADE EASY

Keeping a vehicle log book is a bind. Inland Revenue requires you to note your opening odometer reading and closing odometer reading over a three-month period. It will allow you to record your business trips only, over that period. Unfortunately, if you overlook a business trip, it will become a private trip by default.

Apps are now coming onto the market to solve the problem. They will keep a track of all your trips and help you to analyse them. We obtained a quote for using LogbookMe. A 12-week license costs \$248 + GST and a 52-week license costs \$480 + GST. There will be other logbook apps on the Internet. You may be able to put the log book app to other uses to get the best value out of it.



BRIEFLY

Windows 10 Tips and Tricks

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. 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.

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.



Martin van de Wetering

CELEBRATING 40 YEARS

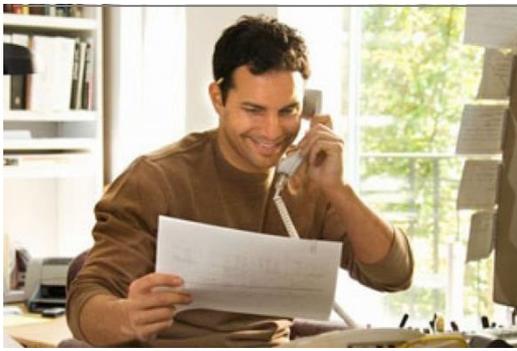
Earlier this year we celebrated with Martin the 40th anniversary of his starting work in Paeroa in February 1977 with the then Firm of Shoosmith and Lynch. Willie Lynch recalled how he had had a visit from Martins Mum to see if we had a vacancy in our office for an accountancy student. Martin at that time had spent a couple of years in Hamilton studying at Waikato Tech and was fed up with his life in a student flat and on a miserable student budget. The first answer was no we didn't have any vacancies but that decision was very quickly changed when Willie realised that an opportunity to employ a local boy from a dairy farming background had never ever happened to him before so he was immediately on the phone to the van de Wetering home in Wharepoa to say yes we can and will employ Martin and he can start as soon as he likes.

Well he did and as the saying goes the rest is history. Part of that history entailed a lot of work because Martin as well as his job in our office had to study by correspondence in the evenings and he passed his final Accountancy qualifications in April

1983. A year prior to that he had spent a very busy year in the office installing a new accountancy system when all of our clients financial records were transferred on to the then Hartley system and this entailed a lot of personalised client computer programming to suit our client and practice needs. This system has since morphed into the current APS system that is still current in the practice today. So that initial work has survived the test of time and Martin over the years has enhanced it to a very "well-oiled system" and that is the reason for its longevity.

Two years after qualifying and "sitting out the mandatory period of two years" Martin was admitted into the Partnership in April 1985 and as we all know he is still a Partner in Lynch and Partners having served his many clients well over that period of time.

Forty years of outstanding service and commitment



BUSINESS USE OF HOME

From the beginning of the 2018 tax year the rules for claiming for use at home are changing. The premises have to be a **separately identifiable** part of the house, which is used **primarily** for business purposes. Some people are interpreting this to mean a room has to be set aside exclusively for business. This is not exactly correct. It would also seem a garage is a separately identifiable part of the house. If this is being used primarily for business, it could also come under a use of home claim. However, if it is a double garage, it might be difficult to show the use is primarily for business if it houses a private car as well as a business one. There will be a choice of methods for calculating a claim for use of home.

Choice 1

Continue to make your calculations in the usual way.

Choice 2

Determine the percentage of mortgage interest and rates (or rent) used for business. Inland Revenue will then provide a per square metre rate to use to cover the other costs.

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.



RESIDENTIAL RENTAL

As soon as a tenant vacates your house and you switch the house to personal use, repairs and maintenance become non-tax deductible, regardless of whether damage to the house has been inflicted by the tenant.

It therefore follows, as soon as you make your house available for renting, maintenance costs of the property become tax deductible. Mowing the lawns, cleaning the house, garden maintenance, rates etc would become a tax deductible cost from the time the property becomes available for letting, even though you don't yet have a tenant.