

Newsletter

June 2016

DB CHARTERED
ACCOUNTANTS LTD

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In this newsletter we take a look at the recent tax proposals, rental property deductions and what information you need to monitor your business. A book review, tax dates, updated UOMI and mileage rates are also included.

TAX PROPOSALS

Recent announcements by the Government propose the following changes to:

- Use of Money Interest (UOMI) will only apply to taxpayers whose annual tax payable is greater than \$60,000. This will apply to individuals, companies and Trusts.
- UOMI will only apply from the 3rd Provisional Tax date (if the taxpayer uses the standard “uplift” method). For taxpayers who “estimate” their tax, UOMI will continue to apply from the 1st instalment date.
- There is a proposal to allow taxpayers to pay Provisional Tax at the same time as GST payments are made, based on the accounting profit of the business accounting system. This will be available for businesses with turnover up to \$5 million. **While there have been rumours that “we won’t have to pay Provisional Tax anymore” this will not be the case.** The timing and calculation will just be different. This method is optional and would apply from 1 April 2018.
- Allow Companies to pay tax on behalf of shareholders as part of the Company’s Provisional Tax Payments.
- Late payment penalties to reduce to an initial penalty of 5% with only UOMI charged after that. Currently taxpayers with outstanding debt effectively incur 27% in interest and penalties in the first year making it difficult to get on top of their tax liabilities.
- Proposed that outstanding tax debt is advised to credit reporting agencies so that this information will be flagged when credit checks are requested.
- Simplifying FBT and motor vehicle calculation for closely held Companies. This will get back to an actual business/private calculation instead of the current “available for private use” calculation.

Any changes will commence from 1 April 2017 (except for point 3 above).

“It isn’t the mountains ahead to climb that wear you out; it’s the pebble in your shoe.”

M Ali

WHEN ARE RENTAL PROPERTY COSTS NOT TAX DEDUCTIBLE?

IRD rules state that rental property costs are tax deductible when a property is either rented out or “available to rent” (e.g. between tenants). Tax deductible costs include interest, rates, insurance, management fees and repairs and maintenance. Be aware that if a tenant has vacated and you decide to sell the property, any repairs and maintenance costs incurred once the tenant moves out will not meet the “available to rent” test. This means the costs will **not** be tax-deductible.

This will also apply if you decide to personally move in to the property. If it is likely that a tenanted property will soon be sold you are best to complete any repairs and maintenance work while the property is still tenanted. This will ensure that the “available to rent” test is met and the costs tax deductible.



AUDIT SHIELD

Better safe than sorry . . . *Are you prepared?*

You may have noticed that Inland Revenue (IRD) has been featuring in the media quite a bit lately. Reported to have received additional funding, it has resulted in a sharp increase in audit activity and now, more than ever before, individuals and businesses are at risk of being selected for a random audit, enquiry, investigation or review.

If your business or individual return is subjected to a random audit, enquiry, investigation or review you are responsible for the professional fees involved in us providing the required information. Even the simplest enquiry can require hours of work. In some cases, when there are complex environments, unusual circumstances, multiple years or multiple companies and trusts, significant accounting and legal fees can be incurred.

We have responded to this growing threat by finding you the most comprehensive tax audit insurance available and are pleased to offer to you and your business our Audit Shield Master Policy. The Audit Shield Master Policy is fully tax deductible for businesses and self-employed, providing you with peace of mind in relation to audit, enquiry, investigation and review associated costs. The features of this are:

- Our accounting fees in responding to audits, enquiries, investigations and reviews of your lodged returns, including those from previous years are covered.
- Specialist’s professional fees if we need to engage a tax expert or lawyer for an opinion or defence are covered.
- Cover commences from as little as \$255 pa (incl GST) for a sole trader or partnership.

You should soon be receiving a letter from us explaining the policy and inviting you to participate under our Audit Shield Master Policy. Should you have any queries in relation to the offer we encourage you to contact our office upon receipt of the letter.

DO YOU HAVE RELIABLE INFORMATION TO MONITOR YOUR BUSINESS??

A business owner may have a variety of measures they use to monitor the progress of the business on a monthly basis. While some might be happy to use the closing bank balance at month end as a guide, we would recommend that you have a system to monitor:

- Total sales for the month – How does this compare to previous months or any forecast completed?
- Direct costs, including purchases and wages – Are these in line with expectations based on the sales for the month?
- The overall gross profit and gross margin – Is this consistent, improving or deteriorating?
- Accounts Receivable – What level of receivables is over 30 days old? Is a system in place to follow them up?
- Accounts Payable – Are invoices paid by due date? If not, is the situation improving or getting worse?
- Overall profit earned for the month – What is the profit? Is this as expected? Is the profit enough to cover loan payments, drawings, tax and asset purchases?



If you would like to put in a monthly reporting system we are able to assist with this, either by completing adequate reports for you or showing you how you can find this information in your current accounting system. If your current reporting system produces profit and loss reports we can also review this with you to help you understand how your business is progressing.

Contact us to discuss how we can assist.

HAVING A MONEY PLAN

Saving up money to buy something or aiming to get rid of your mortgage can be hard work, no matter what stage of life you are at. Having a plan in place will help you get there quicker (failing to plan is planning to fail).

To assist with this:

1. Determine your present position – What is your income? What are your expenses? What is the monthly cash surplus? (If there is no surplus something will need to be changed to avoid a situation getting worse)
2. Set short-term goals – Aim to save (or have a monthly cash surplus of \$x) by a certain date.



The hardest part is often getting started so:

- Concentrate on one main goal
- Concentrate on continual improvement (each small improvement will help you towards your goal)
- Forget the past – If money management has not historically been your strong point, it is another skill that can be learned – it may take practice.
- Focus on the future and what you want to achieve.

Our website has a template “Personal Budget” which can be downloaded. See www.dbchartered.co.nz/pdfs (subsection Planning)

BOOK REVIEW

“Kill Your Mortgage and Sort Your Retirement” - Hannah McQueen (2015)

Over 25 years a \$500,000 loan at 7% will incur an interest cost of \$560,000. This means total loan repayments of \$1,060,000 over the term of the loan. Reducing the loan to 15 years reduces total interest to \$309,000. This provides an additional \$250,000 to be added to retirement funds.



This book looks at how you can get the mortgage reduced quicker so you have more funds to save instead of paying money out to the banks in interest. The book covers 5 main areas – Money and You (where you are now, what is your money nature, common traps), Kill Your Mortgage (how to create a monthly cash surplus to be debt free quicker), Wealth Creation (options on where to invest), Retirement (what is your number required to retire comfortably), Other Factors (relationships, Trusts, children and death).

IMPORTANT TAX DATES

28 June	Third Instalment 2016 Provisional Tax due (May Balance Date) and 2 monthly GST Returns due.
28 August	First Instalment 2017 Provisional Tax due (March Balance Date) and 2 monthly GST Returns due.



JOKE #1



Through the pitch-black night, the captain sees a light dead ahead on a collision course with his ship. He sends a signal: “Change your course 10 degree east.” The light signals back: “Change yours, 10 degrees west.” Angry, the captain sends: “I’m a navy captain! Change your course, sir!” “I’m a seaman, second class,” comes the reply. “Change your course, sir.” Now the captain is furious. “I’m a battleship! I’m not changing course!” There is one last reply. “I’m a lighthouse. Your call.”

ANNUAL INFORMATION

If you do not have a system to collate your annual information, we have available, free to clients, a folder with separate labeled tabs to keep your records together. If you would like to obtain a folder please contact Dianne (office@dbchartered.co.nz or phone 847-8154)

IRD UPDATE

Motor Vehicle Mileage Rate

IRD has advised that the mileage rate for the 2016 income year reduces from 74c to 72c per kilometre.

Use of Money Interest (UOMI)

From 8 May 2016 IRD UOMI rates are:
8.27 % for underpayments and
1.62 % for overpayments

VISIT OUR FRESHLY UPDATED WEBSITE

to find:

- Our end of year checklists
- Common IRD and other forms for GST, PAYE, Planning and more
- News and information

www.dbchartered.co.nz

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