

# Newsletter

October 2018

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ACCOUNTANTS LTD

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This month we cover the tax working group report, the proposed treatment of residential rental losses and a reminder about reviewing holiday pay. How and why to calculate costs as a percentage of sales, a MYOB AccountRight update and a book review are also included.

## THE TAX WORKING GROUP

On 20 September the Tax Working Group reported back to the Government on its initial thoughts on the future tax options for NZ. The brief was to cover off what the future of tax will look like, the purpose of tax, whether the right things are being taxed and how can housing be made more affordable. Included in the mix was whether capital gains tax is an option and if so how it would work in a practical sense. The brief also looked at whether taxes can change behaviours around environmental issues (pollution, carbon use taxes), health or other issues (sugar tax?) as well as the standard tax rates and GST options. Other taxes, such as local or regional taxes (like the recent Auckland fuel tax), were also in the mix.

The initial report does look at the implications of capital income (either on realised asset gains or a deemed return) and how this may look. A detailed analysis of issues and options is included in the appendix.

90% of the tax take for NZ comes from personal income tax, Company tax and GST. This is quite a narrow base compared to other countries and the report discusses this.

At this stage there are no proposed changes to GST or the Company tax rates, however there is concern about the difference between the 28% and 33% (top personal tax rate) for closely held Companies where shareholders are not declaring dividends and are living off the proceeds of Company profits. IRD also gets concerned about non-payment of GST and PAYE and the report discusses whether directors should be held personally liable for these unpaid taxes.

The tax treatment of retirement savings is considered (mainly Kiwisaver) and whether the tax rates imposed for some investors should be lower.

Whether Charities who are operating a business, receive an unfair advantage over tax paying businesses, IRD policy and the disputes process is covered along with various options and matters to consider as part of the NZ tax system.



***“There is nothing permanent except change”***

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You can download the report from the [taxworkinggroup.govt.nz](http://taxworkinggroup.govt.nz) website and make your submissions. This interim report will then be considered by the Government as part of its tax policy planning before the final report is presented in February 2019.

## **RESIDENTIAL PROPERTY RENTAL LOSSES**

From the 1 April 2019 Inland Revenue is intending to ring fence losses from residential rental properties. Simply put any losses from residential rent will now only be offset against other residential rent, instead of other income sources such as salary, wages, investment or business income.



Where there is no other residential rental income the losses will remain “ring fenced” to be used in the future against residential rental or property income.

These new rules will only apply to residential property, defined already by the bright line test (see our October 2015 and March 2018 newsletters). This means that a personal main home is excluded as well as properties subject to the mixed-use asset rules or land that is subject to tax because of a land dealing or developing business.

The government has also taken into account certain avoidance rules preventing investors from side-stepping the ring fencing i.e. borrowing funds to acquire shares in a company or trust which then acquires the land, for this reason the rules apply to individuals as well as trusts, companies (including LTCs) and partnerships.

As the new rules are to be implemented from 1 April 2019 if there are likely to be upcoming repair and maintenance costs that will result in residential rental losses, and the loss would normally be offset against other income, completing this work prior to 31 March may mean you get the benefit of the expense deductibility in the current income year.

## **THE COST OF HOLIDAY PAY**

When a staff member leaves, the cost of paying out any holiday leave owing can be quite significant. To reduce these potential costs, remember to regularly review the annual leave owing to employees. If some employees are accumulating significant leave you always have the option to request that they take annual leave (perhaps in a quieter period).

Under our legislation both parties are required to act in good faith and so generally agreement between both parties can be expected. However if agreement cannot be reached the employer can require an employee to take annual holidays. As a minimum an employer is required to give an employee at least 2 weeks notice of a requirement to take annual holidays.

## **BANK FINANCING**

When you require additional financing, banks will normally require the previous 2 years of financial statements. We are also noticing that some banks are requesting year to date results to ensure that the business is still tracking okay in the current year – they are very wary that the circumstances of a business can change quite quickly.

If required we can normally provide this information from your existing accounting system or GST information. If you need assistance collating this information please contact us.

## **MONITORING YOUR BUSINESS – COSTS AS A % OF SALES**

When business sales are increasing it is a good idea to also keep track of the related expenses. As a business owner you want to ensure the increased sales is actually contributing to an increase in profit.

One measure you can use is to calculate the relevant business cost as a % of sales. Often this would be calculated on material costs or wage costs.

As an example if materials or subcontracting costs have historically been 50% of sales (Material Costs / Sales x 100 = Cost %) and sales have increased by say 25%, have you managed to maintain the same cost %?

E.g.		<u>Current</u>		<u>Sales increase of 25%</u>	
Sales		200,000		250,000	250,000
Material costs	(50%)	<u>100,000</u>	(50%)	<u>125,000</u>	(60%) <u>150,000</u>
Margin		100,000		125,000	100,000

In this case sales has increased by 25%. If material costs are maintained at 50% of sales, the margin increases to \$125,000. However if the material costs move to 60% of sales there is no gain to the profit margin.

A similar calculation can be made for wage costs, as this is often a significant cost for any business. This simple calculation lets you monitor your business to keep track of costs.

### **Cost Percentages %**

Cost / Sales x 100 = Cost  
as a % of sales

## **MYOB ACCOUNTRIGHT CLASSIC SUPPORT ENDING**

As of 30 September 2019, MYOB will no longer provide updates or support for the desktop MYOB product AccountRight Classic (also known as v19). This includes Business Basics, AccountRight Standard, AccountRight Plus, AccountRight Premier and AccountRight Enterprise.

Those with this product will still be able to access their file however no new software updates will be available for this version and it will no longer work on any future windows operating systems.

To determine if you are using Account Right Classic go to the “Help” menu and select ‘About AccountRight’. If the version number is 19 or less this means you are using the AccountRight Classic (which will no longer be supported). A version number of 2011 or above means you are using a newer version of AccountRight, which continues to be supported.

Different features are also available in the later versions of AccountRight including working online, anywhere/ anytime access, access for multiple users, bank feeds (smart reconciliation), in tray (saving bills and supplier invoice into an AccountRight file), online invoicing (no need for Outlook) and invoice payments, single touch payroll, GST returns online, improved searching and sorting.

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### **JOKE #1**

Sam walks into his boss’s office. “Sir, I’ll be straight with you, I know the economy isn’t great, but I have over three companies after me, and I would like to respectfully ask for a raise.” After a few minutes of haggling the boss finally agrees to a 5% raise, and Sam happily gets up to leave. “By the way”, asks the boss as Sam is getting up, “which three companies are after you?” “The power company, finance company, and phone company”, Sam replied.

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The new software can be downloaded from MYOB's website and they will help with upgrading your current file. MYOB also provides complete internet-based programs under their Essentials range and they will help with shifting the data from AccountRight.

If you are unsure which version you are on or would like to discuss software options please give us a call.

## **BOOK REVIEW**

### **The Big Questions: What is NZ's Future? Various contributors. 2018**

This book looks at a range of issues that New Zealand currently faces and offers ideas on how they can be progressed. Topics include climate change, housing availability and affordability, the healthcare system (and healthy life options), the role of the arts (and whether it is important), the impact of robots, Maori law, the prison population and gender equality. The book considers these matters, the issues and how they can be addressed.

It also considers who/ what a "traditional" Kiwi looks like and how this has changed over time and is continuing to change. The book also discusses whether politicians are up for seriously debating issues nowadays or prefer to use the PR machine to get their ideas across to avoid direct debate. All contributors provide references to back up the facts to the issues they have identified. This provides a good reference guide if further information on a particular topic is required.

## **IMPORTANT TAX DATES**

**30 September** Student loan repayments due for overseas-based borrowers

**28 October** 2 & 6 monthly GST Returns due.  
1<sup>st</sup> 2019 Provisional tax payments due (May balance date and 6 monthly GST payers).

**28 November** 2 monthly GST Returns due (June balance date)

**15 January** 2 monthly GST Returns due (October/November period).  
2019 Provisional Tax instalments, student loan interim payments.



## **JOKE #2**

I never wanted to believe that my Dad was stealing from his job as a road worker. But when I got home, all the signs were there.



## **JOKE #3**

Two goldfish are in a tank. One turns to the other and says, "Do you know how to drive this thing?"

If you would like to discuss anything mentioned in our newsletter please contact us at:

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