NEWSLETTER

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Staff News

Helen MacKenzie Retirement

It is with some sadness that we announce the retirement of Helen MacKenzie. Helen has been with our firm since its inception some 38 years ago. She has given sterling service over that time and has enjoyed building up close relationships with many of the clients she has worked for.

We are happy for Helen that she will have the time to do her own things in her own time, but we will miss her lovely Scottish burr and keen sense of humour around the office.

We thank her very much for her dedication and hard work over the many years and do wish Helen all the very best for the future.

We are employing a new staff member in the next little while to take on many of Helen's clients and we will let you know as soon as matters are settled. In the interim, please continue to contact us with any queries you may have.

Cassandra Van Der Hulst – Chartered Accountant Professional Qualification

Having successfully completed the Chartered Accountants Australia New Zealand (CAANZ) professional qualifying programme, we are very pleased to congratulate Cassandra on her recent achievement in attaining her Chartered Accountant's CA status.

Cassandra joined us four years ago as a Massey University high achiever and has continued on at work in that vein since. As well as being proficient in the business advisory field, she is a skilled auditor and experienced also in implementing business software systems for clients. Should you need assistance in these areas, please do contact us.

Congratulations again Cassandra.

Internet of Things

You may have heard the term 'internet of things' (IoT) bandied about recently, but what exactly is it?

IoT is the name given to interconnected devices that can communicate with each other via the internet, through the sending and receiving of data. The IoT is rapidly changing the world in which we live, albeit somewhat behind the scenes. It affects how we work, communicate, drive, make plans, shop and even how our homes are run.

The IoT works through sensors embedded in various objects that transmit signals to an online platform. Sensors are in almost everything. Location sensors in your smartphone, car, tablet or watch mean someone can locate you with ease and this generates valuable data about how things work and work together. These sensors are taking information from the world and uploading it to the internet, possibly without us noticing or without our permission. For example, after visiting a website, adverts for that same website suddenly pop up on your Facebook news feed. And when you arrive in a new location your smartphone preferences are automatically updated. That's the IoT.

Although we are aware of this with smartphones and laptops, an increasing number of everyday devices can connect to the internet, such as air conditioning, lighting and even fridges. It is estimated that by 2020 50 billion objects will be connected to the internet. With a global population of 7.6 billion that equates to 6.6 objects connected to the internet per person. 328 million new devices are being connected each month, so in the time you've taken to read this paragraph, an estimated 4,000 new devices will have been connected to the internet.

A common complaint is that we are now inundated with so much data that we don't know what to do with it or what is important. IoT allows companies to capture data to learn more about customer's behaviours and model services to fit their needs. Real time data collection takes the guesswork away and allows businesses to tailor their services to deliver customers something of real value.

As an example, the car industry increasingly exploits IoT to their advantage. In many new vehicles, cars can be connected to the manufacturer's server. Every time the car is turned on, an alert is sent to the server which can perform an analysis of the data and send text alerts to the driver if something is wrong with the engine. This can detail how serious the fault is, the closest dealer to get it fixed, directions to get there, a discount voucher for the service, and an indication of whether the service is under warranty or not.

An additional advantage to the manufacturer is that they can quickly identify any trends with faults. IoT allows them to easily identify cars made at the same factory, or with common parts, and send warnings to drivers of other vehicles that may be affected, much like Subaru and Mazda did last year. This leads to streamlined inventory management for the dealer, a better and safer car, and means the driver can get back on the road faster.

It is clear that IoT will impact all industries, and businesses need to be aware of it to ensure they aren't left behind.

Mixed use assets

When an asset, such as a bach or a boat, is used both privately and to generate income, prescriptive rules exist within the Income Tax Act that determine the extent to which a tax deduction is available.

Expenses broadly fall into three categories: fully deductible, non-deductible and apportioned.

An expense is fully deductible if it is incurred solely to generate taxable income. Non-deductible expenses arise directly from any private use of the asset. Finally, apportioned expenses arise when an expense relates to both income-earning and private use of the asset, with a tax deduction available based on the number of days the asset is used to derive income, as a proportion of the total number of days the asset is used for either purpose.

Private use is defined as the owner's personal or family use of the asset, and any other person who pays less than 80% of the market value for the use of the asset.

For example, if a bach is rented to your sister for full market rent and a friend for 70% of the market rent, both instances qualify as private use and the income is exempt from tax. Similarly, expenses incurred relating to this use of the asset are non-deductible.

Keeping a bach in mind, an example of a fully deductible expense would be advertising costs. Conversely, if the owner of the bach purchased a kayak that was unavailable for tenant's use, the cost would be non-deductible. While general holding costs such as rates, general repairs and insurance are apportioned based on the proportion of days the asset is used to derive income. If a net loss arises from the asset, that loss is typically ring-fenced and cannot be offset against other income. Instead, the loss must be transferred forward and offset against future profits from the asset.

In addition to Income Tax, there are separate GST rules that apply to mixed-used assets. GST recovery is broadly based on the anticipated split of private / income use. However, unlike the income tax rules summarised above, GST can be recovered on use by the owners and their family, providing market value is paid for use of the asset. Hence, different recovery percentages can arise between income tax versus GST.

Before you consider putting the bach up for rent, it is worth checking whether the mixed use asset rules will apply and what records you need to keep to ensure you can apply the rules correctly.

Mini-budget – families package

The Labour coalition made immediate changes when they were elected into government, starting with repealing National's planned tax bracket changes. Labours new 'mini-budget' is intended to benefit low-income earners, middle-income families with children and lift children out of poverty.

The package entails:

- Increasing the Family tax credit by between $575 to $1,400 per year.
- Increasing the Working for Families tax credit abatement threshold from $36,350 to $42,700.
- Increasing the Working for Families abatement rate from 22.5% to 25%.
- Reinstating the Independent Earner tax credit (IETC) of $520 annually to individuals with incomes of $24,000 to $48,000.
- Introducing a $60 per week per child Best Start tax credit for families with children under 3 (if born on or after July 1, 2018).
- Implementing the Accommodation Supplement and Accommodation Benefit increases.

The Government is also introducing a new winter energy payment for recipients of benefits, superannuation and veteran's pensions. The payment will comprise $450 per year for single individuals without dependent children and $700 for couples and singles living with dependent children. Orphaned and unsupported children will also receive an increased allowance of $20.31 per week.

The changes are aimed at bringing many New Zealanders out of hardship. However, higher income earners, especially those without children, will not be seeing any direct financial benefits from the changes.

Other Government commitments are also set to take a big slice of the budget. The KiwiBuild programme, aiming to deliver 100,000 homes for Kiwi families over the next ten years, and the first year of free tertiary education, will leave the Government with a slim margin for fiscal error. Furthermore, they have placed long-term fiscal focus on the reduction of net government debt to between 0 and 20 per cent of GDP, along with keeping government expenses below 30 per cent of GDP.

While current Treasury forecasts are positive, the economic outlook can change quickly with budget shocks such as natural disasters. Another large earthquake could spell the end to the Governments current forecasted cost buffer. Only time will tell whether or not the Government has budgeted correctly.

Snippets

Getting Ready for Payroll – Pay Day Reporting

As part of Inland Revenue's (IR) transformation project they have introduced "payday reporting" voluntary from April 2018, but it will be compulsory for all employers from April 2019.

This will mean that payroll information will be required to be sent to IR within 2 days of each and every pay day. If you run a weekly payroll you will need to send IR information weekly rather the current once a month reporting for most small business.

Pay day reporting relates only to the need to report the earnings and PAYE information each Pay to IR. There is no change to the dates on which PAYE tax payments are due, although you may choose to pay PAYE and related deductions on a payday basis.

These changes will affect all employers and as such you need to be aware of them. Having compliant electronic payroll software should make the change easier to implement, but please be in discussions with us as you plan towards the compulsory adoption date of April 2019.

Residential Property Bright-line Test Extension to Five Years

As of recent legislation just passed on 29 March 2018, the bright-line test for residential properties has been extended from two years to five years. This five year rule will apply to residential properties purchased from 29 March 2018 and is aimed at rental property investors, and in the Governments words "speculators". There continues to be an exemption for your own residence.

Ring-fencing Residential Rental Losses

There are currently proposals planned that will operate to ring fence losses generated by investment properties so they cannot be offset against other income; rather being carried forward and offset in future years when the properties are making profits. If enacted, the new rules would likely take effect for the 2019-2020 tax year. The rules are still being considered and submissions can be made to Inland Revenue by 11 May 2018.

Please be in touch if you would like to discuss the proposed changes in more detail.

Provisional Tax New Payment Method Option – AIM

Inland Revenue is currently actively marketing to small businesses a new additional option for calculating provisional tax called AIM (Accounting Income Method). Essentially, you may be able to elect to pay two-monthly instalments of provisional tax based on your current year's earnings calculated automatically by an approved accounting software system.

We note that there is already a similar option called the GST ratio method introduced in 2006 which was designed along similar lines allowing small business to make regular provisional tax payments based on income as it was earned through the year. This method has for a variety of reasons had very low take up and we think this may also apply to AIM.

In theory AIM sounds attractive, but there are restrictions on who can use the system that will rule out many clients; and also there are only two choices of accounting software providers that at this point the taxpayer would have to use.

Eligible taxpayers then are those with gross income of less than $5 million and who use either MYOB or Xero; AIM capable software. We understand that one of these providers have said they will be charging additional fees for use of their AIM system.

The restrictions on taxpayers, though, will rule out Partnerships, Trusts, Superannuation Funds, those with investments in FIFs, Maori Authorities and likely most small closely held Companies too. This is because the AIM system relies on the provisional taxpayer being the entity to whom the accounting system reports income on. So for example, in the case of Partnerships, the provisional tax is paid by the individual Partner not the Partnership – AIM cannot apply. This is more often than not the case for small closely held Companies.

Through this year, though, we will be reviewing with you whether AIM might be advantageous to you. In the interim, please do ask us any questions you may have.

If you have any questions about the newsletter items, please contact us, we are here to help.