TAX EXPERTS LIMITED

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

NEWSLETTER - EIGHT EDITION

More Tax changes afoot

The Inland Revenue Department and the Government have recently introduced a multitude of tax changes. We outline some of the important ones below.

More on company cars and FBT

From 1 April 2018, the Government is proposing to let close companies (most small companies) calculate the private use of a company car in the same way as a sole trader.

You will have to keep a log book and apportion the costs. However, you will also need to make an adjustment for GST on the car, as well as its running costs. For many people the log book idea is going to be more hassle than it's worth.

This option will be available only provided there are no other fringe benefits and no more than two vehicles are involved.

If, when the law is changed, you prefer to keep a log book and avoid fringe benefits tax (FBT), tell us. Remember, however, your compliance costs will increase a little. There'll be calculations to make and GST adjustments to do.

FBT is a quick, easy and economical method of adjusting for private use of a vehicle. It will often give you a more favourable result, **but not always**.

Use of home

There is a proposal to change the rules for claiming "use of home".

For years, Inland Revenue has said that to make a claim for this cost you must set aside a room as an office. This isn't quite true.

A court case some years ago settled this matter. You can apportion the cost of a room used for business between your business use and family use, based on the time each activity uses the room.

Now, the IRD is planning to get its rule enshrined in the law, so if the law changes, you will need to have a room set aside as an office, if you want to claim for the use of a room for business.

To make claiming this cost simpler, the department plans to set a rate for utilities per square metre ($x for power etc). You will add your adjustment for rents, rates and interest.

You won't have to use the IRD calculation but it might save you hassles if you do. The bigger the power bill, the more likely you won't want to use the IRD rate.

Shareholder/employees

Currently, you are either a provisional taxpayer or you get a PAYE salary. A mixture of the two is not strictly permitted unless the provisional income is at least half the PAYE salary.

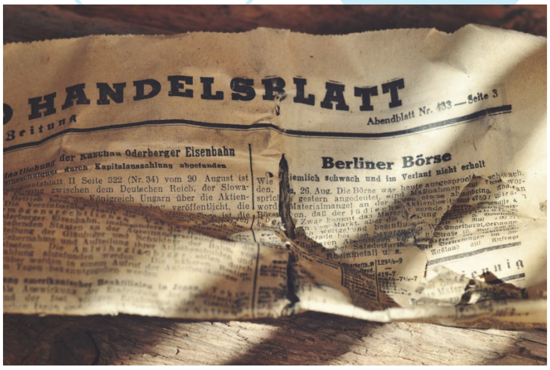
In practice, it makes very little difference and for this reason, the Inland Revenue Department is proposing to do away with the restrictions and allow shareholder employees to take a PAYE salary and then top up their incomes at the end of the year, once the profit is known. We look forward to this change becoming law.

Soggy newspapers

Do you get rain drenched newspapers delivered to your home? Ken from Wellington noticed some time ago newspapers were delivered with a double wrapping.

However, as winter came on and the rain came down the newspapers were being delivered with only one outside skin. He rang the Dominion Post and complained about his soggy newspapers. He was asked if he would like his newspapers delivered double wrapped. Sure enough, within a couple of days the papers arrived with an extra skin on the outside. This lasted for 2 days and the second outer was again forgotten. He persisted and contacted the newspaper again. A very sympathetic staff member undertook to get in touch with the delivery contractor and put the matter right.

If you'd prefer to have a dry newspaper, persevere and you'll probably be rewarded.



Business wisdom from John Borghetti

Doug Nancarrow has written a biography of John Borghetti, who never got a tertiary education but still got almost to the top of Qantas and became the CEO of Virgin Australia.

Borghetti is quoted in the book as saying,

"The CEO has two main tasks, which are to:

set the strategy;

keep the staff on side to deliver that strategy."

From your perspective, the message is to work with your staff to help them deliver the goods. Avoid criticising – none of us is perfect. Instead, take a positive approach to helping them succeed at their job.

If you really have to correct someone, there's a right way of doing it. Start by imagining you were the employee and work out how you would feel. What can you do to soften the blow? If that doesn't work, you may have employed the wrong person.

When hiring staff Borghetti doesn't look at the CVs. Instead, he likes to get the candidates talking about their home lives to get an insight into their ethics and personal values.

At the end of the book he lists 10 lessons he has learnt about business. One good one is the importance of relationships. While it is obviously true that keeping a good relationship with your customers is crucial, don't forget your suppliers and your staff. Keep them on side.

The biggest lies in business

The biggest lie in business used to be: "The cheque is in the mail."

It's now: "We are experiencing an exceptional volume of calls at the moment", or "We value your business…". If you're a small or medium sized business, don't copy big brother. Give your customers a fantastic telephone reception. That's one way to beat the big guys.

Getting a good paint job

Jim took the lowest quote to paint his new house, but the paint started to peel within three years.

All the paint had to be removed and the job redone at a cost of $25,000. The original contractors, meantime, had gone out of business.

Master Painters NZ is offering, for a small premium, a guarantee, which would overcome this type of risk. Of course, you must choose a registered master painter.

Go to masterpainters.co.nz and you'll find a pretty good five-year workmanship guarantee. There are some conditions. You need to understand these. However, two important benefits are:

· the contract is transferable to a new owner;

· if the contractor stops trading, the workmanship is still covered.

If you're a painter, you might be able to capitalise on this. You could register as a master painter, build the premium into the price and then say: "For your protection the quote will include a guarantee from Master Painters NZ.…"

Useful tips for the job hunters

Here are a few tips if you have family members looking for a job:

Write the CV to make it easy for the employer to read.

Provide an index.

Start with a summary, which can be read in a flash.

Provide supporting details for each point made in the summary, so the reader can quickly flick to the right place to read the detail.

Put the most important points first.

Sell yourself by explaining the benefits **to the employer** of choosing you.

Leave out anything unlikely to interest the employer.

Find out the problem the employer really wants to solve and then explain, in your CV, why you're the only person who could do the job. Maybe some well-chosen questions to the receptionist or HR department beforehand could help you form an accurate picture.

Sending references will usually help to sell you to the company. Choose references which confirm your suitability to do the work.

Research on the employer before the interview. The internet is a good start. The more you can find out about the interviewer and the company the better, as your knowledge of the business indicates an enthusiasm for the job.

The website careers.govt.nz is worth visiting.

Reverse mortgages

Oldies often run out of money and they are sometimes helped by their children.

There's usually an understanding that when the parents die, the children will be repaid out of the estate. These arrangements should be documented. Otherwise disputes can occur as to who lent money and how much.

A new business has been created to take care of family loan issues. If you're interested, go to the website www.familyloans.co.nz

Being a Trustee carries responsibilities

Often we remind clients of the risks involved in being a trustee. It doesn't matter whether the trust is a family trust or a charitable trust. Trustees are directly responsible to the beneficiaries for their management of the trust assets.

Beneficiaries can sue trustees. In a family trust, it is not necessarily a beneficiary who causes the trouble. It can be the spouse of the beneficiary who makes the bullets.

There are also obligations to the Inland Revenue Department. Until you advise Inland Revenue you've ceased to be a trustee, you're still personally responsible for its taxes.

Wait for profits

Also from a tax perspective, you should remember if the trust makes losses they can't be passed out to the beneficiaries. You have to wait until the trust makes profits before you can use up the losses. So, if you buy an asset which is expected to generate on-going losses for some time, it might be better to not have it owned by your family trust.

Perhaps it should be owned by someone who can use the losses to save tax. It can be transferred to the trust for asset protection purposes at a later time. This would normally be when it's making profits (trustees don't generally want loss making assets) but, of course, this may mean additional costs.

Don't be passive

There is no such thing as a passive trustee. If you choose to be passive, be it on your own head.

Some years ago X and Y were appointed trustees of a family trust. Immediately, they decided they would hold quarterly meetings. At one of these meetings one of them proposed the trust should take out an insurance policy on a factory owned by the trust, for loss of rent in the event of fire or other accident.

Two years later the factory burnt to the ground. This serves as a very good example of how trustees ought to operate. They ought to hold regular meetings and minute decisions made.

Interference

What if the person who set up the trust wants to interfere? Maybe he/she didn't want to incur the premiums for taking out that loss of rents insurance policy.

The answer is simple. If you're a trustee, it's your job to steer the ship. Your responsibility is to look after the interests of the beneficiaries. You and your co-trustees make the decisions. If anyone starts to bring pressure on you to do as they wish, the correct course of action is to resign. Above all, never be a passive trustee.

Debt forgiveness

It may seem extraordinary but if someone forgives you a debt, from a tax perspective, you have taxable income unless the debt is forgiven for natural love and affection.

In this context the lender can only have natural love and affection for their relatives or a trust where those relatives are beneficiaries.

If you're structuring a business deal, don't include debt forgiveness. For example, A says to C: "I'll sell you my shares for $40,000 and forgive you the debt you owe me of $10,000". It would be better to sell the shares for $30,000 and insist on the debt being repaid.

Tax on capital gains

Are capital gains taxable? Yes, in some circumstances they are.

For example, if you buy a property with the intention of selling it for a profit, regardless of how long you have had it, that profit is taxable.

We noted an article in a national daily paper dated 13 July concerning interest-only loans. The Reserve Bank says 40% of loans are interest-only and 47% of loans are to investors.

If you buy a rental property and finance it substantially with an interest-only loan and don't make any effort to reduce the debt, some – including Inland Revenue – might argue your investment was made with the intention of getting a capital gain. That would mean your gain, when you sell, might be taxable. There may be other valid reasons why the debt is structured this way. Just be careful.

Read every word of insurance policies

Strangely, one of the biggest risks in business is our insurance policy.

We're all familiar with the problems Canterbury people have had with their home insurance. If ever there's was a document you need to read very carefully it is your insurance policy.

We've heard of someone buying travel insurance for a six-week period only to find, when a claim was lodged, that the policy was limited to a maximum of one month away from the country.

Read every word of your insurance policy and if there's anything which is not clear or looks as if it's not covered, raise the matter with the insurer or agent.

Make sure you get a response in writing. A telephone conversation is not enough

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Great news for two finger typists.

If you're tired of typing up endless reports, or your arms ache from too much typing, you might want to consider some voice recognition software.

This software can be easily installed on your computer or mobile device. Essentially the software recognises your voice and puts it into text.

Dragon is a market leader in this software, but others can be found if you Google "voice recognition software". Dragon costs start at $122 + GST for a home version, $244 for the office, $280 for a Mac and $840 for the super-duper professional version. There's even one for medical professionals, which allows them to dictate appointment and medical record notes directly into their electronic health records.

So what does it do? The biggest advantage is hands-free dictation into your computer or device. It allows you to automate phrases and terms common to your work (such as medical or mechanical terms), and add punctuation. But it can also edit documents and spreadsheets, and use commands to surf the web, open and close email and other programs, and more.

It's great for small business people who have to type most reports and other documents themselves.

Most software comes with a headset and microphone in the pack.

It takes an hour or so of dictation for it to recognise your voice. Transcriptions are still not perfect, but it's pretty good at picking up your vocal nuances. It will also dictate a recording you might have of someone else's speech, or an interview, but it might not be as accurate because it's someone else's voice.

Dragon claims accuracy is 99%. .

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