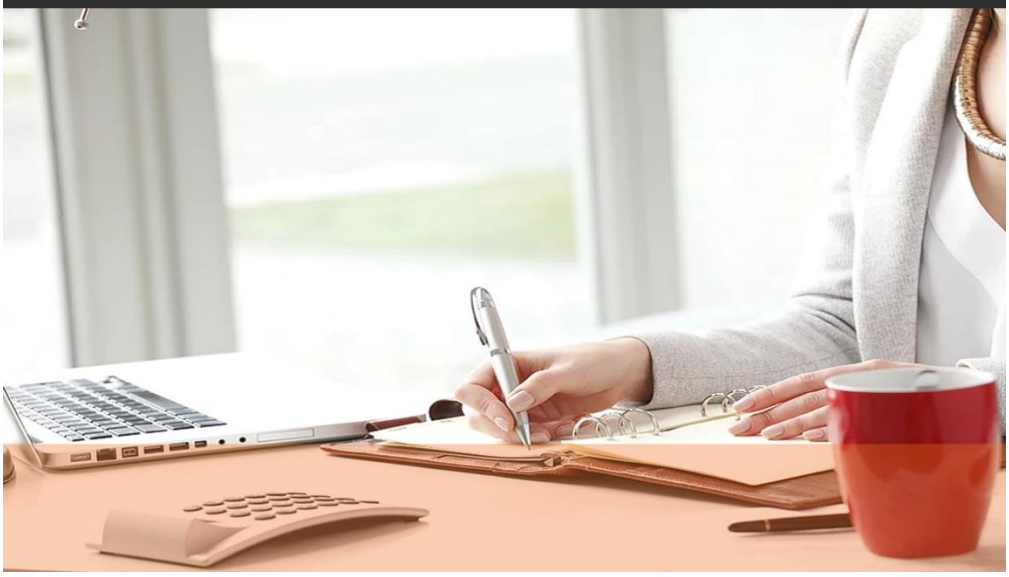
SAWDEN
Tax & Accounting
Chartered Accountants

Newsletter



December .2018

TAX IS PAYABLE ON RENTAL INCOME… MOSTLY

If you receive income, you must pay tax, So if you have rental income, you have to pay tax on it, right?

Maybe, maybe not – if you get rent from boarders or homestays.

Boarders and homestays

When you get income from boarders or homestays, your tax position depends on how many boarders you have, and how much you charge, compared with the IRD's standard-cost method.

If you charge less than standard-cost figures for four or fewer boarders, you don't have to declare that income.

With standard-cost, when you charge more than the IRD figures you may have to pay tax.

If you claim for losses, your return must not only show all payments received, but list actual costs, backed up by full documentation (this is called the actual-cost method).

If you have . . .	Then the standard 2018 cost is . . .
One or two boarders	$266 a week for each
Three or four boarders	$266 for boarders one and two, and $218 for boarders three and four

ACTUAL-COST METHOD

Your tax position is unequivocal if you have five or more boarders – you must report that income. If you and your spouse or partner have boarders and tax is payable, the person who's most directly involved each day should declare the income.

If you get your rental income in advance, it's taxable in the year in which you receive it.

Owning property for generating rental income is not, usually, classified as carrying on a business, but you may deduct related expenses.

Holiday Closing Period

Our office will close on 19th December 2018 at 2pm and reopen in the New Year on 21st January 2019 at 8:30am.

To all of our clients, business associates and supporters, we wish you a wonderful Christmas and an exciting and successful 2019.

Those include:

- Rates and insurance
- Interest
- Fees or commission
- Repairs and maintenance
- Related motor vehicle and travel expenses
- Mortgage repayment insurance
- Accounting costs for preparation of related accounts
- Depreciation

Rental property expenses should still be deductible even when the property is temporarily vacant.

You can't charge GST on rent, or claim it on the property's purchase price or ongoing rental costs. But when you claim deductions, you use the cost of the expense, including GST. However, that's not the case for homestays, farm stays, bed-and-breakfast businesses, short-term stays (think Airbnb below) and other types of "commercial dwelling".

One exception is if you buy a house for development, but rent it out as an interim measure. In that case the developer can claim the GST input tax on the purchase. However, if the house is used concurrently for taxable and non-taxable purposes, adjustments may be needed. It can be complex and we can help you with this.

RENTALS AND DEPRECIATION

The land a rental property is located on is not depreciable because it can't be consumed and has no replacement cost. However, buildings, fixtures and land improvements are considered technically depreciable, even though they have a depreciation rate of 0 percent.

Chattels, like stove and carpets, will depreciate, and you may choose to calculate those and deduct the total as an expense.

MUST I PAY TAX ON HOLIDAYHOME INCOME? THAT DEPENDS

If you rent out your holiday home sometimes, you may have to pay tax on that income.

The IRD says you have a "mixed-use" holiday home if, during the tax year, you use it for:

- Private use, and
- Income-earning use, and
- It's unoccupied for 62 days or more.

The property becomes "income-earning" if you get rent from non-family members at 80 percent or more of market rates.

You can keep the property outside the tax system if it's privately owned, *and* your income-earning revenue is less than $4000 a year. But then you can't claim any of your related expenses. You can also remain outside the tax system if you make a loss, *and* your gross income from income-earning use is less than two percent of the property's rateable value.

If an expense relates to income-earning use and private use, you need to apportion it using this formula:

$$\frac{\text{Expenses} \times \text{income earning days}}{\text{Income earning days} + \text{private use days}}$$

If you make a loss from your mixed-use holiday home, and your gross income from income-earning use is less than two percent of the rateable value, you can't claim the loss in the current year. You must carry it forward to offset against income from your holiday home in a future tax year.

AIRBNB USUALLY A TAX CASE ON ITS OWN

If you use Airbnb to provide short-term accommodation in your house in which you also live, the IRD's "mixed-use asset (holiday home)" rules don't apply and guests are not classed as boarders. Except when you list a whole house which is vacant for 62 days each year, mixed-use asset rules do apply and calculations differ from those for homes where the hosts also live.

CLAIMABLE EXPENSES

Anything you spend as an Airbnb service provider may be claimed as an expense. For shared expenses, like power and Internet, claims need to be fair and reasonable.

You can claim some home utilities, rates, insurance, and interest – and all food and other consumables that guests use. You can also claim depreciation on chattels and appliances used by guests only. You can claim some depreciation on other shared chattels and appliances, like claiming a portion of utilities.

If you spend money to keep your property attractive for guests, you can claim some of those costs.

You'll have to apportion expenses and, to do that, you need to know:

- The floor area used exclusively by Airbnb guests (say, 25m2)
- The shared area used by you and Airbnb guests (say, 90m2)
- Total of guests plus you and your family

Your apportionment calculation then is: Guest floor area + (total shared floor area x [one divided by total guests plus family] x percentage of year you have guests). Then you divide that product by total floor area, and the resulting figure is the apportionment percentage you use for expenses.

If your room or home was unavailable for part of the year, your calculations must reflect that.

Unlike residential rent, GST applies to Airbnb. You must register for and file GST if your turnover is $60,000 or more in the past 12 months, or will be $60,000 or more in the next 12 months.

There's a lot to this, so we recommend that you get professional advice.

TENANTS MUST BE INFORMED OF INSULATION STATUS

It's been compulsory since 1 July last year for any new tenancy agreement to include an Insulation Statement. That means landlords must record if rentals have insulation, where it is, the type of insulation and its condition. That allows tenants or potential tenants to make more informed decisions about renting.

INSULATING RENTALS IS NOW MANDATORY

On top of that, if you have rental property without floor and/or ceiling insulation, you have until 1 July 2019 to install it. If you don't have an Insulation Statement, or your property remains uninsulated from 1 July 2019, you can be fined up to $4000.

The insulation requirements don't apply to in-ground concrete floors and integral ceilings-floors in a multi-storey dwelling.

Note that it's illegal to install or repair electrically conductive insulation, known as foil insulation, in any residence. A breach could cost you up to $200,000.

How anti-money laundering legislation impacts you

If you've seen the film The Wolf of Wall Street, you'll be familiar with the concept of money laundering – an illegal process where 'dirty money' received from criminal activities is passed through legitimate businesses and made 'clean.'

In response to a growing number of laundering incidents in New Zealand, the government has made changes to the law, which now affect accountants and small businesses like yours. Since October 2018, we're required to put new preventative measures in place to help tackle money laundering and financing of terrorism.

What does this mean for you?

We might need to ask you for more information about your business than what we have in the past, especially if it involves large cash transactions ($10,000 or more in one transaction). You may also be asked for additional information about your identity.

If you're a real estate agent or your business involves sports and race betting or dealing in high value goods, take note - the anti-money laundering legislation will extend to you from next year. To find out what the changes mean for your business, give us a call.

Get up to speed - new rules for motor vehicles

Did you know the mileage rate we've been referring to for years is now the kilometre rate?

If you're a sole trader or in a partnership (and use your own vehicle for business), you can claim your running costs as an income tax deduction. Traditionally, if you own a company you're liable for FBT any time you provide non-cash benefits (like motor vehicles) to your staff. Recent amendments to the income tax legislation, however, now allow close companies to use the kilometre rate (where one or two motor vehicles are provided to shareholder employees for their own use) to calculate deductions for motor vehicles instead of paying FBT.

We'd love to talk you through these changes over coffee, but in the meantime, here's a summary.

You can now claim a deduction based on a kilometre rate method. This method uses set rates, which are divided into two tiers:

- First tier - recovery of both the vehicle's fixed costs and it's per kilometre running costs, for the first 14,000 kms.
- Second tier - recovery of the vehicle's per kilometre running costs only, after 14,000 kms.

The following rates per kilometre will apply for the 2017/2018 income year:

Vehicle type	First 14,000 kms	After 14,000 kms
Petrol or diesel	76 cents	26 cents
Petrol hybrid	76 cents	18 cents
Electric	76 cents	9 cents

As an aside, note where employees are reimbursed for work travel using their own vehicle, a transitional rate of 76c / km is available for the 2018/2019 income year to calculate their tax-free reimbursement amount.

The legislation can be tricky, but with a little advice from an expert (like us!) you can rest assured you're paying the correct amount of tax and staying onside with the IRD.

Checklist: Can your business survive the holiday period?

While the Christmas/New Year period is traditionally a slow time of year for business, you still need to meet your expenses.

Ensure your bases are covered before you clock off for the year.

1. Plan ahead

Do a budget to figure out how much you are going to need to cover your overheads. This is especially important if it's going to be several weeks before you start earning a crust again.

A cashflow forecast will help you identify any issues before they become problems.

2. Get your cashflow in order

You can achieve this by:

- Prioritising jobs you can complete quickly so you can invoice clients straightaway.
- Incentivising early payment for completed work by offering a discount.
- Chasing outstanding invoices.
- Seeing if you can re-negotiate payment terms with suppliers.
- Reducing unnecessary spending.

3. Don't forget taxes

IRD expects GST and provisional tax payments to be made on January 15. Interest of 8.22% and late payment penalties apply if you don't.

Here's a tip: If paying both is going to hurt the bank account, prioritise paying the GST. You can utilise the services of an IRD-approved tax pooling provider such as Tax Management NZ to pay the provisional tax later. They reduce IRD interest by up to 30% and eliminate late payment penalties.

As always, we're happy to work with you so you have nothing to worry about while you enjoy your summer break.

How to enjoy all the bells and whistles without the tax headache

Parties and gifts are all part of the festive fun but they can cost a small fortune. Here's a list of the rules around entertainment expenses so you know what's deductible and non-deductible before you fork out for your staff and customers.

1. To claim 100% of your customer gifts, keep it non-food or drink related. Book vouchers, tickets to a sports match or a personalised calendar can be claimed in full.
2. Got a staff party planned? Half your food, drink, entertainment and venue hire can be claimed in your GST and income tax returns.
3. You don't need to pay Fringe Benefit Tax on entertainment expenses (that come under the 50% deductibility rules) unless it's being enjoyed by staff outside of their work duties.
4. Heading to Aussie for a fun-filled weekend with your staff? It's 100% deductible (and they'll love you for it!).
5. If you're giving customers and staff food and wine for their efforts you can claim 50% as a business expense.
6. Donating to charity this Christmas? You can deduct 100% of the cost of entertainment you provide to members of the public for charitable purposes.
7. If you're taking your family (who don't work for you) out for brunch to thank them for putting up with your long hours... it's not deductible because it's not related to generating income for your business.
8. Taking the team out for lunch? Ordering in a Christmas feast? You can claim 50% as a business expense whether you're out of the office or on-site.
9. Top tip: If you run out of time to organise Christmas gifts for customers, why not surprise them with a 'Welcome back to work' prezzie in the New Year?

Remember to keep your invoices and receipts for business entertainment expenses and if you have any questions about what's deductible and non-deductible, give us a call.

Business Health Check

Do your Christmas housekeeping!

- Make sure your voicemail message and website mention closing date info and emergency contact details. Who's responding to work related emails while you're on holiday?
- Is payroll all set up for the holidays? Don't leave it till the last minute and double check your calculations.
- Shutting the doors over Christmas? Remember to give staff 14 days' notice.
- Back up your client and financial data on all IT systems and run any anti-virus updates.
- Feeling hectic? Make the workplace more relaxed in the lead up to Christmas by decorating the office, organising a Secret Santa, playing festive music or letting staff dress more casually in the final few days.

some of the following may be overkill. But take a minute to review. Brainstorm with your team to tailor the best approach for your business.

Risk and Reward

Selling across the ditch – GST on low value goods

- ☐ **Mail and deliveries**: If you don't have a Post Office box, contact your postal service and regular suppliers to ask them to hold deliveries.
- ☐ **Alarms**: Check fire and intruder alarm systems, sprinkler systems and fire extinguishers.
- ☐ **Backup**: Make sure your server and any laptops and devices have all been backed up.
- ☐ **Clean-up**: Clean out the fridge and empty all bins. Does someone need to pop round during the holidays to put the bins out?
- ☐ **Emergency contacts**: Update your after-hours contacts list. Include emergency contacts and numbers for building services such as plumber, electrician, and locksmith. Copy it to your team, make sure you have it on your phone and display it in a central area of the office.
- ☐ **Hazards**: Remove or [illegible] any flammable materials. Do you need to assess any potential fire or vermin hazards posed by [illegible]ulated waste and rubbish on site? Do guttering, spouting or storm water drains need clearing as [illegible] fire or flood? Prevent access to scaffolds or formwork by removing ladders. Eliminate or minimise [illegible]

[illegible] Lock tools away. Make sure any vehicles left onsite are locked and the keys secured. Lock any plant [illegible] ether.

[illegible] ed any maintenance, repairs or special projects onsite over the holidays? Make sure that staff [illegible] nd any contractors involved are fully informed of what's required. If any hot work is planned, make [illegible] aware of and comply with applicable hot work permit and fire protection procedures. Are any staff going to be in over the break? Review procedures for their safety and go over these with them.

Do you sell goods to Australia? If so, you may be affected by new Australian tax rules. At present, goods valued under AUD$1,000 do not generally have Australian GST applied to them where they are sold into Australia directly to the end customer. However new rules will now apply from 1 July 2017 to impose

Australian GST on goods valued at $1,000 or less ('low value goods'), where the supplier's GST turnover (on low value goods sold into Australia) in a given year exceeds the threshold ($75,000 for most entities and $150,000 for non-profit bodies).

If this sounds like a slice of your business, you will be required to register for Australian GST, charging Australian GST (currently 10%) and remitting it to the Australian tax system. This applies whether your customers purchase goods from you online, over the phone or in person in a retail outlet here where your business ships the goods over to Australia. It applies whether the goods are physically here in New Zealand or sourced elsewhere overseas.

For New Zealand businesses exporting low value goods to Australia, the Australian Taxation Office (ATO) is talking about a GST registration process whereby you elect to be a 'limited registration entity' and return GST that way.

Along with registering for GST, you will need to look at how your software and record systems are set up and rethink your pricing and marketing.

GST: in the crystal ball

You'll remember that from October last year, we now have to pay GST on 'remote services' supplies from overseas vendors that were previously not subject to New Zealand GST – the so-called Netflix tax. Businesses in the 28 member states of the European Union already have to charge VAT at the rate applying in the customer's country.

'If a small shop in Levin or Gore is expected to account for and pay GST, there's no good reason for the Government to give global mega-retail businesses an easy ride.'

Greg Harford, General Manager for Public Affairs, Retail NZ

The latest move in Australia to collect GST on low value goods bought from overseas suppliers is part of a global drift towards capturing tax cross border and ensuring the internet is no longer above tax.

However, in New Zealand, goods worth less than $400 purchased from overseas suppliers don't have GST imposed on them (though duty may apply). Retail NZ states that this exposes Kiwi businesses to unfair competition, as they are subject to GST while foreign businesses undercut them on low-value goods.

Some two-thirds of all goods sold to New Zealanders come from the 20 biggest global retailers. (Like Amazon, rumoured to be establishing a base in Sydney, potentially making shipping cheaper for Australian and New Zealand customers). Retail NZ estimates that the Government is missing out on at least $200 million in GST this way.

Retail NZ is calling for all overseas companies selling to Kiwis to be required to register for GST. It seems the next logical step. We're watching with interest and will keep you posted.

Tax Talk

Faster GST refunds

It is now compulsory for Inland Revenue to provide GST refunds by direct credit to a taxpayer's identified account, resulting in faster GST refunds. Obviously it's important that Inland Revenue has your correct banking details. If you would like us to confirm they have your current account details please let us know.

From here on, Inland Revenue will only make GST refunds by cheque if they do not have a customer's bank details or if there are extenuating circumstances, such as hardship.

Upcoming changes

There has been a raft of legislative change recently introduced which will affect businesses when it becomes effective. At present we are just flagging the changes to

you without going too deeply into detail. That said, let's sketch in how it's looking.

Miles to go - changes proposed for motor vehicles

Currently close companies (such as LTCs and QCs) providing a motor vehicle for the private use of shareholder-employees must pay FBT on the value of the benefit provided. This value is based on the availability of the vehicle rather than its actual private use and this means higher FBT compliance costs for close companies.

New option for close companies

The recently introduced legislation changes this for the 2018 tax year (i.e. from 1 April 2017 for standard balance date taxpayers). Under the new rules close companies which provide one or two vehicles to shareholder-employees could elect to use the motor vehicle expenditure rules instead of paying FBT. This would mean that, like sole traders and partnerships, close companies could measure the business use of a motor vehicle and calculate the tax deductions allowable for motor vehicle expenditure based on business use.

New method for calculating business use to claim deductions

Also introduced is a new simplified method of calculating business use for vehicles. The new option would allow you to choose to calculate your business usage and resulting deductible expense differently. The new method does not have a ceiling (currently the ceiling in place is 5,000 kilometres of business use).

What you need to know

If you are self-employed or if you operate through a close company and this applies to you, you would need to know the total mileage travelled each year and be able to work out what proportion of that is business use.

The actual requirement would be for you to keep a vehicle logbook for three months every three years.

When it comes to calculating the tax deductible amount, the calculation is 'two tier':

- ✓ for the first 10,000 kilometres, the rate is calculated on the proportion of business use for the vehicle (say 60%) multiplied by Inland Revenue's first tier rate (for example 75 cents/km but the IRD will advise the rates each year)
- ✓ for every kilometre after that, the rate is calculated on proportion of business use for the vehicle (e.g. 60%) multiplied by Inland Revenue's second tier rate (for example 25 cents/km but again subject to change)for

What you need to do

To gear up for the change, at close of business on 31 March, record your odometer reading. Diarise to do the same thing next year. You want to be able to tell us the total number of kilometres travelled in the tax year when you bring in your records. And, sometime during the year starting 1 April 2017, keep a logbook for each vehicle for a three-month period to record mileage, costs and when the vehicle is being used for business or private purposes.

If you're in any doubt as to whether this affects you, please contact us.

Home office

There is also a new alternative option for calculating home office applying from 1 April 2017 (for standard balance date taxpayers). Under the new option, home office deductions can be determined by using a 2-step calculation. The first step involves taking the ratio of the area of the premises used for business purposes to the total area and multiplying this by a specified rate set by the IRD. The second step then requires the mortgage interest, rates and rent paid for the year to be multiplied by another specified rate set by the IRD and adding this to the amount calculated in the first step. Depending on your circumstances, this new option may be beneficial to you and we will discuss this with you if it applies to you.

Get ready, get set - End of year tax checklist

Work through the points below to straighten things up for the end of the tax year. Ask us if you would like more information.

Think about	... Deductions
Bad debts	Write bad debts off in your debtor ledger before balance date so you can claim a deduction. Make sure your records show you have taken reasonable steps to recover the debt prior to write-off. Note the details so we can check the GST adjustments
Employee expenses	You can claim deductions for holiday pay, bonuses, redundancy payments, long service leave etc., if you commit to them before year end and pay them within 63 days of balance date. Check holiday pay has been calculated correctly.
Expenses	Can you pre-pay expenses such as stationery, postage and courier charges before 31 March? You may be able to claim for them. Check with us. There are limits to how far some prepaid expenses are claimable, such as on rent, insurance, plant and equipment maintenance contracts, travel and accommodation.
Fixed assets	Are you still using all of them? Can some be written off?
Discounts	If you offer prompt payment discounts to debtors and maintain a discount reserve, this may be deductible. Make sure your records are clear. In the first year a deduction of the actual discount percentage is allowed. In subsequent years, the deduction is calculated as an approved percentage. Different rules apply if the credit period offered to customers is more than 93 days.
Repairs/maintenance	Complete planned maintenance or repairs before year end for a tax deduction. Ask us if you aren't sure whether the expenditure is classified as repairs and maintenance (which would be deductible) or as a capital expense (which wouldn't).
Stocktake	Dispose of obsolete stock by year end or write it down to its net realisable value (the lesser of cost or market value). If your stock is worth less than $10,000 and turnover for the year less than $1.3m, you won't need to include your stock movement for tax purposes.
Vehicles	Don't forget to note your odometer reading at year end. If you keep logbooks noting business and personal use, mileage and costs, ensure these are all in order.
	... Income
Credit notes	Look for credit notes issued to customers after balance date but related to sales made prior to balance date. Note these so you can reduce your taxable income for the current year.
Increased income	Is this year's income a lot higher than last year's? If so let us know. It might be a good idea to consider making a voluntary provisional tax payment.
Losses	Did your group of companies have losses in 2016? Groups of companies may offset profits and losses against each other if you make loss offset elections and subvention payments by 31 March. We can help you with this.
Retentions	Check contracts for the terms on retentions owing. Have you invoiced retentions but they are not payable till work is complete in a subsequent tax year? They won't count as assessable income for this year. However, If they are payable this year they are assessable income. Note retentions you have invoiced which are not receivable till the next tax year.
	... Penalties
Dividends	Review planned dividend payments. Your imputation credit account must be in credit at 31 March or penalties arise. Contact us before 31 March so we can help you.

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