NEWS

APRIL 2017

SNIPPETS

BACK TO SCHOOL

The past few months will have been an expensive time for those families with children heading back to school. To help minimise costs, it is worthwhile to claim a rebate on the school donation paid. The school should separate this out – your receipt should show a "donation" and an activity fee as a separate item. The donation part is claimable by rebate from the Inland Revenue annually and for every donation dollar, you get back 33 cents. There are some exemptions, so please discuss this with your adviser at Graham & Dobson to ensure you are claiming the correct amount.

LOST AND FOUND!

While preparing the computer upgrade to handle the new system for filing GST online, the Inland Revenue discovered that since 1997, the existing software had been overcharging late penalties in some circumstances. This has resulted in 166,000 affected 'customers' getting $100 million in refunds with interest! Hopefully the new system will improve the IRD's ability to find other 'customers' to whom it owes money as the Department has about $700m in unclaimed refunds – apparently they do not hold the required tax returns or confirmed personal tax summaries to repay slightly more than half of this sum and therefore are working to find out if the problem could be as simple as an incorrect address or something far more complex!!

CHANGES TO SCHEDULAR PAYMENTS

New rules allowing contractors, (that is, those subject to schedular tax rules) to choose their own tax rate that best fits their actual tax liability, subject to certain limitations and minimums, such as the rate cannot be below 10%, came into force on 1 April 2017.

Contractors will need to complete a new tax rate notification form instead of the Tax Code Declaration (IR330) form if they want to make a change to their tax rate or they are to be paid by a business for which they have not previously worked. The new calculation sheet and form IR330C is available from IRD www.ird.govt.nz (search keywords: contractor tax rate tool). If you, the payer, are presented with this form and you use payroll software, your payroll system should already be able to accept variable tax rates.

DO THE EMPLOYMENT PAPERWORK

If you decide to employ someone in your business it is important that the offer of employment is communicated to him/her in writing (by email is fine) with a copy of the draft employment agreement. The number one rule to stay within the law is whatever is agreed between the parties must be recorded in writing and signed by both employer and employee before employment commences.

No idea what must be contained in an employment agreement? The basic legal requirements are:

- The names of the Employer and the Employee
- Start date
- The nature of the employed – e.g. casual, fixed term
- Whether a trial period applies
- A description of the work to be performed with a list of tasks (this is not a finite list and can be varied by mutual agreement)
- Place of work
- Hours of work, with a minimum number of hours stated
- Wage rate or salary and how this is to be paid
- Annual leave or holiday entitlement
- Public holiday pay entitlements
- An explanation of how to resolve employment problems

Also a clause stating that deductions, other than those for PAYE, Kiwisaver etc, the recovery of overpayments and for leave taken in advance, will only be made with 'authorised consent' of the Employee would be advisable.

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THE MARKET VALUE OF EMPLOYEE ACCOMMODATION

It is now accepted practice that employers who offer accommodation as part of an employee's remuneration package are required to charge a rental that reflects the market value of the accommodation. In effect, this rental charge is a substitute for a salary or wages cash benefit. If the employee had received the cash it would have been taxed, so the rental value of the accommodation is taxable as well, coming under the PAYE rules.

While the general concept of the non-cash accommodation benefit being taxable is understood, the concept of 'market value' of the accommodation causes some issues. 'Market value' for Income Tax purposes is defined as being "the market value of accommodation provided is the price that a willing provider would accept from a willing customer".

Fair market value has created a headache for farmers with houses in desirable locations as the market value of a tidy house with or without a few acres on the wider outskirts of a city is influenced by the demand from 'willing' people wanting a country lifestyle. Of course the market value that must be applied will differ significantly between a one bedroom single man's cottage and the farm homestead with 4 bedrooms and a swimming pool.

As the market value for such a large house may be $600 or more per week, the farmer would be required to significantly increase the salary package to compensate the employee for the increased tax on the gross income.

If the homestead is the only on-farm accommodation available to the employee, its deemed market value may be greater than the value the employee receives from it - the employee's increased income package due to the high rent value impacting on the employee for income tested social assistance such as Working for Families Tax Credit, community services cards and student allowances.

CHANGES TO FARM DWELLING EXPENDITURE DEDUCTIBILITY

The guidelines around the deductibility of expenditure relating to the farm dwelling have been in place since the 1960's.

The longstanding policy to allow full time farmers 25% of expenses relating to the farmhouse and full deductions for rates and interest have been reviewed and changed.

The new guidelines allow sole traders and partnerships in most cases to claim a 20% deduction for farmhouse expenses and 100% for rates and interest.
These deductions are allowed when the value of the farmhouse is 20% or less of the total value of the farm.

If the value of the farmhouse is greater than 20% of the total value of the farm an apportionment calcuation will need to be completed – we can help with this if required.

The changes will apply from the commencement of the tax-payers 2017-2018 Income year.

Note: You will need to change the rules to expense codes set up with your computer programme to make the change from 25% commencing at the start of your financial year: for March balance dates, this means now!

If you need any assistance in implementing this change, please contact your Graham & Dobson clerk.

The IRD also looked at telephone rentals, making changes there also.

Farmers who operate their business from home may claim 50% of their telephone rental charges, unless they can show that the actual business use of the telephone is greater than 50%. This is the existing practice for other home based businesses.

STRUCTURAL, SEISMIC RESTRAINTS FAILURE IN LAST YEAR'S EARTHQUAKE

The Insurance Council of New Zealand believes that a significant cause of damage to commercial property following the series of Kaikoura earthquakes in November last year was caused by a failure to comply with non-structural, seismic restraint standards.

Non-structural, seismic restraints hold air conditioning, fire-sprinkler, telecommunication and electricity systems, lighting and ceiling support mechanisms in the ceiling cavities and other parts of the building. These can collapse and pose risks to life and property. Appropriately, there is a strong focus on engineering sign-off of structural elements in buildings but the Insurance Council believes there is little or no monitoring or thorough inspection of the non-structural elements.

Comment:

- **A submission to Parliament suggests that compliance to non-structural, seismic restraint guidelines be certified by engineers on the completion of new commercial buildings, but also that territorial local authorities require non-structural seismic restraint checks to be part of commercial building Warranty of Fitness inspections.**
- **The IRD has reconsidered its stance on the tax deductibility of detailed seismic assessment (DSA) costs, concluding that such costs will in most cases be deductible. It acknowledges that in many cases DSA costs are incurred as part of a building owner's ordinary business operations and may be required to attract suitable tenants or for insurance purposes.**
- **The more concessionary position will be welcomed by all owners of commercial property - landlords, investors and local authorities.**

DEDUCTIONS FROM WAGES/SALARY

Most employment agreements include a 'general' deduction clause reading something like "the employer may for lawful purposes, make deductions from the wages payable to the employee with the written consent of the employee or on the written request of the employee". This encompasses the deduction of PAYE, Child Support, Court fines, Kiwisaver etc. and other deductions that benefit the employee such as accommodation, social club and medical insurance contributions as agreed between the parties as part of the employment terms. It also covers those deductions initiated in writing by the employee such as union fees and payroll giving.

However, changes to the Wages Protection Act 1983 mean that from 1 April last year employers "must not make a specific deduction in accordance with a general deductions clause in an employee's employment agreement without first consulting the employee". In other words, before making a deduction in reliance on the general clause in the employment agreement, employers need to explain the amount and frequency of the proposed deduction, consider the employee's view and then make a reasonable decision. Specific deductions would include reimbursement required by the employee for overpayment of wages/allowances and deductions from a final pay for monies owed to the Employer.

RURAL AREAS TO BE COVERED NATIONALLY BY FIRE & EMERGENCY LEVIES FROM 1 JULY 2017?

Internal Affairs Minister Peter Dunne released the new levy rates in a media statement dated 29 March 2017 for the unified national fire and emergency service – Fire and Emergency New Zealand.

As part of the changes announced, local government will no longer be required to fund the costs of rural fire services of approximately $30 million nationally from local rates.

"The Government expects local government to return these savings to ratepayers as a consequence," says Mr Dunne.

Farmers and people living in rural communities are encouraged to hold their council accountable to ensure the rural fire rates they are paying appear as a saving on their 2017/18 rates bill.

Gisborne District Council detail the Rural Fires rates on the back of the rates assessment. The amount varies depending on where you live in the District and is levied on the land value. There is a significant dollar value for a lot of our farming clients.

NEW KILOMATRE RATE FOR VEHICLES USED FOR BUSINESS PURPOSES

From 1 April 2017 there has been a change to the method of calculating the deductible expenditure previously known as the IRD Mileage Rate. Previously, it was possible to claim 72 cents per kilometre for any business use of a private vehicle. This has now changed to a kilometre rate and the formula for calculating has changed as follows –

kilometre rate × kilometres travelled × business proportion.

Kilometre rate is the applicable kilometre rate that is yet to be published by IRD.

Kilometres travelled is the total number of kilometres the vehicle has travelled, for both business purposes and other purposes during the year.

business proportion is the proportion of business use of the vehicle for the income year.

If you travelled 3,500km for business purposes during the 2017/18 year, and your vehicle travelled 18,000km for the year, then you will use the kilometre rate for a vehicle travelling 18,000km per year. You should therefore make a note now of the vehicles odometer reading, so that the total kilometres travelled can be calculated for the year to 31 March 2018. Please contact your usual adviser at Graham & Dobson if you require further information on this change.

ENTERTAINMENT EXPENSES GUIDE

Christmas is long past but it is always worthwhile to review the tax treatment of entertainment expenditure made during other times of the year as the deductibility will depend on the facts of a particular entertainment situation.

For the entertainment to be deductible, the expense must be incurred in deriving business income and not be of a private or domestic nature.

Scenario	Tax Deductibility
Client or staff dinner or drinks at a local restaurant	50%
Client or staff dinner, drinks or BBQ on the premises	50%
Client or staff hamper or gifts	100% - but watch for FBT
Any event or function with food or drink provided for staff morale or goodwill (on or off premises)	50%
Client or staff drinks at the pub	50%
Staff Vouchers	100% - but watch for FBT
Meals while travelling on business	100%
Morning and afternoon teas on the business premises	100%
Food and drink at conferences, courses or training	100%

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Bragging!

Three elderly ladies are sitting around a table playing bridge and bragging about their sons.

“Everyone should be so lucky to have a son like my Freddie” said Margaret
“Once a week he brings me a huge bouquet of flowers, he’s constantly
taking me out to eat in lovely restaurants, and if I so much as hint that I
want something the next morning it’s on my doorstep.”

“That’s very nice about your Freddie”, says Gertrude. “But with all due respect,
when I think about the way my son Sammy takes care of me, it just can’t compare.
Every morning as soon as I wake up he greets me with bacon and freshly brewed coffee.
Every lunch he comes over and cooks me a gourmet lunch,
and most nights he takes me to his house for dinner –
he truly treats me like a queen.”

“WELL!” Says Barbara “I don’t want to make any of you feel bad or anything,
but wait until you hear about my Harry.
Twice a week he pays someone $200 an hour just so he can lie on their couch
and talk to them, and who do you think he talks mostly about at those prices?
I’ll tell you who he speaks about! ALL HE SPEAKS ABOUT IS ME!”