

Landlords be aware!

The residential property market is showing some signs of abatement but it remains a popular investment choice. It pays to be knowledgeable about rental properties and landlords need to be aware of tenancy rights and obligations.

Some of these are as follows:

- It is desirable to have a written tenancy agreement for easier enforcement.
- The landlord can make a prospective tenant pay 2-4 weeks' rent as a bond which is held by Housing New Zealand. It is refunded only when both the tenant and the landlord sign a form agreeing the amount to be allocated to each of them.
- The landlord is entitled to deduct any costs from the bond for repairs/damage (other than normal wear and tear) caused to the property by the tenant.
- The tenant is required to give a minimum notice of 21 days if they want to terminate the tenancy. However, the landlord must give 90 days' notice to end the tenancy. The notices have to be in writing.
- The term of the residential tenancy may be fixed for a specified term or may be for an undefined period which continues until it is terminated by either the tenant or the landlord as stated above.
- Either party can apply to the Tenancy Tribunal (during or after the tenancy ends) to deal with any disputes arising from the tenancy, for example if they disagree on the bond amount to be refunded.

For further information please visit
www.minhousing.govt.nz/tenancy-tribunal



Gisborne/Wairoa Federated Farmers

Hill Country Farmers of the Year Award - 2008

Graham & Dobson are proud to continue to be one of the sponsors of this Award that promotes and recognises excellence in the district's major industry.

Application forms for the 2008 Award are now available at our office.

If you require further information regarding the Award, please contact either your principal at Graham & Dobson Ltd or Peter Andrew at AgFirst (06 868 4144).



Graham & Dobson Telephone Number

When we changed premises last year we also changed our phone number. If you still have our old phone number stored in your telephone, please change it to our new number which is 869 1234. Our old number currently diverts to the new number but this is stopping in the next couple of months.

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Fringe Benefit Tax (FBT) & Cars

It's been over a year since fringe benefit tax (FBT) was imposed on cars leased by a company from a shareholder for use during business hours (popularly known as 9-5 leases or flip-flop leases).

For FBT paid on an annual basis, the value of fringe benefit for cars is calculated as follows:

*Cost of Car x 20% x no. of days
available for private use per
annum/365.*

The cost of the car used in the above formula is the original cost inclusive of GST. This means that taxpayers are stuck with the same FBT cost each year until the car is disposed of, presuming the availability of the car for private use remains the same, despite the fact that motor vehicles depreciate rapidly each year.

This may have contributed to the proliferation of the 9-5 leases where a shareholder-employee was able to claim the bulk of the running costs and depreciation without their company having to pay FBT. The extra administration costs that came with it are probably not significant when compared with the FBT costs paid annually.

However, this loophole was closed on 1 April 2006 when the government introduced the new FBT legislation. With the FBT imposition on 9-5 leases, another method of calculating FBT was also introduced, which means organisations now have a choice.

Previously, entities providing cars as fringe benefits had no choice but to use only one method based on the original cost in calculating the tax payable on the value of benefit. The new method allows the use of the annual tax book value of the car instead of the cost of the car in the FBT formula; but, it also increases the annual 20% rate to 36%.

Although companies now have a choice of using another method of calculating FBT, the use of a higher rate ensures that the cumulative FBT costs in the first few years' of the purchase of the car using the new method are very similar to the FBT costs using the old method. It, no doubt, will see the demise of 9-5 leases as we know them.

A few points to note

- If the company has owned a car for five years, it is able to switch to the new tax book value method from the fifth anniversary date of the purchase of the car.
- Under the new method, the minimum tax book value of the car that a company is allowed to use for FBT purposes is \$8,333. This means that even when the car eventually depreciates to below \$8,333, the tax book value is capped for FBT calculations.
- If a shareholder-employee prefers trading-in his high-value car every few years, the company may be better off using the old cost method. However, there are several factors influencing the choice of method used and we recommend you seek professional advice.
- To avoid compliance costs, one may want to make employee contributions that equal the same amount as the value of the fringe benefit thus reducing the fringe benefit to nil. GST will still need to be accounted for in each GST return following the FBT reimbursements. Nil FBT returns can then be filed until the IRD deletes the entity from its FBT database and stops sending FBT returns. The downside of doing this is that if the shareholder does not have a large enough credit balance in his current account, the fringe benefit debits could push their current account into an overdrawn balance.
- The FBT regime, in allowing 100% tax deduction for all private running, is a good foil against the costs of FBT if a car with a modest price tag is used substantially for private purposes.

In conclusion, the FBT regime has become more complex than when it was first introduced and one has to take into consideration a number of factors to weigh the costs against benefits of FBT.

For those not wanting to get involved with the FBT regime, a simpler option that may suit is to reimburse the shareholder/employee on a mileage basis. Check with your principal if this would be a suitable option.



Investors take note – you need to tell your PIE your PIR!

From 1 October 2007 a new type of investment structure was introduced. They are called a **Portfolio Investment Entity** or **PIE** for short. They are a special tax investment type of entity allowing tax to be calculated at the investor's marginal tax rate rather than at the fund tax rate.

A lot of existing managed funds have elected to become a PIE, and as a consequence they have been asking investors to provide their **Prescribed Investor Rate** or **PIR** for short. The PIR is the rate at which an investor's taxable income from a PIE will be taxed. The following table provides the PIR options.

Investor Type	Additional Information	Your PIR
Individual	Taxable income in either of your 2006 or 2007 tax returns was \$38,000 or less	19.5%
Individual	Taxable income in both 2006 and 2007 was greater than \$38,000	33%
Company		0%
Trust	You can choose to best suit the trust and beneficiaries	0% or 33%
Joint Investment or Partnership	Where an investment is held jointly, look at individual taxable incomes (as above) and apply the highest rate	19.5% or 33%
Non-resident Investor		33%
Registered Charitable Trust		0%

If you do not make an election, the default PIR is 33%. **This is a full and final tax.** This means an individual with taxable income of \$38,000 or less that does nothing will be overtaxed!! If you are in doubt, please contact your principal at Graham & Dobson Ltd – it could save you tax!

For upper-income investors' on the 39% marginal tax rate, the PIE type of investment is tax advantageous.

Personal Property Securities Act

It's been five years since the arrival of the Personal Property Securities Act, which is a system that provides a security priority for holders (lenders) who register a financing interest on the Personal Property Securities Register (PPSR).

Many are not aware of the fact that a financing interest automatically expires after five years, or earlier if the registration period is shorter. If holders want to maintain their security priority, they need to renew their security financing interest before the expiry date.

This can be done through the PPSR website www.ppsr.govt.nz



Newsletters via the website

The lucky winner of 12 bottles of wine for registering for future Newsletters via the website was Rob Dorey!

In future, we would prefer to send an e-mail to clients advising that our latest newsletter is on our website. We consider this to be a more efficient and cost effective way of getting the newsletter to you.

If you would like to receive future newsletters by e-mail, please go to our website at www.grahamdobson.co.nz, click on the "Register for Newsletter" icon and complete the registration screen.



Definition: Intoxication

The euphoria of getting a refund from the IRD, which only lasts until you realise it was your money to start with

Light Humour

The Bath Tub

During a visit to the asylum, a visitor asked the Director what the criterion was which defined whether or not a patient should be institutionalised.

"Well," said the Director, "we fill up a bathtub, and then we offer a teaspoon, a teacup and a bucket to the patient and ask him or her to empty the bathtub."

"Oh, I understand," said the visitor. "A normal person would use the bucket because it's bigger than the spoon or the teacup."

"No." said the Director, "A normal person would pull the plug. Do you want a bed near the window?"

Unanswered Questions

Ever wonder about those people who spend \$2.00 apiece on those little bottles of Evian water? Try spelling Evian backwards: NAIVE

Isn't making a smoking section in a restaurant like making a peeing section in a swimming pool?

If 4 out of 5 people SUFFER from diarrhoea...does that mean that one enjoys it?

If people from Poland are called Poles, then why aren't people from Holland called Holes?

Do infants enjoy infancy as much as adults enjoy adultery?

If a pig loses its voice, is it disgruntled?

Why do croutons come in airtight packages? Aren't they just stale bread to begin with?

Why is a person who plays the piano called a pianist, but a person who drives a racecar is not called a racist?

Why isn't the number 11 pronounced onety-one?

If lawyers are disbarred and clergymen defrocked, then doesn't it follow that electricians can be delighted, musicians denoted, cowboys deranged, models deposed, tree surgeons debarked, and dry cleaners depressed?

If Fed Ex and UPS were to merge, would they call it Fed UP?

Do Lipton Tea employees take coffee breaks?

I was thinking about how people seem to read the Bible a whole lot more as they get older; then it dawned on me, they're cramming for their final exam.

I thought about how mothers feed their babies with tiny little spoons and forks, so I wondered what do Chinese mothers use. Toothpicks?

Why do they put pictures of criminals up in the Post Office? What are we supposed to do, write to them? Why don't they just put their pictures on the postage stamps so the mailmen can look for them while they deliver the mail?

If it's true that we are here to help others, then what exactly are the others here for?

You never really learn to swear until you learn to drive.

Ever wonder what the speed of lightning would be if it didn't zigzag?

If a cow laughed, would milk come out of her nose?

Whatever happened to Preparations A through G?

"Never argue with an idiot; they'll drag you down to their level and beat you with experience."

Anonymous

