

From the IRD Corner

Goods and Services Tax (GST)

- The filing dates for GST returns is now on the 28th of the month following the GST period-end with the exception of November GST (due date of 15 January) and March GST (due date of 7 May).
- Most taxpayers with standard balance dates will find that their GST periods are now aligned with their balance dates in preparation of the changes to provisional tax payment dates due next year.

Student Loans

With the current "interest-free" scheme for student loans, borrowers tend to take longer to repay their loans and even go overseas for extended OE without informing the IRD.

An amendment was passed in late March 2007 to help IRD monitor borrowers' movements in and out of New Zealand and apply appropriate interest and late penalty rates. These changes include:

- Matching of information between IRD and New Zealand Customs to ascertain which borrowers are resident or non-resident and who are eligible for an interest-free loan.
- Extending the amnesty on student loan penalties to 31 March 2008. If you require further information on the amnesty on student loans, please go to the IRD website – www.ird.govt.nz/studentloans/overseas/while-away/amnesty-penalties.
- Reducing late payment penalties from 2% to 1.5% per month from 1 April 2007.
- Granting overseas borrowers a three year repayment holiday after which they will have to repay the loan on a progressive basis based on the size of their loan balance as follows –
 - repaying \$1000 p.a. if loan balance is \$15,000 or less;
 - repaying \$2000 p.a. if loan balance is between \$15,000 and \$30,000;
 - repaying \$3000 p.a. if loan balance is greater than \$30,000
- Removing interest write-offs for ineligible borrowers.

Graham & Dobson Website

Did you know that you can use the Graham & Dobson website as a gateway to a lot of useful business, government, news, and farming related websites. A sample of the links that are on our website are:

Government

- ACC
- IRD
- Companies Office
- Rates Rebate

News

- Gisborne Herald
- The National Business Review
- The Dominion
- The Sydney Morning Herald

Finance

- Interest Rates (investing & borrowing)
- ABN Amro Craigs
- Direct Broking
- Exchange Rate Calculator

Computer

- MYOB
- Cash Manager Rural

Farming

- Fencepost
- Federated Farmers
- Gisborne Weather – Met Service
- RD1

The links to these websites can be found under Resources/Internet Links.

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Minor Beneficiary Rule Clarification

It is stated in the income tax legislation that income received from a trust by a beneficiary who is a minor is not subject to the minor beneficiary rules if the income is \$1,000 or less for the year. There has been some confusion as to whether the \$1,000 referred to relates to the total distributions a beneficiary receives for the year or whether the \$1,000 amount relates to the distribution the beneficiary receives from each trust.

The IRD has released in draft form its view that the exemption for trust distributions to minors of \$1,000 per annum applies to each trust's distribution to a beneficiary. This means that a minor's marginal tax rate will apply to each distribution of \$1,000 received from each trust of which he/she is a beneficiary. Therefore, a minor who is a beneficiary of say, three trusts, is able to receive up to \$3,000 per annum (no more than \$1,000 per trust) and pay tax at his/her individual marginal tax rate.



Depreciation of your rental

In recent times the IRD has expressed the view that separating a residential rental property into its component parts for depreciation purposes was unacceptable. This view had been publicised in a media statement.

The IRD has now taken the next step in supporting this view. A draft interpretation statement has been released that explains the IRD's position. The document itself is 69 pages long and goes into considerable detail.

Where a depreciation deduction is claimable on an asset, the next step is to define that asset. For applying this rule the IRD has carried out a historical analysis of case law developed from the Income Tax Act 1976. Under this Act a deduction for depreciation or repairs was allowed in respect of an "asset". Disputes often arose when taxpayers claimed what they considered were "repairs and maintenance", but which the IRD considered to be capital improvements. This resulted in a considerable amount of case law which sought to identify the "asset" that has been repaired or improved.

The Court's approach has been to determine if an item for which expenditure has been incurred would

be part of an asset (ie part of the building or separate from it).

The IRD has followed this approach. Two distinct tests have been identified in the interpretation statement; they are referred to as the physical separation test and the functional separation test.

Physical separation considers whether or not the item is "fixed" to the building. For example, can the item be removed and relocated without difficulty? **Functional separation** looks at whether or not the item carries out a function separate to the function of the building. For example, would the building be regarded as complete without the item? The view is taken that if an item is part of the greater asset (ie part of the building) it cannot be separately depreciated; it must be depreciated with the rest of the building.

The document analyses a number of common examples, and the following items are considered to be part of the building and not separately depreciable:

- Plumbing and piping
- Electrical wiring
- Internal walls
- Internal and external doors
- Garage doors (internal access)
- Wardrobes and cupboards (built into the wall)
- Kitchen and bathroom cupboards
- Linoleum
- Tiles (floor and wall)

The following items can be regarded as separate assets and can be depreciated at different rates:

- Wardrobes and cupboards (not built into the wall)
- Carpets
- Curtains
- Blinds
- Water heaters
- Hot water cylinders

Because the tax legislation does not prohibit depreciating an asset based on its component parts the correct position is currently unclear. However, the IRD has gone to great lengths to support its view that it does not favour separation of assets. The IRD has indicated that if a dispute were to arise it would take the matter to Court to prove its point.



KiwiSaver Tips

Self-employed/non employees

People who do not receive a PAYE deducted wage or salary are still eligible if under 65 years of age to participate in KiwiSaver.

Such people:

- remain eligible for \$1,000 Government kick-start grant, \$1,040 annual Government tax credits (if over 18), \$40 annual fee subsidies;
- can make contributions directly to a KiwiSaver provider, effective from 1 October 2007;
- can choose any amount they wish to contribute to KiwiSaver;
- if contributions have been made directly to the IRD, you then have three months to choose a KiwiSaver provider to avoid being allocated to a default provider.

People aged between 60 – 64 years

People aged 65 or over are not eligible to participate in KiwiSaver.

Those aged between 61 – 64 years of age are:

- able to join KiwiSaver, however they will not be able to access their contributions until they have participated for five years.
- eligible for \$1,040 annual Government tax credits and \$40 annual fee subsidies for a maximum of five years. Are eligible for the \$1,000 Government kick-start grant.

Employers – who is a temporary employee?

An employer is not obligated to automatically enrol any new employee whose employment is temporary.

Employment is regarded as temporary where a person is employed:

- as a casual agricultural worker (as defined below); or
- under a contract of services that is for a period of 28 continuous days or less.

Casual agriculture worker - "a person engaged on a day to day basis for a period of no more than three months as a casual seasonal worker for the exclusive purpose of doing seasonal agricultural, horticultural, market gardening, nursery, orchard, or tobacco farming work, or other work that in the opinion of the commissioner, is work of a like nature..."

If the casual agricultural work extends beyond three months, or the contract of service extends beyond 28 days, the employee is then regarded as having started new employment and the automatic enrolment rules will then apply.

Useful sources of KiwiSaver information

For a decision guide to see whether joining KiwiSaver is right for you and calculator to see how much your

KiwiSaver contributions will grow to over time, see the Retirement Commission website.

www.sorted.org.nz/calculators

Gareth Morgan has created a site on which you can compare the fees charged by various scheme providers.

<http://forms.gmk.co.nz/calculators/providerfees.aspx>

For general KiwiSaver information and the answers to frequently asked questions refer to the following websites.

www.treasury.govt.nz/budget2007/kiwisaver/saversfact.asp
www.kiwisaver.govt.nz



Charities Commission Newsflash

In June the Charities Commission issued a newsflash encouraging existing charities to register early with the Charities Commission. Charitable organizations have until 1 July 2008 to register. To retain charitable status and certain tax exemptions, existing charities must re-register prior to 1 July 2008. The Charities Commission has noted that lower than expected volumes have been received to date and they anticipate a large number of applications being received from September 2007. This could lead to delays in processing applications. The Commission has noted that incomplete registrations cannot be backdated. If registrations are not received until close to 1 July 2008 but are incomplete, this could have significant impact on existing exemptions. Charities are therefore encouraged to register as soon as possible which can be done online via www.charities.govt.nz.

Friendly reminder from June Newsletter: Newsletters via the web – register and go into the draw to win 12 bottles of wine

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 and Win" icon and complete the registration screen.

All those people who register on the website by 30 September 2007 go into the draw to win a case of premium New Zealand wine.

Light Humour

If you need a laugh, then read through these children's science exam answers. These are real answers from school kids.

Q. Name the four seasons.

A. Salt, pepper, mustard and vinegar.

Q. Explain one of the processes by which water can be made safe to drink.

A. Flirtation makes water safe to drink because it removes large pollutants like grit, sand, dead sheep and canoeists.

Q. How is dew formed?

A. The sun shines down on the leaves and makes them perspire.

Q. How can you delay milk turning sour?

A. Keep it in the cow.

Q. What causes the tides in the oceans?

A. The tides are a fight between the Earth and the Moon. All water tends to flow towards the moon, because there is no water on the moon, and nature hates a vacuum. I forget where the sun joins in this fight.

Q. What are steroids?

A. Things for keeping carpets still on the stairs.

Q. What happens to your body as you age?

A. When you get old, so do your bowels and you get intercontinental.

Q. What happens to a boy when he reaches puberty?

A. He says good-bye to his boyhood and looks forward to his adultery.

Q. Name a major disease associated with cigarettes.

A. Premature death.

Q. What is artificial insemination?

A. When the farmer does it to the bull instead of the cow.

Q. How are the main parts of the body categorized? (eg abdomen).

A. The body is consisted into three parts – the brainium, the borax, and the abdominal cavity. The brainium contains the brain; the borax contains the heart and lungs, and the abdominal cavity contains the five bowels, A, E, I, O, and U.

Q. What is the fibula?

A. A small lie

Q. What does "varicose" mean?

A. Nearby.

Q. Give the meaning of the term "caesarean section".

A. The caesarean section is a district in Rome.

Q. What does the word "benign" mean?

A. Benign is what you will be after you be eight.

The quickest way to double
your money is to fold it
in half and put it back in
your pocket.....

Anon

