NEWS

OCTOBER 2015

USEFUL SNIPPETS

CASHBACK CREDIT CARDS

A cashback reward which reduces the cost of a <u>business</u> purchase transacted on a credit card is viewed as taxable income. If you use your credit card for business transactions and that credit card offers a cashback option, please contact your Graham & Dobson accounting clerk if you require assistance.

CHANGE IN MILEAGE REIMBURSEMENT

On 12 August this year, Inland Revenue announced that the IRD mileage reimbursement rate has reduced to 74 cents per kilometre for both petrol and diesel fueled vehicles for the 2015 income year.

The IRD mileage reimbursement rate is able to be used by employers to reimburse staff for business use of a private vehicle as a tax-free allowance. Although businesses do have the choice of calculating their own rate, the IRD rate is pre-approved and comes without hassle. This rate can also be used to calculate reimbursement of mileage to shareholder employees and partners for the year ended 31 March 2015 up to a maximum of 5,000kms. Beyond this level, actual calculations are required.

For many businesses where the business use of private vehicles (owned by staff or related persons) is at the low end of the scale, the IRD calculation is an easy mechanism of compliance – however, in some instances, actual calculations are either required (for high usage motor cars, electric vehicles or motorbikes) or are simply more beneficial.

CHANGES TO MYOB BANKLINK DATA

Most major banks' transaction data can now be supplied to MYOB Banklink on a daily basis. Graham & Dobson have requested MYOB Banklink to change all eligible bank accounts to this basis. For clients downloading transactions, this means your datafile may contain some data for the next coding period when you receive your file.

POVERTY BAY A&P SHOW PET COMPETITION

Graham & Dobson is pleased to continue our sponsorship of the popular Show pet lamb, goat and calf competition with prizes for four classes of pet participants (and their owners!):

- Best dressed lamb
- Best undressed pet
- Best pet calf
- School with the most pet entries – lambs, goats or calves

All pets are to be assembled on Saturday, 17th October at 9.00am prior to judging at 10.00am.

GST FOR CROSS BORDER SHOPPING

A GST charge for online overseas purchases is moving a step closer but doubts have emerged about how efficient cutting the threshold for paying GST on foreign purchases will be if the current clumsy collection process through Customs is relied upon. Hence the currently proposed requirement is that overseas suppliers will need to register and return GST when they are selling to New Zealand consumers and this will include online products like e-books, music and videos. That might work for some, but for many businesses around the world, New Zealand is such a small market the foreign sites possibly would not bother, leaving New Zealand consumers both confused and possibly exposed to the existing collection processes and costs.

Comment:
If you have been benefitting from purchasing goods or services offshore and saving the GST, then this is unlikely to continue for much longer.

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EMPLOYERS REMINDED NOT TO CONFUSE PART-TIME AND CASUAL WORKERS

As the summer holiday season approaches, employers are reminded that part time employees who work regular rostered hours are entitled to pro-rated annual leave.

The Ministry of Business, Innovation and Employment reports that its Labour Inspectorate regularly sees cases where people working part time are not getting their legal entitlements because the employer assumes they can just pay 8% on top of their usual pay to cover off their holiday entitlements.

It is only acceptable and lawful to add 8% of the employee's gross earnings as annual holiday pay to the pay packets of employees who are on a fixed term contract or who work irregularly and intermittently – for instance, on call workers or casual seasonal workers working on an 'as required' basis. In all other cases, four weeks' annual leave pro-rated applies.

Part time employees whose work patterns are established on a roster basis are entitled to four weeks' annual leave, pro-rated, under the Holidays Act 2003. Employees who have been working with the employer for six months, part time or casual, may also be entitled to five days' sick leave, if they meet the criteria of having worked on average 10 hours per week or 40 hours per month. Sick leave entitlements cannot be pro-rated in any way.

Comment:
An example of pro-rated annual leave for a part time worker is:

John works part time 16 hours per week (i.e. two x eight hour days). His annual leave entitlement is therefore calculated as 4 weeks of 16 hours per week, which is equal to 64 hours of paid annual leave. You and your employee, John, may agree to take this entitlement as 8 x paid annual leave days as time away from work.

WHAT IS THE COST OF YOUR FIXED TERM DEBT?

The Reserve Bank of New Zealand uses the Official Cash Rate (OCR) to maintain price stability – i.e. to keep inflation between 1% and 3% over the medium term. Given the recent drop in the OCR (from 3.0% to 2.75%) and the potential for future reductions, it is timely to consider the benefits of changing the terms of your fixed mortgage.

For example – Bob fixed the mortgage on his rental property at 6.25% for three years. One year later, Bob's bank is offering a 4.65% two year fixed interest rate. Bob is eager to change his mortgage to the lower rate, so he sets up a meeting with his bank manager. At the meeting Bob is told that he can change interest rates but will be charged a $10,000 Break Fee. Why is Bob charged this fee?

A break fee is generally charged as compensation for the loss the bank will suffer if the interest derived from an existing fixed loan reduces as a result of a switch to a lower rate. It is generally calculated on the difference in the bank's margin on the interest rates the borrower is moving between.

For example: Bob borrowed $550,000 on a five year fixed term at 6.75% on his rental loan balance and wants to change interest to the better 4.65% on offer. The change would result in Bob's bank losing about $18,000 of interest income. As a consequence, the bank may look to negotiate a fee of say $10,000 with Bob if he remains with the bank as an ongoing customer.

As break fees can be significant as portrayed above, it is also important for Bob to know whether the fee can be deducted for tax purposes.

In 2012 Inland Revenue issued three public binding rulings related to the deductibility of break fees incurred by landlords. The rulings broadly concluded that break fees on borrowings are deductible where a landlord has borrowed to buy a property from which rental income is derived (or to refinance another loan for that purpose). However, the timing of the tax deduction will depend on the situation in which the break fees are incurred.

If the break fee is incurred to repay the loan early, then the break fee will be deductible when it is incurred. In Bob's situation, where the break fee is paid to vary the interest rate under the loan, it will depend on whether he is a "cash basis" person or not. Whether someone is a cash basis person is determined by the levels of debt and deposit arrangements to which they are a party. Cash basis Bob is able to deduct the amount of the break fee when it is incurred, unless he has chosen to adopt a spreading method – in which case it will be required to be spread over the term of the loan. Non-cash Bob will have spread the fee over the term of the loan.

Comment:
Whether or not to switch should be decided based on cash flow cost to do so, the final negotiated fee with the bank, whether interest rates are expected to increase or decrease and when the benefit of the tax deduction will be claimed.

NZ HOUSING MARKET – KEY CHANGES

There is currently significant public interest in the New Zealand housing market, whether it be issues relating to the Auckland 'bubble', property speculation, non-resident buyers, banking restrictions or a combination of these. In response, the Government is introducing a number of changes designed to either directly influence the market or assist with deciding whether additional restrictions are required. Key changes are:

- Bright-line test – this test as announced in the 2015 Budget will be applied to residential property acquired from 1 October 2015. The test will require income tax to be paid on any gains from the sale of residential property bought and sold within two years – the exceptions being the 'family home', inherited property and property transferred in a relationship property settlement. The two year period will run from the date a purchase is registered on Landonline (Land Information New Zealand's online centre) and end on the date the person enters into a sale and purchase agreement.

  Losses under the bright-line test will be ring-fenced, i.e. can only be offset against taxable income on other land sales. Losses on the sale of property to associates will be disallowed altogether.

- IRD numbers for the purchase and sale of property – buyers and sellers of residential property are now required to have a NZ IRD number at the time a property is transferred. Where a person is currently a tax resident of another country, they will additionally be required to provide their country of residence and their overseas equivalent of an IRD number. Their IRD numbers will be included with the information submitted to Land information New Zealand as part of the transaction process. There is an exclusion for New Zealand individuals purchasing or selling their main home (only one main home is allowed). The exclusion does not apply to:
  - Sale of the third main home in two years
  - Trusts, or
  - Non-residents.

The above was designed to provide the Government with better information regarding the volume of overseas buyers purchasing in New Zealand and improve the Inland Revenue's ability to enforce income tax obligations and prevent tax evasion. While the need for the change has merit, it will mean a large number of private trusts that only own the family home will have to register with Inland Revenue at some point in time and may face annual compliance costs going forward.

- Reserve Bank of NZ (RBNZ) Deposit changes – From 1 October banks are required to limit lending for residential property investment in Auckland at LVRs greater than 70% (i.e. a 30% deposit) to 2% of new lending. This aims to promote financial stability by slowing down investor activity in the Auckland region. Outside Auckland, the minimum deposit requirement will remain at 20% but lending below this threshold will be relaxed to allow 15% of new lending to have a deposit below 20%.

HEALTH AND SAFETY
WHO'LL DO WHAT IN YOUR BUSINESS?

New laws are expected to come into effect in April 2016, to be confirmed once the Health and Safety at Work Act is passed. The focus is on the new responsibilities for small business owners and operators, plus their staff, visitors and customers.

Comment: Who'll do what? – a case study

J&J Plumbing Ltd is co-owned by plumber Joe Bloggs and office manager Jo Bloggs. The company employs plumber Jason Doe and A N Other as a plumber's mate. They work in a variety of locations, including the company's registered office and on site at customers' homes and workplaces.

Who	**Must-do's under the new law**
J&J Plumbing Ltd	Under the new law, the company itself will be the Person Conducting a Business or Undertaking (PCBU). This means it will have overall responsibility for the health and safety of its staff and others affected by its work. The company has to discuss health and safety matters with its staff and in practice it will usually do this through its managers. As directors, Joe & Jo will be required to make sure J&J Plumbing complies with its obligations.
Jo & Joe Bloggs	As workers, Jo and Joe will also have to take reasonable care for the health and safety of themselves and others and follow J&J Plumbing Ltd's policies and instructions.
Jason Doe & AN Other	Workers will have to take reasonable care to ensure the health and safety of themselves and others and follow J&J Plumbing Ltd's policies and instructions.
Customers	Customers will have to take reasonable care for their own and others' health and safety on their premises, eg taking care around where the plumbers are working. They will also have to follow on-site instructions from J&J's staff.

OZ TAX SYSTEM FAVOURS BIG CHEESES!

A former Bank of America Chief Economist has told an Australian tax reform summit that Australia's tax system has been likened to a 'giant Swiss cheese', full of holes through which the rich are able to funnel their income. "The Australian public would not accept a rise in GST or a 50% capital gains discount without such avenues to the wealthy being closed", he said.


I'm waiting for the paternity results.