

CLIENT UPDATE DECEMBER 2011



Start Planning Now!

Many business people are winding down to a well deserved Xmas and summer holiday break. The economic reality of the world is that we all have to keep our “eyes on the ball.”

You may like to consider this restful period as an opportunity. Use this time productively to plan the goals you have for 2012. This includes both business goals e.g. sales levels, profitability, new products and services and also the personal goals you want to achieve e.g. holidays, savings.

Write your ideas down so when you return to work in the new year, you are focussed and hit the ground running.

10 Year Service.

This year saw two of our team achieve 10 years of service for our company and clients. Kathryn Pinkerton our Tax Administrator achieved 10 years in July and Leanne Brewerton our accounting manager achieved 10 years in September. Leanne also passed her final paper for a Bachelor of Business Studies. Thank you to both Kathryn and Leanne for your hard work and loyal service over the last 10 years.

Kathryn



Leanne



Thinking of renting out the beach house this summer?

The Government is currently reviewing the tax treatment of holiday homes. For example if the holiday home was used for 6 weeks privately and rented out for 6 weeks, then it is quite clear how to treat the expenses that relate to each 6 week period. That is, claim the rental expenses against the rental income and treat the private period expenses as non deductible. What about the expenses relating to the other 40 weeks of the year?

Provided the property is available and advertised for rent for all of those other 40 weeks, then those 40 weeks of expenses are arguably tax deductible.

This situation may change next year.

GST on holiday homes! Be careful.

If your holiday home is owned by an entity that is GST registered e.g. sole trader, partnership, trust etc and it is rented out, you may have to account for GST on any later sale of the holiday home.

What it comes down to is the status of the tenant. If for instance your holiday home is going to be the tenant’s principal place of abode e.g. there is a tenancy agreement in place, it’s long term, the bond is paid to the Tenancy Tribunal and the tenant is entitled to the quiet enjoyment of the property, then there is no problem with GST.

If your holiday home will not be the principal place of abode of the tenant, e.g. short stay holidays and the owner of the property is GST registered, you may well subject the rent and the property to GST.



Borrowing Matters

The past few years have been particularly difficult for most business people. Some are suggesting the current recession will be the worst since the great depression in 1929. Despite this the overseas owned New Zealand banks have recently been reporting record profits.

Without having reviewed any of their annual reports, we would suggest the profits have been made by lending large sums of money to their customers.

Generally people borrow money in order to get something they want today. It is the extent of this borrowing that has caused continuing economic meltdowns during this current recession and of course has provided large profits to the banks. Here are some tips from a conservative accountant which may save you significant amounts of money.

- 1) Borrow to buy appreciating assets and save to buy depreciating assets.
- 2) Pay back all loans as quickly as you can.
- 3) Pay back loans where the interest cost is not tax deductible before repaying the loans where the interest is tax deductible.

To illustrate this point. Someone who earns over \$70,000 per annum, has a marginal (top) tax rate of 33%. If the bank is charging 6% interest on borrowings and if the loan interest is not tax deductible e.g. on a home mortgage, they will have to earn 9% to pay the interest. That is 9% less tax of 3% (i.e. 33% of 9%) in order to pay the bank 6%.

If the same 6% mortgage interest is tax deductible, then they pay 6% to the bank and save 2% tax i.e. 33% of 6% which reduces their borrowing cost to 4%, compared to the 9% non tax deductible interest.

As mentioned, once the non-deductible loans are repaid, then pay the tax deductible loans. The point here is to save 33 cents in tax, you have to

pay the bank \$1 of interest. You are better off by 6% if you don't have to pay any interest even if you have to give 33 cents to the IRD.

15 January 2012 Provisional Tax

The second instalment of 2012 provisional tax is due for payment on 15/1/12.

We will be sending out tax letters for these tax payments on 16 December 2011.

If you will be away earlier than this date or will have difficulty meeting your payment, please contact us either before 22 December 2011 or after 9 January 2012.

Xmas Closure

Please note our office will be closed from 2:00 p.m. on Thursday 22nd December and re-open at 8:00 a.m. Monday 9th of January 2012.

We wish all our clients, contacts and business associates a Merry Christmas and a safe holiday season.

Once again, thank you for your continued support.



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