

CLIENT UPDATE DECEMBER 2013



Provisional Tax Payments 15/1/14

Tax Payment Notices will be sent out mid December for payment by 15 January 2014. **DO NOT FORGET THEM!** If you have a query regarding the amount you are asked to pay, please contact us before 20 December so we can resolve this.

Employing Students or Casual Staff over the Holiday Period

Changes were made to the taxing of children from 1 April 2013. From that date they need to complete an IR330 Tax declaration code and give it to their employer so that tax can be deducted from their wages.

This also applies to all other staff including school, university, polytechnic and other tertiary students.

Employees employed on a temporary contract for less than 28 days do not have to be enrolled for KiwiSaver. If they are KiwiSaver members and want the employer to make KiwiSaver deductions, they must provide the employer with a KiwiSaver deduction notice (KS2).

Mixed Used Assets – taking note

If you own a holiday home and rent this out commercially, there are new rules around how tax deductions are calculated. In order to accurately work out what these will be, there are some crucial points that we will require from you. You will still need to keep your normal records for income and expenses, but as well as that you will need to start recording the following information:

How is the asset used for each day of the year?

- Is it rented out?
- Are you using it for personal or private use?

Who used the asset?

- How many days was it in use?
- Who used it and what is their relationship to you?
- How much rent/hire cost did you charge to each person?

Were any repairs carried out?

- What was the reason for the repairs?
- Did you carry these out yourself?
- Did you stay at the bach while you undertook these repairs?

You will also need to make a note of the following –

- The cost of advertising the rental
- The cost of repairs and damages to the asset caused by tenants
- The cost of insuring the bach, any mortgage interest and rates

By keeping a note of the above information, we can assess what is and what isn't deductible for you when we start preparing your 2014 annual tax return. If you have any more questions about mixed use assets, feel free to give us a call.

PLEASE NOTE, the Government has extended until 31/3/14, the time when taxpayers can elect to change the ownership of baches, boats, planes and helicopters from a company with no depreciation recovered implications.

Buying/Building Houses and Selling Often?

Where a pattern of buying and/or building homes and selling them is established, it is not only builders who can be caught in the taxation of profits net. A recent Taxation Review Authority ruling has seen a family trust liable for Income Tax and GST on all the 11 transactions which occurred over a 12 year period. The family home exemption was not applied as the Judge held that the Trustees/Beneficiaries, although living in the homes, had not occupied them 'primarily and principally' as a residence. The regular pattern of transactions was sufficient to mean that the exemption did not apply.

Furthermore the Independent Trustee was deemed to have a joint and several liability for the entire Income Tax and GST levied for the periods they were a Trustee.

Make sure if you are an Independent Trustee you are involved in all aspects of the Trust's decision making and understand your responsibilities and liabilities.

Taxation of Foreign Superannuation

From 1 April 2014 the taxation in New Zealand of Foreign Superannuation Schemes changes. From that date there will be two new methods to calculate the amount of New Zealand tax paid on foreign superannuation scheme distributions.

These are:

The Schedule Method – The amount taxable is determined by the number of years the person has lived in New Zealand since returning from overseas.

The Formula Method – Taxes the transferred amount to make it the same as the tax would be on New Zealand interest income.

Thought needs to be given to whether or not to bring superannuation to New Zealand **before 31 March 2014**.

There exists an amnesty for overseas super distributions received between 31/3/2000 and 31/3/2014. The amnesty allows distributions to be taxed on 15% of the distribution value at the recipient's marginal tax rates.

If a person misses the 31 March 2014 amnesty deadline, any superannuation distributions will be taxed using the schedule method i.e. the distribution amount times a percentage based on how long they have been in New Zealand. The percentage ranges from 4.76% (1 year) to 100% (26 + years). This is instead of 15%. Don't miss the deadline.

Understanding Financial Statements

The Trading Account in any set of financial statements sets the scene for how profitable a business will be.

The Trading Account records sales, cost of goods sold (normally purchases, plus opening stock, less closing stock) and gross profit. There are two very important business ratios that can be extracted from the Trading Account.

The first is the Gross Profit Percentage. This is calculated as

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100\% = \text{Gross Profit \%}$$



The second is the Mark Up a business is achieving on its products.

Mark Up is calculated as $\frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times 100\%$

If the Trading Account appears as follows (for example):

Sales	1,200
Less cost of goods sold	
Opening stock	200
Purchases	<u>900</u>
	1,100
Less closing stock	<u>300</u>
Total Cost of goods sold	<u>800</u>
Gross Profit	<u>\$400</u>

In this example the Gross Profit percentage (400/1200) equals 33% or 1/3.

The Mark up percentage (400/800) equals 50% or 1/2. i.e. Sales equals cost of goods sold plus 50%.

Accounting Team News

This is a good time of year to pay tribute to our team who all work extremely hard to ensure that we, as a firm, can always look after your interests and provide you with a top service. From Heather our always happy receptionist to Kathryn who checks your tax assessments with a microscope, to Maureen who ensures your company and trust compliance matters are looked after, through to our twelve, very well qualified accounting team members.

Thank you and well done everyone

Xmas Closure

Please note our office will be closed from 3:00 p.m. on Monday 23 December and re-open 8:00 a.m. Monday 6th January 2014.

We would like to thank all our clients, associates and referrers of work, for your continued support to our business and wish you a very Merry Xmas and a restful and safe holiday season.

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