

WITHERS & CO LTD

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CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

May 2017

Changes at Withers & Co Ltd

Grant Blackburn joined us in 1986, and retired on 31 March this year, to spend more time with his family and to pursue his interests.

Grant has been responsible for increasing our reputation as an efficient and competent Chartered Accountancy Practice, and has looked after many of our clients. He will be missed by us and we wish him well in his retirement.

We are pleased to welcome Hannah Dixon, Holly Wright and Helen Sircombe to our team.

Principles

Simon Withers
Grant Dixon

Accountants

Cheryl Edwards
Lynley Preston
Donna Danks
Helen Sircombe
Holly Wright

Support

Jenni Vipond
Suzanne Pallett
Davina Connolly
Hannah Dixon

Hannah joins Davina at reception in an Administration Support Role.

Holly graduated from Otago University in 2015 with a Bachelor of Commerce Degree and is currently studying towards her Chartered Accountancy qualification.

Helen has had extensive experience in Chartered Accountancy practices most recently in Helensville.

Your 2017 Tax Information

Our staff team are ready to complete your 2017 Income Tax Returns.

With Inland Revenue Department penalties on all late filing of returns, do not be late in forwarding to us 2017 papers, and balance date details.

Include your GST calculations, donations paid, and all bank statements.

Check our website for the detail we need – www.withersco.co.nz

Income Tax Rates for 2017

Taxable Income

Rate

Personal	
Up to \$14000	10.5%
Over \$14001 - \$48000	17.5%
Over \$48001 - \$70000	30%
Over \$70001	33%
Non-notified Rate	45%

Companies 28%

Family Trusts 33%

Mileage Rate

The mileage rate for motor vehicles (both petrol and diesel) is 72c per kilometre up to a maximum of 5000 kms of work related travel per year.

IRD Use of Money Interest Rate

- underpayment rate 8.22%
 - overpayment rate 1.02%
- Effective 8 May 2017

Minimum Wage Rate

The minimum hourly rate increased by 0.50c to \$15.75 from 1 April 2017.

Paying Contractors or Working as a Contractor

From 1 April 2017, the way some contractors pay tax on schedular payments has changed, giving them greater choice and helping them get their tax right. Schedular payments are specified payments contractors receive for certain types of work. Withholding tax is deducted before the payment is made to the contractor. Business expenses can still be claimed.

If you were already receiving schedular payments before 1 April 2017, then you will continue to pay tax this way. However, now you can either use the standard rate or you can choose your own rate, subject to minimums outlined on the IR330C. To choose your own rate you will need to advise your payer of the rate by completing a *Tax Rate Notification for Contractors (IR330C)* form instead of the *Tax Code Declaration (IR330 form)*.

Changes to Farm House Deductibility

Since the 1960s, the Inland Revenue Department has allowed fulltime farmers a deduction of 25% of farmhouse expenses without any evidentiary support.

A key part of the changes revolve around a distinction between farming businesses where the cost of the farm house, including curtilage is 20% or less of the total cost or market value of the farm (Type 1 Farms), compared to those where the value is more than 20% (Type 2 Farms)

Example

	Type 1 Farm <20%	Type 2 Farm >20%
House & Curtilage	250000	500000
Land	1500000	750000
Total Value	1750000	1250000
% House	16.67%	40%

The changes which will impact farmers from the start of the 2017/18 financial year are as follows:

Farm Type	Interest and Rate Charges	General Farmhouse Expenses	Fixed Line Telephone Charges
Type 1 Farms	100% deduction for rates and interest expenses relating to the farm, including the farm house	20% deduction unless the taxpayer can substantiate a higher deduction	50% of telephone rental charges used for both business and private purposes, unless the taxpayer can show that 50% is too low
Type 2 Farms	Apportion between farm and farmhouse on a fair and reasonable basis	No automatic deduction of 20% - but can claim based on estimated area of office/business use	50% of telephone rental charges used for both business and private purposes, unless the taxpayer can show that 50% is too low
	In the above example would be 60% being value of farm land/total value		

We would envisage that the majority of our farm clients will fall into the Type 1 category meaning the only change will be a reduction of claimable house costs from 25% to 20%, and a reduction of telephone rental from 100% to 50%.

Small farms or lifestyle blocks, orchards and farms where there is a substantial home of high value may fall into the Type 2 category and will no longer qualify for 100% rates and interest claim. Please contact us for advice if you believe you fall into this category.

LIVESTOCK HERD SCHEME VALUES 2017 On 17 May 2017 (Average Market Values) Note the Changes

	\$ 2017	\$ 2016	Change
Sheep			
R5 yr Older Ewes	110	96	+14
MA Ewes	131	117	+14
2th Ewes	150	133	+17
Ewe Hoggets	109	92	+17
Wethers & Ram Hoggets	103	84	+19
MA Wethers	86	68	+18
Rams	349	304	+45
Beef Cattle			
MA Cows	1431	1273	+158
R2 Heifers	1171	1079	+92
R1 Heifers	824	726	+98
R1 Steers, Bulls	986	842	+144
R2 Steers, Bulls	1325	1229	+96
R3 Steers, Bulls	1614	1468	+146
Breeding Bulls	3095	2571	+524

GST Refunds/Payments

From now on Inland Revenue Department will pay all GST refunds directly into customer's bank accounts.

Make sure you have provided Inland Revenue Department with your correct bank account details if you have not already done so.

IRD encourages online filing and payment of GST, but will still provide paper copies if this is your preference.

If paying by cheque, your cheque must reach IRD on or before due date so post in sufficient time to avoid penalties.

ACC Invoices

A reminder to check your ACC invoices carefully before these are paid to ensure that the correct industry and full/part time classification is shown – you could be overcharged, and can claim a refund.

These are often incorrect particularly if you have changed business or are new to self employment or have taxable salaries from more than one company.

ACC Motor Vehicle Levy Rates

ACC motor vehicle levy rates will be decreasing by 13% from 1 July 2017, this means your vehicle registrations will get cheaper.

Xero

As more and more of our clients make the move to Xero for their accounting software, we can assist you with any queries you may have both in the setup phase and on an ongoing basis. Please contact Grant Dixon for any assistance.

Audit Shield – Cover to Protect you for IRD Audit Costs

It is becoming more commonplace for individuals in business or those who are self-employed to consider tax audit insurance. A particular type of tax audit insurance that we utilise is Audit Shield. Audit Shield covers business or individual returns which are subjected to a random audit, enquiry, investigation or review by Inland Revenue or other New Zealand government body.

Without this cover, you are responsible for the professional fees involved in providing the required information, and negotiations with IRD. Due to the time involved, these could be \$5000 - \$20000, or more, over 2 – 5 years.

Audit Shield has extensive coverage available. The following are some they cover:

- Income Tax
- GST
- Record Keeping
- Fringe Benefits Tax
- Employer Returns
- PAYE
- Computer Tax Audits
- Imputation Credit Account
- Resident Withholding Tax
- Dividend Withholding Tax

The bottom line is that IRD auditing is becoming increasingly targeted and sophisticated with digital data matching of properties, and online facilities available.

With every tax case, there is a client and his accountant, defending, and it is fair to say that even where the cases are won, the cost of getting the tax claim settled direct, or through the process will have been eye watering.

This is the risk that Audit Shield insures you against.

If you wish to receive this cover – call Davina at reception.

IRD Audit Activity

From time to time IRD publishes its key compliance focus areas.

The latest report included as areas of focus:

- Aggressive Tax Planning
- People with high-wealth or high-income
- The "property business" (including residential property trading and one off speculation, with a focus on new and infill developments)
- Under reporting income and operating outside the system "The Hidden Economy"

In 2017 the IRD will be continuing to focus on undeclared cash in the construction industry and hospitality sectors.

Fringe Benefit Tax – Company Owned Vehicles

Fringe Benefit Tax applies to both, shareholder employees and regular employees. If your company owns a vehicle it is potentially liable.

The rules around vehicles are rather stringent and to avoid Fringe Benefit Tax a vehicle must fall within the definition of "work related vehicle" as below:

- Not a car, station wagon, hatchback or other vehicle designed exclusively or mainly to carry passengers
- Must be prominently sign written
- Must not be available for any private use other than travel to and from home to work, or travel that is incidental to work related trips

You also must be able to demonstrate that you have another vehicle available to use privately.

Winding Up Companies – Show Me the Money!

In New Zealand there are a significant number of companies with owners who are aged 50 or more. Many of these companies are beginning to wind up. There is strict processes for undertaking these wind ups correctly (even the short form wind ups) and failure to follow the correct process can result in "capital" withdrawals becoming taxable.

Please contact us prior to sale and definitely before you withdraw the money. A tax clearance is required first, before wind up approval.

Other Upcoming Changes

Effective 1 April 2017

- The threshold for self-correction of errors under Section 113A of the Tax Administration Act 1994 has increased from \$500 to \$1000.
- Most RWT Exemption Certificates can now be issued for more than one year.
- Some close companies will be able to adjust for private use of motor vehicles instead of paying FBT. Will apply to new vehicles only, existing vehicles still subject to FBT.
- Look Through Companies (LTC's) – owner's basis calculation (deduction limitation rule) no longer necessary in most circumstances.
- Shareholder Employees will be able to receive a bonus, gross shareholder salary in addition to PAYE salary.
- Use of Money Interest (UOMI) will only apply from the third provisional tax instalment date, provided the first two instalments have been paid as required by the standard uplift method
- UOMI safe harbour for individual taxpayers to increase from \$50000 to \$60000.

Our very best wishes for 2017 and 2018.

Withers & Co Ltd
Chartered Accountants
WARKWORTH

23 May 2017

Disclaimer

This newsletter is of a general nature only and should not be used as a substitute for detailed professional advice.