Belton, Smith & Associates Ltd

CHARTERED ACCOUNTANTS

2019 NEWSLETTER

Belton, Smith & Associates update

It is said that the only constant in life is change. We're certainly embracing it here at Belton, Smith & Associates.

If you've been into see us lately, you will have met our new receptionist Kate Allpress. Kate is a Wanganui girl and joined us in April last year after a stint overseas. She's taken on the challenge of working in an accountancy firm and for that we are grateful! She's doing a sterling job.

Teresa Neil joined the team in May and has the unenviable job of understanding what our obligations are under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009. She has now moved into the role of senior accountant and brings twenty years of experience to the role having worked in London for a number of corporate entities. We are extremely fortunate to have someone with her wide range of skills.

Finally, Bryce and Hayden are pleased to announce that they have agreed to a merger of Barlow Lendrum Fitzgerald into their practice and from 1 April will welcome Phil Lendrum, Robert Spicer and Natasha Beytagh and their wealth of experience into our team.

This is an exciting development for our business and we look forward to working with them and of course our new clients.

Belton Smith & Associates team behind the Ken Smith Boulder at Queens Park.

New law will make dirty money easier to spot

Anti-Money Laundering Rules now apply to Accountants

If you have tried to open a bank account or visited a lawyer recently, you will know that new Anti-Money Laundering (AML) legislation has been passed.

This legislation has been forced on us by the OECD and G20 and is designed to make it harder for people to launder money and finance terrorist activities.

What will this mean for you?

Practically it means we are now required to hold evidence of who you are and where you live. That means we need to have a copy of your current photo ID (Passport or Driver's License) and a copy of a utility bill showing your current residential address.

We will try to collect this information when we do your 2019 Financials, so don't be surprised if someone from our office contacts you and asks you to bring in what we need.

166 Wicksteed Street
PO Box 4386, Whanganui 4541
RAWLINSON & HUNTER NZ

T (06) 345 1166
F (06) 345 1167
E admin@beltonsmith.co.nz
W www.beltonsmith.co.nz

Directors: Bryce Smith
Hayden Belton

CHARTERED ACCOUNTANTS AUSTRALIA • NEW ZEALAND

Changes at the IRD

IRD into Stage Two of Business Transformation

It seems like there has been constant change at the IRD recently. Here's a quick update on what has happened and what's to come.

The IRD are continuing their push to get customers to file their returns online and are developing their new online platform to assist with this.

What has changed so far?

The new IRD platform was initially set up to handle GST. Now it's up and running as intended, the platform is being expanded to include:

RWT – Resident withholding tax on interest payments can now be filed online by people who are paying interest and deducting RWT from the payment

AIM – Accounting Income method for paying provisional tax

The IRD has also dressed up and renamed the ratio method of paying provisional tax and will now be based at the same time as you pay your GST. AIM can only be used by those of you who are using approved accounting software, which is Xero, MYOB and Reckon products. It works by you completing and filing a statement of activity to the IRD, which is essentially an estimate of your monthly income for monthly GST filers. Or every two months, for two and six monthly GST filers.

From April, IRD are adding more tax types including:

- Withholding Tax
- Gaming Machine Duty
- Fringe Benefits Tax
- Payroll subsidy
- Employment information (PAYE) – this is also where payday filing will be completed.

Taxes on Residential Property

Changes to the Brightline Test

You may know that if you sell a house you have owned for less than two years (not your main residence or an inherited house, or a house acquired via a relationship property agreement) the gain, if any, is taxable.

From 29 March 2018, that two year time period has been extended to five years. So any properties purchased after 29 March 2018 (that are not exempt) will be subject to tax on any gain if sold within five years. Farms and commercial property are excluded from this five year rule.

Property transactions can be complicated for tax purposes so it is always better to check what the rules are before you make a decision.

Ring-Fencing rental property losses

From 1 April 2019 you will no longer be able to offset losses made from residential rental property against other income that you earn. If you own more than one rental property, you have a choice as to whether you calculate your income on a property by property approach, or group your properties together.

This means that there is no tax advantage in gearing your investment property so that it makes a loss each year because the deductions you can claim for tax purposes will be limited to the income that the property generates. The excess deductions can be carried forward and used to offset future income, but that means you will need to top-up the investment and there is no tax gain from doing this.

1 April isn't far away so if you have large deferred maintenance items that you've been putting off you're running out of time to get them done.

Payday filing

Payday filing means that you need to file an equivalent IR348 (Employer monthly schedule) every time you pay your staff as opposed to on a monthly basis, from 1 April 2019.

The IR348 contains the details of the gross pay and deductions by employee and from 1 April will need to be filed electronically within 2 working days of paying your staff. If you choose to do it manually you have 10 days to get the forms to the IRD.

You are still required to file an IR345 at month end, and the payment of your PAYE and other payroll deductions are still due on the 20th of the following month, so no change there.

If your total PAYE and ESCT are greater than $50,000, there is now an obligation to file the returns electronically. This means that you will be required to use software but with less than a month to go, the software providers and the IRD are still working through the process and some of the software is still not ready...

If you are an employer you might want to consider the following:

1. What is the current frequency of your payroll and will you need to change this to fortnightly or monthly to reduce your compliance costs?
2. Are your total PAYE and ESCT deductions over $50,000 per annum and do you therefore need to look at software to process your payroll?

Other points you need to know.

1. Payroll filing will be completed under the business tab from 11 March when you login to your IRD account
2. You need to register with the IRD so that you have access to the Payroll Returns tab
   a. If you are not the business owner then you need to be appointed by the business owner to access this information.
3. The old IRD system will no longer work for uploading PAYE returns from 11 March 2019, so you need to file February's payroll by then, especially if you upload the payroll files electronically.

If you are unsure of what you need to do, please let us know and we will assist you.

Motor Vehicles

Business use adjustments for Motor Vehicles

The IRD have issued an operational statement with regards to the treatment of motor vehicle expenses used for business purposes for sole traders, partnerships and close companies (five of fewer natural person shareholders).

If you are using a car or vehicle for both business and personal use then the most important thing you need to know is that you are required to keep a log book. This needs to cover a period of three months at a minimum and once completed will last for three years. This information is then used to calculate the business use percentage of the vehicle.

Once the percentage use is known you are then entitled to make a claim based on two methods below;

1. **Actual costs** – which as the name suggests is based on all of the vehicle expenses that you have physically incurred during the tax year, eg fuel, registration, warrant, repairs and service costs.
   If you are GST registered you will have most likely claimed the GST on these items during the year, so there will be a GST adjustment at year end for the private costs that are not deductible.
2. **Kilometre rate reimbursement** – For this method, you need to keep a physical record of the total kilometres travelled during the financial year. You then take the total distance travelled each year and times this number by the IRD or equivalent vehicle reimbursement rates.
   Under this method you should not be claiming GST on any of the vehicle expenses you physically pay for during the year.

No logbook entitles you to a maximum of 25% business use. Or if you want to make a claim for business use when expenses have been paid privately then you are limited to 3,500 km at the IRD rate without a logbook.

Vehicle rate changes

In the past the vehicle rate was a flat rate, which was 73 cent per km, but going forward the first 14,000km of travel is 76 cents per kilometre and then depending on the type of car, it drops to 26 cents for petrol and diesel or 18 cents for hybrids and 9 cents for electric vehicles.

These are also the rates for the 2018/2019 year that you can use to reimburse staff at for business use of their private motor vehicle.

These logbook and apportionment rules are further complicated by the GST adjustment rules, so our advice is, if you are going to do this have a chat to us first so we can come up with the best basis for you and make sure we get the compliance right.

Motor Vehicles and Companies

A further change has been made for close companies, with the IRD allowing a choice now about whether they account for motor vehicle expenses using the mileage rate set out above or continue down the Fringe Benefit Tax path.

If your company owns motor vehicles that are available to staff and or shareholders and they don't fit the description of a work vehicle, then there is an obligation to return FBT each year. This is an area that is easy pickings for the IRD if you do become the subject to their unwanted attention, so it pays to get this right.

Keep in touch...

For further help on any of the articles featured in this newsletter or any other tax questions you may have feel free to contact either Bryce, Hayden or one of the team members.

Belton Smith & Associates Ltd
CHARTERED ACCOUNTANTS
www.beltonsmith.co.nz

AIR BnB

For those of you thinking that putting the spare room on the internet and making a quick buck sounds like a good idea, please bear in mind that you will need to declare the income you make.

Airbnb might be a popular and easy way to get customers through the door, but in the eyes of the IRD you are effectively running a commercial accommodation business. So if you decide to do this you will have income tax obligations.

The real issues start if you are using your own home for this activity and earn over $60,000 gross income in any 12 month period. If so, you will trigger compulsory GST registration and your property will be subject to GST implications on sale or deregistration, as it is part of the asset base used to generate income.

There are also cost apportionment rules to consider if you are using the property as your private dwelling, along with providing rooms in the house for accommodation.

If this is something you would like to consider, please talk to us. Better to go in with your eyes open than be given a nasty surprise at the end.

Home office options - sqm rate or actual

Many small businesses have a room or rooms set aside as an office or storage for their business and are therefore entitled to claim a deduction for this each year when completing their income tax return. The amount of the deduction has historically been calculated by taking the size of the room or rooms (square metre floor area) and dividing this by the overall square metre size of the house and if included, garage.

The deduction is then based on the actual costs incurred each year for the utilities, plus the cost of either rent or mortgage interest, insurance and rates, and then multiplied by the percentage use calculated earlier.

The IRD have provided a very reasonable alternative to this, whereby the utility and insurance part of the equation have been included in a square metre rate.

This means no more tracking back through all the utilities bills and insurance invoices to work out what was spent.

We still need to know the mortgage interest and rates paid, or if renting the rent paid for the financial year, but we can work out the rest.

We will also need to know the % of area used if this has changed from any prior years' workings.

In Brief

Minimum Wage

1 April signals another increase in the minimum wage. The increase this year is $1.20 an hour, taking the hourly rate to $17.70.

The change takes the amount earned in a 40 hour week to $708 per week or $36,816 per annum.

The Government has also set indicative rates of $18.90 for 1 April 2020 and $20 for 2021.

ACC Refunds

Prior to Christmas, ACC discovered that their system had not been calculating refunds correctly for a significant number of their business customers since 2002.

Those affected include self-employed customers who paid first year levies after 2002 and also business customers who had paid provisional ACC levies but then due to a change in circumstances either ceased business or income allocation was made to shareholder employees. This means there was no requirement to pay levies for the following year.

ACC has been refunding affected customers since Christmas, so if you have received an unexpected payment or cheque from ACC it could be for this reason.

Feel free to contact us if you are unsure about what you have received.

Keep in touch...

For further help on any of the articles featured in this newsletter or any other tax questions you may have feel free to contact either Bryce, Hayden or one of the team members.

Belton Smith & Associates Ltd
CHARTERED ACCOUNTANTS
www.beltonsmith.co.nz