Winter 2019

Stephen Larsen and Co

TAX AND BUSINESS ACCOUNTANTS

TAXTALK

Help Your Accountant, and Yourself

Here are some of the problems we strike when preparing your annual accounts and what you can do to help us:

- Avoid supplying too much information – our questionnaire will list what we need. Too much information means we have to wade through it, in case there is something you intend us to see.
- Respond to our questions as soon as possible, while your work is fresh in our mind – maximum a couple of days.
- Answer all the questions in the questionnaire – if you don't know what to put, mark the question and when you have finished completing the questionnaire, call us or send us an email to get the points clarified. Please don't leave blanks.
- Our systems are designed so we can complete your job as efficiently as possible. If you are contemplating providing us with summaries, please discuss this with us before going ahead, so we can agree what works for both of us.
- Getting stuck – if you can't give us the answer because something is missing, let us know as we can usually work out a solution.
- If you think a cost is borderline, please ask us. When we find a personal cost has been put down as a business expense, we have to check to see if there are any other mistakes of this nature and this adds to the time taken to complete the job.
- If you want to provide us with additional information, it is best to include this in the questionnaire. Sometimes you may want to include a separate document, so please show on the questionnaire a reference to the separate document and on the document a reference back to the questionnaire. For example, (on the questionnaire) write "please see A attached" and on the document write the capital letter A at the top.

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More to Tax Working Group Than Meets the Eye

You might be forgiven for thinking, as a result of all the media attention, the only thing the Tax Working Group ever did was to make recommendations about a Capital Gains Tax.

- You might be interested in some of the other suggestions contained in clause 37 of working group's report:
- Increase the provisional tax threshold from $2500 to $5000
- Increase the automatic deduction for legal fees from being just in connection with the buying and selling property to other types of professional services
- Increase the threshold at which you don't have to count your stock to $20,000 - $30,000
- Simplify depreciation rates
- Simplify FBT
- Possibly remove the 50 percent limit on claim for entertainment expenses
- Up the threshold for writing off low-value assets

Let's hope the Government implements them all as soon as possible.

Take Care with Tax When Winding up Your Business

If you're considering selling your business and you run it through a company, you could have a tax problem.

You may not take out, straight away, large amounts of your capital gain on sale of the business. If you do, you might find you get an unwanted tax bill.

Generally, when a company makes a capital profit, the shareholders may only distribute this money to themselves if it is in the process of winding up the company. If they pay out before the company is officially in liquidation, they have to pay tax on the capital gain.

If there's no evidence to the contrary, the money taken out could be interpreted as a loan from the company to the shareholders, in which case Fringe Benefit Tax would apply, or you would have to pay interest to the company on the amount of its loan to you.

From your point of view, the interest is not tax deductible and it is subject to tax in the company – a waste of money.

Your solution is to wind the company up promptly. You should consult us to make sure this is done properly and enable us to check for tax pitfalls.

Losses from Rental Properties

The following is the proposed tax law, which has yet to be enacted. Some of it could be changed.

As you will know, losses on residential rental properties may no longer be claimed as a deduction in your annual tax return.

They will have to be carried forward to the next year and set off against any rental profits in that year. Any surplus losses get carried forward again.

What happens when you sell your property? The losses can still not be claimed. Your only solution would be to buy another rental property. You would then be entitled to use those past losses as a deduction against profits on the new rental property.

If you own several properties, you can treat each separately, if you wish, but there doesn't seem to be much achieved by doing this. If you do nothing they will be treated as a "portfolio" and you will be entitled to set off profits and losses on each of them against the others. Any surplus losses then get carried forward.

There are occasional situations where your rental losses can be set off against the profit on the sale of the property. This is only allowed if that profit on sale is taxable, i.e. not a tax-free capital gain.

question time >>

Q: What are the tax implications of the transfer of property from an estate?

A: *Read on below*

An individual has a family trust. He, his wife and a professional trustee are the trustees. The individual's mother was the settlor. The beneficiaries are the children and grand-children of the individual and his wife.

The mother died in March 2018. Her will bequeathed a commercial property to the trust. The property has previously been depreciated.

Are there any tax implications when the property is transferred from the estate to the trust?
Normally, transfers of property following a person's death are treated as disposals and acquisitions at market value. Two transfers will occur in the process: the commercial property is transferred from the deceased to the executor of the estate; and from the executor of the estate to the trustees of the trust.

Depreciation recovery income will arise when the property is transferred from the deceased to the executor, assuming the tax book value is lower than the market value of the property at the date of death. The depreciation recovery income is to be returned under the mother's income tax return in the income year that it arises.

The property will be transferred from the executor to the family trust at market value on the date of the actual transfer. Therefore, as the depreciation is recovered on the transfer to the executor, in this case the transfer to the trustee of the trust will not result in any additional income tax liabilities.

Although there is roll-over relief from the deemed market value disposals where there is a transfer of property to close relatives under a will, they will not apply here. Although the son and grandchildren of the deceased are close relatives and the ultimate beneficiaries of the estate, the roll-over relief provision (s FC 4) will not apply as the property is being transferred to a trust for the benefit of the close relatives rather than directly to the close relatives.

Even if s FC 4 applied here, it would not assist as it only grants roll-over relief to the transfer of the property from the estate to the beneficiary. The transfer from the deceased to the estate occurs at market value at the date of death. The transfer from the estate to the beneficiary occurs at the estate's cost (ie, market value at date of death).

References:

Income Tax Act 2007, ss FC 1, FC 2, FC 4.

Source: CCH/TEO Question & Answer Service

WEB SOLUTIONS

Check on ACC

Always check ACC invoices. Sometimes they record your occupation incorrectly. If you have a PAYE salary and also a provisional tax salary from your company, you could find your total income is greater than the maximum threshold for paying ACC, and be overcharged. ACC charges on the basis of information it gets from Inland Revenue. It then makes a provisional charge for the following year. If you are winding up your business, you may care to ask ACC to lower its provisional charge.

TAX SOLUTIONS

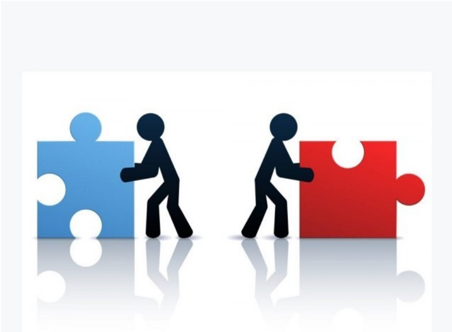
Donations rebates

You can now send in your donations receipts to Inland Revenue as you get them, as long as you submit them electronically. Or, you can continue as usual and save them up for the end of the year and attach them to the IR526 form.

PROHUB SOLUTIONS

Looking for a way to record notes with customers who are slow payers and want a reminder system so that you can follow them up if they're not paying? Prohub Online offers you such a solution. Prohub Online allows you to create notes of phone calls with slow payers and then allows you to allocate a follow-up date and follow-up person so that they get regular reminders that you want your money. Visit our website to find out how Prohub online can help your business prosper.

Put Transactions Through One Business Account



To minimise the risk of error, put all your business transactions, which should include expenses paid out of your own pocket, through one business bank account.

In this way, you will avoid confusion over whether GST has been claimed, and minimise the risk of errors arising from misunderstandings.

How to do this?

- If you have accidentally used your personal account, make a payment from your business account to reimburse.
- If you are short of money in your business account, transfer an amount from your personal account by way of a loan to the business. Make sure we know the deposit is your own money.
- If you are paying your credit card account, pay the personal portion out of your personal bank account and the business portion out of your business bank account.
- For small items of expenditure, collect them up in a notebook and when you get to about $100, make a payment from your business to yourself as a reimbursement.

Quick Quote

Intaxication: Euphoria at getting a refund from the IRD, which lasts until you realize it was your money to start with. ~Author unknown

Don't Make Customers Hit the Red Button

Chris said he was pleased with the attention at his doctors' surgery. Soon after he was asked to complete a survey, which was to take only 10 or 15 minutes.

"I felt I owed it to my carers to respond and started answering questions. They wanted my age, my ethnicity and a string of other barely relevant details before getting down to the meat of the issue. After 10 of these questions, I gave up."

If you're going to do a survey and really want to know what people think, keep it brief. There are far too many surveys competing for your time.

Have you ever watched Britain's Got Talent? Think of Simon Cowell with his finger on the red button.

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