

TAXTALK



The Families Package: what does it mean for you?

The Families Package is a collection of changes aimed at assisting New Zealand families and helping children get the best start in life. They come into effect on 1 July 2018.

Best Start tax credit

Best Start is a new weekly payment of \$60 per child, available to eligible parents who have a baby due on or after 1 July 2018.

All families receive this payment until the child turns one, no matter what the household income is. Families with a household income of less than \$79,000 will continue to receive \$60 a week until the child turns three. Those earning above this amount may continue to receive payments at a reduced amount. The upper threshold is \$93,858 (for one child) when payments stop.

For those that receive paid parental leave, Best Start payments will begin once paid parental leave finishes.

If the child is cared for under a shared care arrangement, the amount the primary caregiver receives will be apportioned according to their arrangement.

Applying for the Best Start tax credit

Anyone who may be eligible will be able to apply through the SmartStart website when they register their baby's birth.

Changes to paid parental leave

Paid parental leave is also extending from 18 weeks up to a maximum of 22 weeks for parents with:

- babies born or expected on or after 1 July, or
- children under the age of 6 coming into their care on or after 1 July.

This also means the number of keeping in touch hours is increasing from 40 hours to 52 hours.

Changes to Working for Families tax credits

The payment rate and eligible income range for Working for Families is also changing. There will be higher payment rates and widening of the eligible income range.

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Interest on short-paid Provisional Tax

Are you likely to pay more than \$60,000 provisional tax per year? If yes, read on:

Some clients will have a good idea of their income for the year shortly after it has ended. Why wait until we have prepared your tax return to discover how much tax you have to pay?

IT people are often a good example. They know the fees they have generated for the 12 months. It is the amount they have invoiced. When they look at their accounts each year, they will probably notice their overheads tend to be reasonably constant. All they have to do is to take their earnings, deduct their expected expenditure and they have a fairly accurate idea of their taxable income.

Provided you pay your provisional tax using the standard method, which is automatically generated when your tax return is prepared, there will be no use of money interest charge on the first and second instalments of provisional tax. However, you are expected to be able to work out your income for the year in time for the third provisional tax instalment.

If you have an income which attracts more than \$60,000 tax per year, compare your income this year (after deducting GST and expenses, of course) with last year.

The standard calculation for provisional tax automatically allows for an increase in your income of 5%. If you think your income for the year ended 31 March 2018 is going to be more than this (we assume you have a 31 March balance date) make another tax payment now over and above the amount we asked you to pay on 7 May.

How do you calculate the amount? It is 33% of the difference between the income you expect and the income on which you have paid tax.



New rules for mileage

If you are in the habit of claiming your vehicle running expenses based on your mileage, you will need to know the new rules.



The 5000 kilometre limit has been abolished. Instead, you look at your first 14,000km of total running. This is called tier 1 and the mileage rate is higher than it is for tier 2.

You calculate the business proportion of that first 14,000km. Shall we say that is 20%, which amounts to 2800km. Next, you work out the rest of the total mileage. This is called tier 2. Shall we say you did 29,378km in the year.

This means the rest of the mileage is 15,378km and your 20% would be 3076km.

The rates have not yet been announced and they will vary according to the type of vehicle you have, be it petrol, hybrid, electrical or diesel. You should make a point of telling us which source of energy you are using.

As you can see, you really need to know the total number of kilometres you travel every year. Make a diary note to have a look at your odometer at the end of the day on the last day of your financial year. If you sell your vehicle, note the final speedo reading on the old car and the starting figure on the new car. Similarly, note the reading on the new car.

Q: Is land sold outside the bright-line period taxable if there is a purpose of disposal?

A: Yes, read on below

An individual purchased a residential property just over two years ago as a rental investment.

Now that she is outside the two-year period for the bright-line test, she will sell the property and use the profit as a deposit on a new home for herself. It was always her intention to hold the property for just over two years and then sell it so she could buy a new home.

Will she be subject to tax on the gain on the sale of the property even though she is selling the property outside the two-year period for the bright-line test?

ANSWER:

Section CB 6 of the Income Tax Act 2007 provides that an amount a person receives for the disposal of land is income if the person acquired that land for one or more purposes including the purpose of disposal, or with one or more intentions including the intention of disposal.

The two-year bright-line test was enacted because of the perceived difficulty in establishing a person's purpose or intention. The bright-line test did not replace the intention or purpose test, but only supplements it. The intention or purpose test takes precedence over the bright-line test. This means that a property acquired with an intention of disposal that is sold within the two-year bright-line period is taxed under s CB 6 rather than the bright-line test. This is important, as the limitation on deductions and loss ring-fencing that applies to the bright-line test does not apply to land that is taxed due to being acquired with a purpose of disposal.

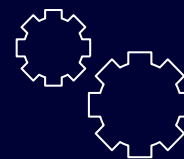
If the individual purchased the property with a definite purpose or intention of disposing of it, then any amount she derives from the sale of the land will be taxable income under s CB 6. This is regardless of whether she sells the property within the two-year bright-line period or outside it.

There is an exclusion from s CB 6 that applies to residential land. However, this requires the person to have occupied a dwelling on the land as their main residence. As this was an investment property, that exclusion will not apply to this individual.

References:

Income Tax Act 2007, ss CB 6A, CB 6, CB 16.

Source: CCH/TEO Question & Answer Service



TAX SOLUTIONS

IRD refunds

If the IRD sends you money you're not entitled to, don't just assume it's right.

You're not entitled to keep it. You can get tax refunds in two ways. It can be lodged to your bank account or paid by cheque.

Inland Revenue says you have 20 working days to give them back overpaid tax or they'll penalise you. If you don't check your bank account often and a tax refund slips into it, you could easily get caught. You

might be better to get your refunds by cheque so you can make sure they are right before banking them. When returning money to IRD, be sure to give it all the information it needs to put the money back in your correct account, for example, GST June 2018 GST number etc.

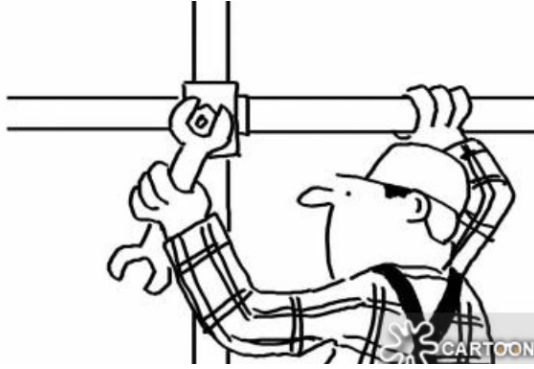


WEB SOLUTIONS

Do you file FBT returns online?

From July 2018 you need to file through myIR Secure Online Services. Register through myIR. Calculation worksheets will no longer be sent to you in the mail. They can be viewed online.

Where is the scaffolding?



“You get this all the time with tradesmen.”

This was the comment of a builder talking about the troubles of a friend. The friend, let's call him Jim, was having difficulty coordinating a scaffolding company and the painter for his house.

Jim was grizzling because he had just had a call from the scaffolder saying that they could not come as promised at 8 o'clock that morning, but would try to get there later in the afternoon.

When pressed, the scaffolder admitted the afternoon was also unlikely and then said definitely the following day.

“The trouble is this also mucks up the painter,” Jim said. “Really, the fact that three men had not turned up to work that morning should not have been my problem.”

Scaffolding may be a very difficult business to be in, but customers don't want to hear your problems. If they are in business, they have enough of their own, anyway.

If you want your business to be overrun with eager customers falling over themselves to use your service, be different from and better than your competitors.

Provide a better service. Work out how to solve your ongoing problems with staff, weather and so on. Communicate in advance with those who depend on you so they can also organise their work.

If it's impractical to nominate a specific day for delivery, say so. Give your customers a pleasant surprise by performing better than you had promised.

Reliable companies can charge a premium for better service.

Times will not always be good in the building industry. Build your reputation now.

Quick Quote

Our destiny often looks like a fruit-tree in winter. Who would think from its pitiable aspect that those rigid boughs, those rough twigs could next spring again be green, bloom, and even bear fruit? Yet we hope it, we know it. ~ Johann Wolfgang Goethe

The late Lord Bates

Lord Bates recently turned up two minutes late for a House of Lords debate. He apologised and shocked his colleagues by immediately resigning from the House.

While this was an extreme reaction, lateness is a bad habit and it's inconsiderate to keep people waiting. Although often not intended, it suggests the late-comer considers themselves to be more important.

Kick the habit with better planning. Allow for traffic and parking, and plan to leave early so that last-minute phone call doesn't make you late.



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We care about your Business Prosperity

