

balance dates will similarly adjust. Thus the 1st instalment for a 31 December balance date will be 28 May.

GST payment date

You will pay GST three days earlier. For March balance dates, those paying GST six times a year will pay on 28 June etc. i.e. three days earlier.

The GST ratio - proposed start date is 1 July 2007

GST registered taxpayers will be allowed to pay provisional tax based on GST payments. The formula is based on a calculation of the ratio of taxable income to taxable supplies in the last financial year adjusted for capital items sold. This ratio is then applied to taxable supplies for that 2 monthly return period, or if on a monthly basis, the past 2 return periods.

This approach will only be available where income tax is less than \$150,000. The ratio may have limited application. It will not be available to those who are not GST registered. This includes shareholder/employees and those who profit from subscribing to shares in their employer company.

Wages Cost Subsidy

The promised subsidy for employers will be payable if a listed PAYE intermediary is used. It applies for only 5 people on the payroll.

Depreciation

The write off threshold for low value assets increases to \$500 (\$1,000 in Australia), effective 19 May 2005. Buildings bought after 19 May 2005 will be subject to the new lower depreciation rates.

The Commissioner will apply the double diminishing value method to most other assets other than buildings. This will lead to higher claims on short life assets such as computers, which will jump from 48% DV to 60% DV. You can elect to use the older, lower depreciation rates for assets bought between 1 April 2005 and 31 March 2006. The new rates will not apply to assets bought prior to 1 April 2005.

Note: Parliament dissolved on 11 August 2005 for the election, which meant that the Bill lapsed. It is expected that some, or all of the changes will be reinstated by the new Government. The comments above are presented on a very simplified basis.

Financial Modelling

KGA are now approved by MYOB/Inmatrix as an approved "optimist office". Optimist is an advanced financial modelling programme that analyses and educates clients about crucial ratios, and provides "what if" analysis, thereby assisting in setting strategy and direction through goal seeking. It links financial goals with business activities and measures outcomes of business activities. This software is a very powerful business tool designed to enable clients to understand their businesses a lot better, to facilitate smart decision making and at the same time providing excellent output for lenders and shareholders. If you would like to discuss how the optimist financial modelling process can assist your business, please contact us.

TAX CALENDAR

October 7

3rd instalment of provisional Tax
(October balance date)

3rd instalment of 2006 provisional tax
(June balance date)

November 7

2nd instalment of 2006 provisional tax
(March balance date)

2005 terminal tax
(October balance date)

Quote of the Month

Some people make things happen.
Some people watch things happen.
Some people wonder what happened.

kga

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CLIENT NEWSTALK

September/October 2005

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Assignment of Income

A client, taking the advice of his financial advisor, gave his wife a large sum to invest so she could derive the interest and the pair of them could save some tax. When we suggested this transaction amounted to an assignment of income, the financial advisor said she thought we were being pedantic. Be sure to take tax advice from those who know tax.

If you lend money to another person for investment, so the interest can be taxed at a lower rate than it would be in your own hands, you are assigning your income. This is not permitted.

You can do several things:-

- 1 If you are the bread-winner, get all your income paid into a joint account. This now becomes family money. When invested the income belongs to both partners and can be split equally between the two tax returns. Half a cake is better than no cake.
- 2 You can enter into a matrimonial settlement. You agree certain of your assets will, in future, belong to you jointly and in this way you can share the income. This choice could be useful if you own rental properties and you want the rent to be shared.
- 3 You could sell your investments to a family trust. Your spouse could be a beneficiary and all the income could be allocated just as you want it.
- 4 There are several other ways of achieving the desired result, such as having a company owned unevenly. Your decision should not be tax motivated. For example, if you transfer your wealth to a family trust, your reason might be one or more of those listed on page 2 of this newsletter under the heading "Why a Trust?"

Wendy in Wonderland

Wendy was on the phone. "Ross and I thought we might pop across to the Gold Coast for a break. There's a hairdressers conference on. Is this a tax deductible expense?"

We often get similar calls. Overseas travel can be classified as:

- Prime purpose of this trip is business.
- It is mixed business and private
- Prime purpose of the trip is holiday with a bit of business

I told Wendy this and said once I knew more about her trip, I could tell her which classification it fell into, and what she could claim. "The conference is very important and I expect to learn from it," she said. "I will come back with some good ideas which will keep our salon up to date and hopefully increase our sales. I wouldn't be going if it weren't for the conference. I also want to visit a couple of big salons in Brisbane and I would like to pick their brains. Naturally, we also want to take a holiday; who wouldn't?"

To save some time, we offered to email some notes on overseas travel and then explained the importance of keeping good records. "This will help to establish the prime purpose of your trip."

If she is going to have discussion with a couple of salons in Brisbane, she is likely to contact them before she leaves. She should make notes of when she contacted them, who she spoke to and what was decided. Similarly, she should keep a diary of her trip. Often business trips lead to further contacts when the traveller returns home. She should also keep diary notes of these.

We then explained which costs are tax deductible. "Where the trip is primarily for business, costs of travel there and back, accommodation while there and food together with related taxis are all tax deductible. Ross's fares are a personal cost. You would incur the cost of a hotel room regardless of whether Ross was there, so that's a business cost and your food, not Ross's, is claimable. Accommodation and meals on days on holiday are non deductible.

"If your prime purpose was a holiday, tax deductible costs would be travel to and from your hotel to the conference and salons. The air travel and accommodation would be a private cost."

Depreciation clawback

Would you like an unpleasant surprise? Try selling a rental property. Some years ago the tax law was changed. Before this, it was assumed that when you sold your rental property, the depreciation you had claimed on the building was a fair expense, which did not require correcting at the time of sale. The rules changed.

When you buy a rental property, we divide the cost into three parts value of the land, value of the building and value of chattels. When your rental property is sold, we calculate the

proportion of the selling price, which applies to the building. We compare this with its depreciated value. If this is a gain, you will have to pay tax on the difference between the written down value and the amount you originally paid for the building.

Clients often believe all the money they receive when they sell their rental property should be a non-taxable capital gain. If you sell a rental property, be sure to put some money aside for tax: if you want to know how much, call us.

Little Snippets

IRD New NZ-Australia website

The IRD has set up a new part to their website in partnership with Australian Taxation Office by combining Trans-Tasman tax information. The site sets out tax information and gives information on a range of common business scenarios (including internet sales). See: www.ird.govt.nz/your-situation-bus/nz-ih-australia

Penalty Interest On Leases

Commercial tenants would do well to carefully consider the penalty interest provisions in their lease agreements. Some agreements specify a percentage rate while others refer to a percentage (say 5%) above the interest charged by the Landlord's bank. When the bank rate is high, some tenants can be paying 18% or more in penalty interest. And be warned just because the landlord is not taking action at the tenant's failure to pay rent, does not mean that penalty interest is not accruing and the landlord may eventually come knocking for the whole amount owed.

CPI Index

The consumers Price Index rose 0.9% in the June 2005 quarter. This is equal to December 2004 quarter increase which is the largest quarterly increase since the 1.0% in the June 2002 quarter. Annual CPI inflation stands at 2.8%

New Company Incorporations

During 2004 there were 61,170 new companies incorporated (the highest year on record) bringing the total number of registrations to 361,912. Companies exiting the register totalled 24,770

Why a trust?

Here is a list of reasons why you might want a family trust.

- To protect personal wealth.
- To protect your partner if you need long-term care. Your assets could be sold to pay for this
- To protect your children from the financial consequences of a bad relationship
- In case a government reintroduces estate duty.
- To allocate income to family members who are on low tax rates

Credit in new Consumer Act

We think this article should interest you as a consumer as well as helping our retailer clients.

The Credit Contracts & Consumer Finance Act 2003 makes several changes to consumer credit arrangements. It applies only where credit is provided to an **individual primarily for personal purposes** and, in general, only to consumer credit contracts.

The lender must get the borrower to sign a declaration about the nature of the lending before entering into any contract

Disclosure requirements

The Act still requires the lender to make initial, continuing, variation, guarantee and requested disclosure, but the kind of disclosure is not different. Disclosure must now include, among other things:

- Annual interest rate;
- Details of interest charges and how they are calculated;
- Particulars of interest-free periods;
- Amount of fees and charges;
- Amount of default interest charges and fees;
- "Statement of right to cancel" in the form prescribed by the Act.

Initial disclosure must be made within five working days of the contract being signed. The Act provides a model disclosure statement. If used, it is presumed that disclosure has been properly made.

Interest

The key changes relating to interest are:

- The lender cannot charge or debit interest for any day before the end of that day;

- Interest rate changes, including changes to the base rate, can be disclosed before the change takes effect by a statement published in a range of newspapers or in accordance with the Act's regulations;
- A lender will be able to charge a higher rate of interest if the borrower has defaulted in payment and while that default continues.

Fees

- Credit fees and default fees must not be "unseasonable".

Repayment - part and full

- Borrowers can now have the right to repay the loan in full at any time and no consumer credit contract can without our interest penalty, prohibit this. Lenders may decline a part re-payment if expressly permitted by the contract.
- Lenders will be able to charge "reasonable" re-payment fees.

Re-opening credit contracts

- Borrowers will still be able to reopen both consumer and non-consumer credit contracts for oppressive conduct by the lender.
- Borrowers can also seek certain changes to the contract if they have suffered unforeseen hardship. This may be where the borrower is unable to meet their obligations because of illness, injury, loss of employment, termination of relationship, or other through reasonable cause. Applications under hardship provisions can be made only if the debtor has not defaulted and is not in excess of a specified credit limit.

Budget 2005 - more information

Research and development expenditure

It will be permissible for Research and Development expenditure to be matched with the income it derives, rather than being written off when incurred. This means, if a company wants to introduce new shareholders for example, it will be less likely to lose any accumulated losses.

Costs of marketing - before going into business

These will become deductible even though sales or commercial production may not have commenced.

Provisional Tax for 31 March balances

Payment dates are to be 28 August, 28 December and 28 April from 1 April 2006. Non standard