



# NEWSLETTER

## *Summer 2017*

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## Tax Calendar

### January 15th 2018

Pay GST for period ended 30 Nov 2017  
2nd instalment of 2018 provisional tax  
(March balance date except for those who  
pay provisional tax twice a year).

### April 9th 2018

Terminal tax for 2017  
(March, April, May and June balance dates)  
For all clients except those who have lost  
their extension of time privilege.  
Their payment date is **7th February 2017**.

## PAYE changes and tax simplification

Inland Revenue (IRD) have recently released a new Taxation Bill and published the eighth discussion document in the Making Tax Simpler series, both of which aim to reduce the cost of tax compliance and administration for NZ businesses and individuals.

Under the current PAYE system, it can be difficult for IRD to collect the correct amount of tax from individuals over the course of a tax year. The nature of the system means that mistakes can be made when selecting PAYE codes, or if a person's income changes unexpectedly the amount of tax withheld over the course of a year is not likely to be accurate, leading to tax refunds or liabilities at the end of the year.

IRD propose increasing the frequency that employers provide information to IRD from monthly to every payday, which could be weekly or bi-monthly for some employees. This will be facilitated by the integration of accounting software with the IRD system, so that employee income and deduction information can be sent to IRD with a simple 'push of a button'. PAYE information will be sent as pay checks are processed, so payroll reporting will become an integral part of the tax process rather than a separate and additional function for employers. This will reduce the tax administration involved with employing



staff and ease the compliance burden for businesses.

The draft Bill also proposes that more detailed information will be collected more regularly on

individuals' investment income, such as interest, dividends, portfolio investment entity (PIE) income, taxable Māori authority distributions and royalties.

The new rules will require the payer to submit information about individuals to IRD on a monthly

basis, or whenever payments are made if the payment frequency is less than a month.

Taxpayers will still be responsible for providing any additional information to IRD, such as rental or self-employed income, however it will be possible for this to be provided via the online 'MyIR' system.

The IRD estimate that an additional \$21 – \$27 million of income tax revenue will be collected per annum under the new rules, and an additional 185,000 individuals will have their investment income included when determining their Working for Families entitlements, allowing more accurate calculations.

In summary, the proposals aim to use digital solutions to simplify the tax administration process. Both the PAYE changes and introduction of detailed reporting for investment income will give IRD more real-time information and ultimately give the Government greater insight into a taxpayer's financial position. This will open up opportunities to redesign social policies and improve the future administration of other systems such as child support, KiwiSaver, Working for Families and student loans.

## Voluntary disclosures



Tradies have been under the watchful eye of Inland Revenue (IRD) for the last few years since being identified as a cash-dominated industry in 2012. A media campaign has recently been launched to warn tradespeople that doing 'cash jobs' may comprise tax evasion, and that every cash job leaves a trail (or lack of a trail) that can be

tracked by IRD.

Tradespeople risk substantial financial consequences if they are caught understating taxable income in their tax returns. Fines, penalties, use of money interest, and potential prosecution are all within the IRD's power.

This begs the question, if a business identifies an error and the correct amount of tax has not been paid, what should be done? Contrary to some views, it does not comprise a windfall gain. If a business has underpaid its tax by more than \$1,000 it must be disclosed to IRD. No business owner will take joy in having to pro-actively contact IRD, so here are a few points to keep in mind which will help smooth the process. The best way to proceed is by making a written voluntary disclosure. With any re-assessment to increase a person's tax liability, IRD will consider whether shortfall penalties should be charged. If charged, the amount is based on a percentage of the tax shortfall and the percentage varies depending on the nature of the error and the taxpayer's culpability. The taxpayer should therefore use their written disclosure to clearly set out what the error is, how it arose and what actions have been taken

to ensure it will not happen again. The disclosure provides an opportunity to explain the facts in the most favourable way possible. It reassures IRD of the taxpayers willingness to comply with the tax rules and demonstrates that the matter is being taken seriously. The disclosure should also set out how the relevant tax return should be amended, with reference to the actual box numbers in the tax return. Broad statements regarding how the mistake should be fixed run the risk of IRD amending the return incorrectly, which will only give rise to more contact with IRD – the taxpayer should make it extremely easy for the person processing the change to get it right.

In most cases, if a voluntary disclosure is made no shortfall penalty should be charged.

In a small number of cases, the IRD may receive the disclosure and commence an investigation. IRD could potentially take the view that if one error was made, something else might be wrong. This reinforces the need to word the initial disclosure carefully to ensure there is an appearance of 'there is nothing to see here, move along'.

If a voluntary disclosure is not made, and IRD find the error themselves the situation could be much worse. Shortfall penalties, that may not otherwise have been applied, could be charged and the IRD may undertake a more comprehensive investigation. So we would always recommend full disclosure at the earliest opportunity. Being able to sleep at night is worth some temporary discomfort.



## Accommodation allowances

In today's fast changing commercial environment, it is common for employers to provide board or accommodation to employees, and move staff to new locations based on the needs of the business. This can occur when permanently moving an employee to a new location, or when temporarily seconding an employee to a different location.

The value of board or accommodation provided to an employee generally comprises income of the employee and is subject to PAYE. However, in relocation scenarios, given the business drivers in these situations it is sometimes possible for accommodation to be provided tax free. The rules are prescriptive, so it is a case of working through them to confirm how they apply.

In the case of a permanent relocation, payments for accommodation may be treated as non-taxable to the employee for up to three months from arrival at the new location, providing they have moved to:

- take up employment with a new employer, or
- take up new duties at a new location with the existing employer, or
- continue in their current position, but at a new location.

If an accommodation allowance continues after this three month period, the payments will become taxable to the employee. Various other costs can also be paid tax free, such as moving and transportation costs. Refer to Inland Revenue's determination 09/04 for a complete list.

In the context of a temporary change

in workplace, such as a secondment, the length of the secondment and its purpose will determine to what extent accommodation will be tax free. If the business intends the temporary relocation to last for a period up to 2 years, then the accommodation for the whole duration of the secondment can be treated as non-taxable. This tax free period can be extended to 3 years if the employee is working on a project to build, restore or demolish a capital asset. If it becomes evident that the employee will need to be seconded for more than 2 or 3 years, respectively, the accommodation will be taxable from the date expectations change.

Real life scenarios can of course be complicated and the rules themselves are complex as they attempt to accommodate (no pun intended) those situations. For example, the rules cater for employees with multiple workplaces, new employees who are placed on immediate secondment and extended periods due to exceptional circumstances, such as natural disasters.

For businesses encountering this scenario, the first priority is to ensure there is a system in place to capture and record the provision of accommodation to employees. It is then a matter of confirming what the correct tax treatment is. There is no distinction

between whether the employer pays an accommodation allowance or provides accommodation directly. The rules can be complex depending on the situation, but tax is a business expense (and risk) like any other and should be managed accordingly.



## Holding gold

Can an investment in gold bullion create a tax liability? Inland Revenue (IRD) has recently released a statement on this specific point.



IRD consider that gold bullion purchased as an investment has been acquired with the purpose of eventual disposal, i.e. a purpose or intention of resale exists. Consequently, any gain that arises on its future sale is income and taxable. In IRD's view, a commodity such as gold does not provide any

annual return or income for the period of ownership, so it is hard to argue that the investment was for any purposes other than eventual disposal.

The IRD considers the 'reason' for acquiring gold is irrelevant. Whether it has been purchased as an investment, or a hedge, this does not counter the underlying purpose of a future disposal. In comparison with other investments such as shares in a company, which may be held on capital account for the purpose of a deriving a dividend stream, gold has none of these features.



## Tax is not for the DIYers

**The following story indicates the folly of trying to prepare your own tax returns.**

It involves a taxpayer who bought three properties. He paid costs for his business and his rental, plus personal costs, from personal credit cards and funds in a revolving credit account. He also put all his income into the revolving credit account.

He mixed up his personal, his business and his rental income and expenditure.

When it came to a claim for interest on money borrowed, he was unable to identify precisely how much had been borrowed to finance the rentals. As he couldn't prove the amount, Inland Revenue allowed none of the expense.

Believe it or not, in spite of his family trust owning one of the properties, he returned the rental income as his own income. To make things even worse he bought furniture, carpet, stove and other household items and couldn't show that these were actually bought for the rental properties.

Inland Revenue had a field day. Don't let this happen to you. Let us deal with tax issues so you can claim all your entitlements and be compliant with tax laws.

## Ceasing to let a rental property

**You can claim expenses on your rental property so long as it's available for rental.**

If you want to sell the property or move into it yourself, the moment your tenant leaves the property it's no longer considered available for renting. Therefore, any expenses relating to the property, after this date, are not tax deductible. This includes major repairs caused by an unruly tenant.

Remember, all repairs have to be done before the tenant leaves or they are not tax deductible.

## Payment of wages to spouse or partner

**Inland Revenue has recently reminded accountants that employers who want to claim deductions for payments to a spouse or partner need to get approval before filing a tax return. Inland Revenue will not back-date their approval. If you are trading as a limited liability company, this does not apply. Limited companies do not have spouses.**

## IRD plea: Get the details correct

Many electronic payments are being made with incorrect details.

The correct methods are described on the IRD website.

Use the following information for making electronic payments.

Particulars: IRD number (if you have an 8-digit IRD number put a zero in front of the number)

No punctuation is to appear on the IRD number

Payee code: Account type and period (with a space), eg, IPS 31082017 or DED 15092017. Reference:

Nothing is required. Using correct details will stop incorrect statement of accounts or debt letters being issued in error.

## Written contracts are important

A Hamilton car dealer recently incurred fines and a liability for back-paid wages of \$65,000 for not having an employment agreement and imagining his staff were self-employed. He did two things wrong: 1 - he didn't get advice about what constituted a contractor; 2 - he didn't have a written agreement. Don't make the same mistakes.

## Time to sell?

Business owners have many reasons why they want to sell up. It might be the lure of retirement, illness, a new challenge or the business is simply not doing well. The smart business people start developing an exit strategy from day one. It means they can amend as circumstances change, but still have a plan to go to when the time comes. Don't wait for the business catastrophe. You'll always have a better chance of selling at a good price if your business is doing well.



A batch of common email addresses will be switched off at the end of November when Vodafone stops offering email services.

The following Vodafone email services will close on 30 November, please advise us if your email address has changed and we can update our database:

- clear.net.nz
- es.co.nz
- ihug.co.nz
- paradise.net.nz
- pconnect.co.nz
- quik.co.nz
- vodafone.co.nz
- vodafone.net.nz
- wave.co.nz

## Vanburwray News...

**Congratulations to Alex Sillito**, now Alex Jayne on her marriage to Matt Jayne.



Their beautiful wedding was held in sunny Fiji in July.

### **Nicola Whitmore having a baby**

Nicola will be finishing on the 15th December as she will be having her third child. She will be on parental leave until the end of September 2018.

Her workload will be spread amongst the existing team.

We wish her all the best and Grandad is looking forward to grandchild number three.

### **Welcome to Boris Nignol**

Boris Nignol joined us in July this year and is Hayley Eichstaedt's partner.

Boris is born and bred in the Brittany province, West France and has been living in NP over the last 4 years. He has recently completed a Diploma in Accounting with Career Academy, NZ.

Outside of work his interests include tennis, gym and reading plus as an avid sports fan he likes to follow the various sporting teams from his home country France.

We enjoy his lovely French accent around VBW along with his bubbly and friendly personality.

### **Lorraine Williams retiring**

Lorraine will be retiring on the 22nd December this year. She has been the Secretary and Personal Assistant for Stephen Eichstaedt for just over 28 years.

Her workload will be spread amongst the Eichstaedt team who are not looking forward to the thought of having to decipher Stephen's handwriting.

We wish Lorraine all the very best for her retirement and spending time with her family, scrapbooking, aqua aerobics and walks in the lovely NP parks.

***Thank you Lorraine for your top work, dedication and support over the 28 years***





To all our Clients and Associates

*Wishing you all a*  
**MERRY CHRISTMAS**

Our office will be closed from

**12PM FRIDAY 22ND DECEMBER 2017**

and will reopen at

**8AM MONDAY 15TH JANUARY 2018**

We look forward to working with you in the New Year

*Have a Safe and Happy Holiday Season!*

from the Directors & Team at  
Vanburwray Chartered Accountants Ltd

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*Friendly reminder: we have free client parking to the side of our building. Drive in between VBW reception and Caci Clinic.*

*If you have any questions about the newsletter items, please contact us, we are here to help.*

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