

## Director's Corner

### BankLink

*Do you spend hours trying to get your accounts ready for us?*

*Do you want to eliminate the time you spend every month on tedious data entry?*

*Are you too busy to bother with complex accounting software?*

If you answered "YES" to any of these questions, then BankLink can save you time, stress and hassle!

BankLink delivers a secure, electronic copy of your bank statement directly from the bank to your accountant. It means that all your financial data comes directly to us. No more storing up chequebook stubs, searching for missing bank statements, or providing us with your reconciliation on disk.

From this information, we can then easily code the transactions, or quickly identify where we need more information from you. We can also provide quick, accurate information for GST returns.

Using BankLink saves you time that is better spent running your business.

#### **More information – when you need it**

As BankLink allows us to work with your accounts on a regular basis, we can keep track of your business performance and provide you with improved business information.

#### **Is BankLink secure?**

An electronic copy of your bank statement is sent to us under strict security measures. The transaction is in encrypted form and cannot be accessed by anyone other than us. This is considerably more secure than sending bank statements by post! Your relationship with your bank does not change. You still receive your printed bank statement from your bank as usual.

#### **Who uses BankLink?**

Over 2,800 accountancy practices in Australia and New Zealand use BankLink.

All major banks are supplying data through BankLink and there is increasing penetration into other financial institutions with over 70 banks, building societies, credit cards, credit unions and rural suppliers available.

#### **BankLink Coding Report**

BankLink Coding report is an easy to complete report that lets you keep it as simple as possible. No computer or accounting jargon is required. Once you have completed the report, simply fax or post it back to us.

#### **BankLink Notes**

BankLink Notes is great for people who are confident with email but not so keen on accounting. We email you a BankLink Notes file to complete and return.

#### **BankLink Books**

BankLink Books is designed for people who want a bit more control, and who know their way around a cashbook. It's still very quick and easy to use, and helps you monitor your financials without spending hours away from your business.

#### **What are the costs?**

Account load charge (once only per bank account established)	\$15.00
Banking transactions processed (per transaction)	4.3c
Monthly account charge (per bank account per month)	\$2.00
BankLink Books have an offsite client charge per month	\$7.80

#### **BankLink InvoicePlus**

BankLink have released an Invoice / Debtors package, called InvoicePlus. It covers the entire quoting, invoicing, receipting and statement process.

The product is a stand-alone package. We think this is the ideal approach for most small to medium-sized businesses, as they tend not to have in-house accounting expertise, and therefore struggle with complex accounting entries.

**Call us now on 03 477 0032 and we can give you more details.**

# Personal Tax Cuts

Budget 2008 announced that personal tax cuts are to take effect from 1 October 2008.

- The bottom personal tax rate will be reduced from 15% to 12.5%, and the thresholds at which personal rates apply are to be raised over a period of three and a half years. On 1 October 2008, the beginning of a three-year programme, workers will get tax cuts of between \$12 and \$28 a week. At the end of the third year, April 2011, the cuts will have risen to between \$22 and \$55 a week.
- The tax cuts are being brought in through a reduction in the bottom tax rate and changes in the thresholds, which will rise in stages. At the end of the programme, the top tax bracket of 39 cents, which now applies to income over \$60,000, will cut in at \$80,000.

Specifically the tax cut programme will deliver:

- A new low tax rate of 12.5%;
- A lifting of the 21% threshold by \$10,500 to \$20,000;
- A lifting of the 33% threshold by \$4,500 to \$42,500;
- A lifting of the 39% threshold by \$20,000 to \$80,000

**Table 1: Table of tax thresholds**

NEW RATES			
Current Rates	From 1 October 2008	From 1 April 2010	From 1 April 2011
15% to \$9,500	12.5% to \$14,000	12.5% to \$17,500	12.5% to \$20,000
21% to \$38,000	21% to \$40,000	21% to \$40,000	21% to \$42,500
33% to \$60,000	33% to \$70,000	33% to \$75,000	33% to \$80,000
39% over \$60,000	39% over \$70,000	39% over \$75,000	39% over \$80,000

# Business Tax Changes

In addition to the tax Bill introduced – the Taxation (Personal Tax Cuts, Annual Rates, and Remedial Matters) Bill (see below “Outside the Budget”) – a tax Bill will be introduced in June to reduce tax-related compliance costs and to remove tax impediments to the offshore expansion of New Zealand-resident businesses.

The tax-related compliance costs measures include:

- Raising the PAYE once-a-month filing and payment threshold from \$100,000 to \$250,000.
- Raising the FBT annual return filing threshold from \$100,000 to \$250,000.
- Allowing closely-held companies to file FBT returns annually if their FBT liability arises solely from the provision of up to two vehicles to shareholder-employees.
- Raising the GST registration threshold from \$40,000 to \$50,000.
- Raising the GST six-monthly return filing threshold from \$250,000 to \$500,000.



## RENTAL PROPERTIES

### Rental Property Changes into a Home

When a rental property becomes a home for the owner, adjust depreciation recovered at the end of the year **following** the change. This solves the problem arising when you are uncertain whether to go back to renting. You have a full year to make up your mind.

### Sale of a Rental Property to Company

Be careful with documentation:-

Borrowed money must go into an account in the company's name.

Beware of the casual solicitor or their clerk who thinks a credit in their client's own name in their trust ledger will do.

Create a director's minute recording a call being made by the shareholder for repayment of debt owing.

Ensure you are very careful when talking to the bank. Bankers are careless in the way they write up notes of conversations. It could be prudent to be present at bank interviews in these circumstances.

Ideally have the loan paid directly into the company bank account.

## IRD NUMBERS FOR INDIVIDUALS

The Inland Revenue has introduced a new process for obtaining IRD numbers in an effort to prevent identity theft and fraudulent use of IRD numbers.

No longer can a tax agent apply for an IRD number for an individual. The applicant is now required to produce two original identity documents, one of which must have a photograph of the applicant, to any AA (Automobile Association Driver Licensing Agent), PostShop or selected New Zealand Post outlets along with the photocopies. These could be passports, driver licences, or birth certificates.

These selected agencies will then confirm the applicant's identity and send photocopies to the Inland Revenue Department, who will then send the IRD numbers directly to applicants within 8-10 working days.

## “BE VERY AFRAID” TAKES ON A NEW MEANING

During the course of an audit a couple of years back we were somewhat surprised to hear that when the Inland Revenue Investigator disclosed that while she was on holiday she detoured to the location of some of the taxpayers property interests and checked out certain matters.

In Case Y19 the Taxation Review Authority in commenting on evidence before it that an Inland Revenue Investigator had used binoculars to “spy” on a taxpayer said “Such zealotry on the part of a member of the Commissioner’s staff in the gathering of information to be used against a taxpayer is surprising”. Well really!

### Is such activity legal?

What is legal is the ability of Inland Revenue to haul a taxpayer into its office, place them under oath and question them.

The taxpayer cannot even refuse to answer the question “on the grounds that it may incriminate them”. If the answer to the question “drops them in it” - well so be it!

This power is found in section 19 of the Tax Administration Act 1994. Is the use of section 19 on such a taxpayer appropriate? Inland Revenue recently advised a taxpayer that they intended to interview their 8 year old child under its section 19 powers. This raises questions as to whether Inland Revenue staff are appropriately trained to conduct such an interview? Or is threatening to use section 19 in such a way a scare tactic to place inappropriate pressure on the child's parents?

Spine chilling isn't it?

Inland Revenue has immense power but it must not step over the line.

It can raid work premises without notice and homes with a warrant, take away computers and forensically examine them.



# Can you have your PIE and eat it too?

The introduction of KiwiSaver and the changes to the way investments are taxed are the biggest changes in the financial services area for more than 20 years. The new rules came into force on 1st October 2007 and have created a new investment vehicle called a PIE (Portfolio Investment Entity).

For many years, unit trusts, managed funds and superannuation funds have been at a tax disadvantage because they were taxed on both capital gains (even though New Zealand doesn't have a capital gains tax) and income at 33%, even if the investor was a 19.5% tax payer. In the past, direct share investors, passive funds or UK Investment Trusts paid little or no tax on their investments for essentially investing in the same assets.

The new tax rules for PIE's are an integral part of the introduction and development of KiwiSaver and remove several disincentives for investing through managed funds. PIE's will not be taxed on capital gains from New Zealand and most listed Australian share investments.

## The new rules create two types of income:

PIE income is income earned from investments that qualify as PIE's.

Non-PIE income (or other income) is your before-tax income from all sources, e.g. salary, wages, interest, dividends, New Zealand Superannuation etc.

In the past managed funds, unit trusts and Superannuation funds were taxed at the fund level at 33%, in future investors will be taxed at their Prescribed Investor Rate (PIR). The PIR is the rate at which investors will be taxed on their PIE income.

## Prescribed Investor Rate (PIR)

This is the rate at which investor's income from a PIE will be taxed and is similar to an individual's marginal tax rate. The key difference is the top tax rate for PIR is 30% compared to the top personal marginal tax rate of 39%.

Here are some key points to remember:

## Working out your PIR

Your PIR depends on how your investments are held and investors will need to check their PIR every year.

*Individuals – Your PIR may be 19.5% or 30%.*

For the 2009 tax year (1 April 2008 to 31 March 2009) the test for calculating your PIR will be:

- If your non-PIE Income is \$38,000 or less and your total income is \$60,000 or less, then your PIR is 19.5%
- If your non-PIE income is greater than \$38,000 or your total income is greater than \$60,000, then your PIR is 30%

- Joint Ownership (two or more people) – Your PIR may be 19.5% or 30%

Each investor must calculate their individual PIR and if all investors have a PIR of 19.5% then this rate be applied to the PIE investment, otherwise a PIR of 30% must be applied.

*Non-Residents – Your PIR is 30%.*

*Trust & Estates - Your PIR is 0% or 30%.*

If a Trust elects a 0% PIR, it becomes responsible for its own tax obligations. If a Trust elects a 30% PIR, then tax is automatically deducted from its PIE investments and does not need to be included in its tax return. This may not be desirable in some situations e.g. where beneficiaries are on a 19.5% marginal tax rate.

## Companies & Charities – Your PIR is 0%.

Companies are required to include any PIE income in their tax return and are responsible for their own tax obligations.

## What does it mean for investors?

- Tax free capital gains on NZ and most major Australian listed companies
- Investors will be taxed at their Prescribed Investor Rate of 19.5% or 30%
- Investors don't need to file a tax return for this income because their PIE income is a full and final tax
- PIE income will not be income tested for Family Assistance or Childcare benefits provided under current social policy

## So can you have your PIE and eat it to?

Well the answer is yes for those investors whose non-PIE income is less than \$38,000 and whose total income including PIE income is less than \$60,000 because they will be on a 19.5% tax rate. This means, potentially, a couple could earn up to \$120,000 and pay 19.5% tax if their affairs are correctly structured.

These tax changes will help New Zealanders move away from their over reliance of residential property investment and should help develop more balanced household balance sheets. The tax changes will help develop a stronger New Zealand sharemarket and hopefully, we can retain more of our good companies instead of selling them off to overseas investors.

*To discuss any aspect of this article, please call Russell Quin at Clarke Craw Limited on 03 477 0032, or Spicers on 03 477 0004 for a free, no obligation discussion. Russell's disclosure statement is available free of charge and can be obtained by phoning him at the number above.*