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## Provisional Tax Reminder

The first provisional tax payment for the year ended 31 March 2012 is due 28 August 2011.

This applies to all provisional taxpayers except those companies or sole traders who are registered for GST on a six-monthly basis.

For those taxpayers on the standard option which bases provisional tax payments on the amount earned last year, the amount to pay will be set out in the letter we sent you recently when we completed your tax work for the year ended 31 March 2011.

The standard option may be used by those who earn less than \$160,000 a year without PAYE deducted.

If we haven't completed your 2011 tax work yet then you will need to pay the same amount of provisional tax that you paid at each instalment date last year.

For those who earn more than \$160,000 a year from their non-salary business activities and pay tax of more than \$50,000 a year then you are an estimated provisional tax payer. It is important to ensure you pay enough provisional tax during the year so that Inland Revenue doesn't charge interest on underpayments at the end of the year.

Because you can never "catch up" on any underpayment of the first provisional tax payment for the year, we recommend that you pay tax based on the maximum amount you expect to earn if you're likely to earn more than

\$160,000 gross a year. This allows you to reduce the subsequent payments if you earn less than the expected maximum.

Please contact us if you need to check the amount you should pay.

## Look Through Company (LTC) Reminder

You are reminded that LAQCs ceased from 1 April 2011 and any LAQC at 30 September 2011 which hasn't made an election to become a Look Through Company will default to a Qualifying Company (QC), backdated to 1 April 2011.

There is an option to defer your decision till 30 September 2012 but any loss for the year ended 31 March 2012 will be retained in the company for that year.

While there is no "one size fits all" for this decision, in many cases companies that will continue making losses may prefer to transition to an LTC and those that are likely to make profits may prefer to default to a QC.

If you choose to transition to an LTC then you need to complete an LTC election form (an IR862) which is available on Inland Revenue's website.

One director needs to sign section 1 of the form and the year that it applies is the start of the "2012" year.

In section 2 of the form each of the owners of the company needs to sign – this will be each shareholder and in the case of a trust shareholder, one trustee of the trust. This trustee will also need to supply their IRD number.

Remember this election needs to be made by 30 September 2011 if you want to allocate a loss to shareholders for the year ended 31 March 2012.

### **The Budget - Holiday homes**

In the May budget the government announced that it would be reviewing the use of assets where there is a mixture of private and business use, including holiday homes.

While the review is expected to be completed later this year, early indications are that Inland Revenue's approach is as follows:

1. If the property is rented out for a market rental and is clearly a commercially viable proposition then all costs may be claimed and any resulting loss will be recognised.
2. If the property is not rented for a significant part of the year then costs may be limited to the costs incurred during the period the property is rented out.
3. If the property is not rented out for a market rental or if there are consistent losses from the property then the losses will be limited to the amount of rental income. In this case there would be no loss to claim on the property and no income to declare.

We are expecting more details from Inland Revenue later in the year and we'll keep you updated on the outcome through our newsletters. However it is likely that this year ended 31 March 2011 will be the last that the full costs of a holiday home will be deductible.

### **Gift Duty Update**

As you'll be aware, gift duty is to be abolished from 1 October 2011 as the costs of administering this duty outweighs the revenue received.

Affected government agencies such as Housing Corporation and Social Welfare already have their own legislative ability to take into account any recent debt forgiveness so individuals will now be able to sell assets to a trust with recognition through a deed of acknowledgement of debt and forgive that whole debt at the same time. You will still need to formally acknowledge and forgive debts but you will no longer be charged gift duty on any forgiveness of more than \$27,000 in a twelve month period.

However there is some concern that government agencies will not recognise large amounts of debt forgiveness in excess of \$27,000. In particular we understand the legislation for access to residential care subsidies does not recognise debt forgiveness of more than \$27,000 in any one year. This means that although you may forgive the remaining debt through one deed of partial forgiveness of debt the government may treat the debt as outstanding for access to residential rest home care subsidies. Therefore a conservative approach may be to continue forgiving the outstanding debt at \$27,000 per year and we recommend that you discuss this with your solicitor.

### **Turnaround delays**

We have been disappointed this year not to have been able to turn all work around in three weeks.

To speed things up it is important that you respond to our March email asking you to schedule your work with us for the year. This gives you the opportunity to choose the time that would suit you and we can then schedule it in.

In some cases we have prioritised work but sending us all the information requested when you are sending in your work also speeds up our turnaround, as does responding to queries promptly. Having said that, we thank you for

your patience as this year there has been added complexity with many jobs e.g. re-reviews of the LAQC status for each affected client, assessment of the impact on provisional tax of not having a building depreciation claim available for the 2012 year, application of the personal services attribution rules, the GST rate change mid way through the year, and the impact of the Christchurch earthquake in February.

We lost contact with one of our clients in the red zone for 4 days and have put considerable effort into supporting our clients in Christchurch both personally and in reconstructing their accounts, preparing GST returns etc especially where they have no computers and no access to their records. Several have lost their businesses completely and have no income but fortunately none of our clients lost a close family member.

For next year then please remember to schedule your work with us in March and provide all the information on the agreed date.

And let's hope there aren't too many complex tax changes in the coming year!

## Investor Update

The new financial advisors legislation is now firmly in place so we won't be giving you any investment advice, but we can give you our opinion.

There has been a lot of volatility in share markets recently as the sovereign debt crisis slowly unravels and America struggles to put together any meaningful measures to tackle its deficit. It looks like interest rates will remain relatively low for some time but with US and Europe printing money, real inflation (not the numbers governments publish) must increase. This penalises savers with money in the bank earning interest and in the USA there is one bank that is now charging interest on deposits over a certain amount! It also makes holding fixed interest investments like bonds risky. Long term holdings of shares in well run businesses with low debt

and returning a dividend should continue to be a good investment – it is real assets like equities that provide protection from inflation over time.

## Tech Corner

If you visit our website you will find a link to our blog on the front page - [blog.dowsemurray.co.nz](http://blog.dowsemurray.co.nz). This is where we get to go into a bit of detail on a variety of technical issues. If you are interested in being notified when there is a new blog post then follow @DowseMurray on twitter.

We came across one thing the other day that isn't really blog material but may be of interest to someone out there – when we copied a worksheet with dates in it from an Excel workbook someone had emailed us into one of our workbooks, all the dates changed by four years and one day – e.g. 31 March 2010 became 30 March 2006.

We found there is an advanced setting in Excel (Setting/Excel Options/Advanced) "Use 1904 date system". This is per workbook. By default it is not ticked so we don't use it in any of our workbooks but the one we were copying from had it ticked. You can correct it in the new workbook by adding 1462 to each cell. You can find more information here <http://support.microsoft.com/kb/180162>.

## Lastly – it's Snowing

We've never seen snow like this in Wadestown before!

