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New Look

We hope you like our new look newsletter. We've also added two new sections: an Investments section and a Tech Corner. Let us know what you think.

Provisional Tax Due

For any business registered for GST on a two monthly basis or any individual who pays provisional tax, you will have provisional tax due on 15 January 2009 and GST. If we have already completed your income tax return for the year we will have advised you of the amount to pay.

If your tax return has not yet been filed with IRD you should pay the same amount that you paid on 28 August 2008. As many will be away in January we recommend that you make the provisional tax and GST payments before you head off on holiday as IRD doesn't send reminders about your taxes due and will charge interest and penalties on any underpayment.

New Tax Changes

Tax cuts: The newly elected government has already enacted several of its election promises.

Personal income tax rates: rates will be dropping again from 1 April 2009. The new rates are:

Amount	Rate
\$0 - \$14,000	12.5%
\$14,001 - \$48,000	21%
\$48,001 - \$70,000	33%
\$70,001 +	38%

If you earn \$100,000 after expenses you should have an extra \$38 per week in the hand compared with 2008/9 and you'll be \$52 per week better off than you were in 2007/8.

KiwiSaver: compulsory employer contributions have been reduced from 4% to 2% and employee contributions from 4% to 2%. The \$20 per week maximum employee tax credit has been retained (this is the \$1,020 government top up) as has the \$1,000 government kickstart contribution.

However the \$40 per year employee assistance to cover fund administration fees has been removed.

R & D tax credits: the 15% tax credit introduced on 1 April 2008 will be abolished after 31 March 2009. This means that the scheme will have only run for a year, causing difficulty for businesses which have embarked on long term development programmes, encouraged by the tax credits. However the expenditure will generally still be tax deductible – it's just that the additional 15% tax credit will not be available after the end of the year.

Reminder of other changes: Other changes in place from 1 April 2009 are the raising of the GST payments basis threshold from \$250,000 to \$500,000, the increase in turnover before GST registration is required from \$40,000 to \$50,000 and the raising of the provisional tax threshold for the move from safe harbour to estimation from \$35,000 tax for the year to \$50,000.

Recent IRD Alerts

IRD recently sent letters to clients who use Loss Attributing Qualifying Companies (LAQCs) to own rental properties. These letters requested taxpayers who are living in these properties and claiming tax losses to advise IRD before audits were commenced. If you are living in a property you cannot claim a tax loss from the rental activity even if you are paying a market rent. The cost of owning a home that you live in personally is a private cost and cannot result in a tax benefit. IRD is likely to be auditing selected LAQCs over the next few months with significant penalties for those who are living in them and claiming a tax loss. Penalties will still be imposed on those who advise IRD of their actions in response to IRD's first letter but the penalties will be less than those imposed on taxpayers who have not admitted their actions before an IRD audit.

Living in a property personally and claiming a tax loss is not a practice we have ever condoned or recommended. While IRD is currently looking at those who claim tax losses from properties they live in it is likely that the next step will be for IRD to look at properties in which relatives are living. If this situation is likely to affect you, you should consider creating an arms length commercial transaction by tenanting the property to an independent third party or cease claiming any tax losses from the relative living in the property.

Trust Distributions

If your trustees don't decide on Trust distributions before 30 September then the Trust will need to pay tax on any surplus for the year ended the previous 31 March. Where distributions are planned for beneficiaries on low tax rates then these distributions need to be made by 30 September so the taxpayer can pay the tax at their own, low tax rate. If distributions are made after 30 September then distributions can only be made after tax has been paid at the Trust's 33% tax rate.

Investments

The introduction of the new Foreign Investment Fund (FIF) rules from 1 April 2007 has changed the way foreign investments are taxed. IRD has recently published a list of Australian shares that are exempt from the new rules – this list can be found on their website at www.ird.govt.nz - search for **IR871**.

Tech Corner

Before you head off for your Christmas holidays ask yourself this question – what would I do if my PC died or was stolen? The correct answer is something like “replace it and copy back all my important documents from a backup”. What about if your house burnt down – would you still have a backup?

If you have a broadband connection a quick and easy (and cheap) way to keep your important documents safe is to use an online backup service. Idrive (www.idrive.com) provides 2GB of backup storage free – you just sign up, install a small backup program and tell it what you want backed up and when and then away it goes.

If you don't have a broadband connection then you should backup to CD/DVD or USB devices, even your ipod – just remember to keep your most recent backup offsite.

Christmas Hours

We will be closed from 24 December 2008, re-opening 12 January 2009. If you have an urgent need for accountancy advice over this period, email or leave a message on the phone – we will be clearing emails and messages regularly.

Wishing you all the best for a safe and happy Christmas and a great new year for 2009.