

Newsletter

No. 9 June 2004

Introduction

Important: Provisional tax is due on Wednesday 7 July.

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Provisional Tax

The first instalment of 2005 provisional tax is due on Wednesday 7 July 2004.

It is your responsibility to make your payment on time. Otherwise IRD may impose penalties and interest.

How much provisional tax will you have to pay?

If your 2004 tax return has already been completed then I will have sent you a schedule setting out your provisional tax payments for 2004/5.

If you haven't sent in your 2004 tax return to IRD then you can calculate your provisional tax for 7 July at 1/3 of 110% of your 2003 tax.

So, for example if your total tax for 2003 was \$14,000 then provisional tax for 2004/5 would be \$15,400 (ie 110% of \$14,000) and the

If your taxable income for the year is less than \$112,000 then you should calculate your provisional tax at the 105% uplift. However if you are likely to earn more than this then if you apply the 105% uplift and then you earn more then you will have to pay interest on any underpayment. So it is important if your income is more than \$112,000 to keep track of your income and the related tax.

On the other hand, estimating your tax when you don't need to can lead to penalties and interest if you don't get your estimate exactly right!

You can calculate your tax as follows:

- For taxable income less than, or equal to, \$38,000 (this is income that hasn't already had PAYE or RWT deducted) then you pay tax at 19.5%. So if your income is \$27,000 then your tax will be \$5,265.

If you receive less than \$38,000 then you are also entitled to a low-income rebate that is calculated on your tax return.

- For taxable income between \$38,001 and \$60,000 then your tax is 33% of any amount over \$38,001 plus \$7,410. So, for example if your taxable income is \$56,000 then your tax will be \$13,350 (ie $((\$56,000 - \$38,000) \times 0.33) + \$7,410$).
- For taxable income over \$60,001 then your tax is 39% on any income over \$60,000 plus \$14,670. So for example if your income is \$93,000 then your tax would be \$27,540 (ie $(\$93,000 - \$60,000) \times 0.39 + \$14,670$).

Try your own calculations and if the maths is

payment on 7 July would be \$5,133.33 (1/3 of \$15,400).

New face

I'd like to welcome Susan Drew to the practice.

Sue and I studied at Varsity together and Sue is also a Chartered Accountant. Sue has had extensive experience in both the private and public sectors in NZ and in the UK.



She has recently spent 12 years working as a Management

Accountant in the education sector. Sue lives in sunny Nelson but with modern communications she could just as well be working in the next room. Sue will be helping me out over the busy periods (which seem to be all year round these days).

My leave

I am due to have surgery on Monday 5 July so I will be (partly) out of action for a few weeks.

Sue will be ticking things over during that period and after the first week I will be able to deal with phone calls and emails.

Changes to Depreciation on rental properties

Some of you will have noticed in the Budget that, the Minister of Finance, Dr Michael Cullen, is going to review the depreciation amounts currently being claimed, particularly for rental properties.

High depreciation claims increase tax-deductible expense and therefore reduce the tax payable.

Concerns have been expressed for some time about practices that involve depreciating partitions and electrical and plumbing reticulation. These items have separate depreciation rates to the structural building

too much, call me!

Even so this has been approved practice now for many years.

The expected changes will see these items being treated for depreciation purposes as structural with a depreciation limit of 4% Diminishing Value.

The depreciation rates for other chattels may also be reviewed.

So what effect will these changes have on property investors?

In my opinion it is unlikely that any changes would be made retrospectively as this would probably mean reassessing the tax return of every property investor in NZ. So I would think that tax returns for 2004 would be unaffected.

So any changes to depreciation rates are likely to affect future years. This will mean that property investors may not be able to claim as much in depreciation expense as they are currently able.

Chattel Valuations

Obtaining a chattel valuation from a chattel valuer (either part of a Valuation company or a specialist chattel valuer) will enable you to claim higher amounts of depreciation than you may have been able to claim otherwise. For example standard sale and purchase agreements specify the purchase price of the total property and list the chattels being purchased and sold.

An independent valuation will separate the valuation into an amount for land and buildings and an amount for chattels. For example an independent valuation may break the value of a \$383,000 property into land at \$160,000, the building at \$215,000 and the chattels at \$8,000.

A chattel valuer may arrive at \$160,000 for the land, \$167,000 for the building and \$56,000 for chattels.

rate and it is argued that these items are in fact part of the structure and should not be depreciated at a higher rate.

In the second example, when a specific chattel valuation has been completed, depreciation of around \$15,080 could be claimed (ie \$167,00 at 4% and \$56,000 at an average of 15%).

On a 39% tax rate an extra \$2,000 in tax refund could be obtained in the first year by getting a chattel valuation done. This more than covers the cost of around \$400 for a chattel valuation.

Chattel valuations should be done as soon as you purchase a property because the valuer will be apportioning the purchase price over the land, building and chattels. After time, not only will the property have increased in value but there are also likely to be changes in the chattels. So it needs to be done soon after purchase.

Bear in mind though the comments in the previous section on likely changes to depreciation. Despite expected changes I still think you are better off having a chattel valuation done.

Due Date Tax Returns

All tax returns are due by 7 July 2004 unless you are linked to a tax agent, myself or someone else.

In this case your return is not due until 31 March next year although you will probably want your return completed sooner so that you know your tax position.

If you are not registered with a tax agent by the date your return is due to be filed ie 7 July then you will be charged a \$50 late filing penalty by IRD if your taxable income is less than \$100,000 and if your income is more than \$100,000 the penalty is \$250.

Anyone who is not registered with a tax agent however is entitled to phone IRD before 7 July and request an extension of time to either organise filing of their return or to register with a tax agent. IRD will usually give a month's extension for this but this can be

In the first example, depreciation of approximately \$9,800 could be claimed (ie \$215,000 building at 4% and \$8,000 chattels at an average of 15%).

Lifestyle Block Magazine Column

I have just started writing a monthly finance column in the NZ Lifestyle Block magazine. The first issue of the magazine appeared on magazine stands in June and is relevant for anyone who owns or lives on a lifestyle block (especially townies).

I have written columns on appropriate structures for owning your property and ensuring your business is recognised for income tax and GST purposes as a business and not a hobby. The latest article, which I have just submitted, will be printed in August so if you are interested in lifestyle block matters look out for it.

Rebates

As most of you will have realised, now that salary and wage earners who have PAYE deducted no longer have to complete IR5 tax returns, the rebates that used to be claimed on that form have now been moved to an IR 256 (personal Tax Rebate form). This is for childcare costs (up to \$940 – you will get a rebate of up to \$310) and donations (up to a maximum of \$1,890 – you will get a rebate of up to \$630).

Low-income rebates will continue to be claimed on the IR3 individual income tax return.

Contact details:

Feel free to contact me as follows:

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Email: Baubre@baubremurray.co.nz

Or Website: www.baubremurray.co.nz

Wishing your business a great year!

extended under extenuating circumstances.