Dowse Murray
Chartered Accountants Ltd

Newsletter

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Introduction

Important: Provisional tax is due on Thursday 7 July.

Topics in this Newsletter

- Provisional Tax Due 7 July
- The Budget: Depreciation
- Update - Investment Property Depreciation
- Charging for your services
- Meet the Team
- Contact details

Provisional Tax Due

The first instalment of 2006 provisional tax is due on Thursday 7 July 2005.

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 2005 tax return has already been completed then I will have sent you a schedule setting out your provisional tax payments for 2005/6.

If you haven't sent in your 2005 tax return to IRD then this part's for you. If your income for the year, that hasn't already had PAYE or withholding tax deducted, is likely to be less than $112,000 then you can calculate your provisional tax for 7 July at 110% of your 2004 residual income tax and then take a third of that number. Your residual income tax is basically the tax you had to pay last year on your self-employed or shareholder employee income.

So, for example if your residual income tax for 2004 was $14,000 then provisional tax for 2005/6 would be $15,400 (ie 110% of $14,000) and the payment on 7 July would be $5,133.33 (1/3 of $15,400).

If your taxable income for the year is likely to be more than $112,000 or it was more than that last year then you will need to estimate your tax for the year.

You can also choose to estimate your tax for the year and this is useful if you are expecting to earn less than in the previous year.

However if you have estimated your income and if you pay an amount on 7 July that is less than a third of your final tax for the year you will be charged interest from the day IRD calculates the instalment amount was due until it is paid. With interest rates currently sitting around 13.08% you should make these payments as soon as possible. Even worse though, if the amount you paid was more than 20% less than that third, then you will be charged penalties as well as interest. However you can re-estimate your tax anytime until the final instalment is due on 7 March 2006.

And if you think the regime is tough just remember that it was brought in because some individuals were choosing to estimate their tax at zero for the first two instalments, investing the money and then making one final payment on 7 March!

The Budget: Depreciation

In the Budget three major changes were made to the depreciation regime. These affect all business owners including property investors.

These were:

- Assets costing less than $500 (excluding GST) may now be expensed in the year of purchase. This affects all purchases made on or after 1 April 2005. Previously the cut-off was $200 and any assets costing more than $200 excluding GST, were capitalised and depreciated. The cut-off is now $500.
- Most depreciation rates have increased from 1 April 2005. For example, new computers used to be depreciated at 48% DV – the new rate is 60%.
- The notable exception is buildings purchased from the Budget date, 19 May 2005. The Diminishing Value rate for buildings is now 3%. Previously it was 4%. Buildings previously being depreciated at 4% may continue to do so.

Update - Investment Property Depreciation

You may remember that last year's Budget signalled a review of the depreciation rates used for investment properties. In particular there was concern about depreciating items such as non-load bearing walls and electrical reticulation, items which some argue are really part of the main building structure and should be depreciated as part of the main building ie 4% (or 3% for new buildings).

No changes have been announced in this area yet and it is hoped that the changes regarding general depreciation will be the only changes made.

Charging for your Services

If you have only recently moved into your own business then trying to work out how much to charge can be a nightmare.

Often the easiest way is to charge what everyone else is charging (if you can find that out!) or to decide what the market will bear. But neither really tells you what you're earning and whether you are covering your costs.

It can be very exciting to see that if you're working from home and charging \$84.38 including GST for 40 hours a week, 48 weeks a year then that gives total cash received of \$162,000. However by the time you've paid the GST (\$18,000) and paid costs (say \$2,000 per month as a minimum) that's another \$24,000 which gives you \$120,000, that's \$62.50 an hour before tax. By the time you've paid tax on that (\$38,000) you're left with \$82,000 or \$42 per hour in the hand. That's half what you invoiced your clients on an hourly basis.

But what about the administration time and the time you can't really charge a client? And what about the time needed to go to the dentist or to take your daughter to school? Taking an hour or two out of your working day will either cost you \$85 in the hand or you'll have to make up the time (that is, if you have unlimited work).

So you should take into account "down time" and allow a realistic charging level of around 35 hours a week. After all no one will pay you when you're sick! Charging out 35 hours a week and taking the 4 weeks annual leave will give you \$126,000 per year excluding GST, a GST exclusive charge-out rate of \$75 per hour and \$42 per hour in the hand.

If you have one staff member working full time for \$30,000 per year answering phones and dealing with most of your administration then this will enable you to earn more but remember that you will need to earn at least \$16 an hour just to pay his or her hourly cost and ACC levy.

You may decide then that you need to put up your hourly rate to make it worthwhile given the business risks in working on your own account or you may decide its easier to stay where you are and not go out on your own.

Remember too to review your rate regularly – clients would rather see a regular 5% increase rather than a 20% one just because you haven't reviewed it for a while!

Meet the Team

You may remember from my last newsletter that two new staff have joined the team so I thought this photo of us at our recent planning meeting may be helpful.

From left to right as you're looking at the page is Helen Bewley, Michelle Lazou, myself (Baubre Murray) and Susan Drew. We're all qualified accountants with a range of complementary skills. While Helen, Michelle and Susan may help with the day to day work I see every job that comes in an goes out of the door.

Contact details:

Please remember that the information in this newsletter is of a general nature only. For advice relevant to your situation please contact me.

You can contact me as follows:
Phone: 971 1600 or 0274 389 972
Email: Baubre@dowsemurray.co.nz
Or Website: www.dowsemurray.co.nz