

Dowse Murray Chartered Accountants newsletter number 49  
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## Newsletter: June 2014

### In this issue:

1. Changing your company shareholding
2. GST and Body Corporates
3. The Budget
4. Westpac agency
5. Timing of tax payments
6. Tech corner
7. Client profile

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### Changing your company shareholding

Be very careful if you are thinking of changing your company shareholding. It is easy to do via the Companies Office website and they don't charge for making the change. However depending on the nature of the change it could end up costing you a lot later on!

Here are three important reasons why you shouldn't change the shareholding without talking to us first.

1. Losses can be forfeited.
2. Dividend imputation credits can be lost.
3. Depreciation recovery may be incurred.

### Losses

A company needs to have 49% continuity of shareholding to carry forward its losses from one year to the next. If the lowest economic holding of all shareholders drops below 49% during the year then the continuity is lost (see chart below) and the losses are forfeited.

### Dividend imputation credits

A company needs to have 67% continuity of shareholding to hold onto its imputation credits. Dividend imputation credits accumulate from tax paid by a company and can be attached to dividends so that the shareholder receiving a dividend doesn't have to pay income tax on the dividend if the company has already paid tax on the income before paying the dividend. Like losses they are very valuable.

### Depreciation recovery may be incurred

If the company is a look through company (LTC) then if the shareholding is changed, the underlying asset (often a rental property) is deemed to have been sold and any accumulated depreciation is treated as taxable income if the property originally cost more than \$200,000. This could create a large cost for a property that has been owned for many years and on which a large amount of depreciation has been claimed. Having to suddenly pay tax on the change without having actually sold the property could seriously affect cash flow.

### An example

As an example a new company may have accumulated \$100,000 in losses for its first year in business. In the second year 3 new shareholders are brought in with much needed capital. These shareholders take 20% each or a total of 60% of the company, reducing the two original shareholders to 24% each. The shareholding continuity calculation is as follows:

	S'holder 1	S'holder 2	S'holder 3	S'holder 4	S'holder 5	Lowest holding
Year 1	50%	50%	0%	0%	0%	100%
Year 2	24%	24%	20%	20%	20%	48%

The lowest economic holding is calculated at the lowest holding that each shareholder had over the year. For the new shareholders this was 0 and for the original 2 shareholders, 24% each, giving a total of 48%. In this example then the \$100,000 in prior year losses would no longer be available as a loss to the company although an adjustment may be made for part year losses to allocate the loss to profits made before the change in shareholding. A way around losing the losses completely would have been to either bring the new shareholder in gradually over 2 years (e.g. at 10-15% a year) or to increase the share capital of the company before allocating shares to the new shareholder.

You may think it is unlikely that clients would just change the shareholding themselves. Unfortunately it happens too frequently! Sometimes it can just be because a couple decide that they should "even up" their shareholding or they "sell" a chunk of the shares to their family trust. Making the change at the Companies Office is easy, free, and immediate but the consequences can be expensive so please talk to us first!

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## **GST and Body Corporates**

In December we reported that there has been some confusion about the GST status of body corps. Some have specifically registered for GST recently so they can claim back the GST portion of the expenses such as repairs, often for leaky building problems, reducing the total cost of those repairs. This has potentially resulted in Inland Revenue paying out some large GST refunds, particularly if the body corp has registered for GST after it has collected the levies to complete the work. Legislation is now proposed to align body corporates with other residential property owners and make body corporate activity exempt from GST.

Body corps already registered for GST will have their GST registration ceased from the effective date of the new legislation, 6 June 2014, and there will be transitional arrangements to cover matters such as body corps having to pay GST on assets already owned etc.

A discussion document is available at <http://taxpolicy.ird.govt.nz/sites/default/files/2014-dd-bodies-corporate.pdf> with submissions closing 18 July 2014. The legislation is expected to be passed as part of the next tax bill but this may not be until next year because of the election in September. Nevertheless the effective date will remain. If you are likely to be affected by this change and have a new and different view we recommend you make a submission.

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## **The Budget**

Often we put out a special newsletter after the Budget but we haven't this year because the 2014 Budget, read on May 15 this year didn't hold major tax changes – as expected in an election year. However there were a few items of interest.

**The R and D tax break for start ups** which allows new businesses to cash up their tax losses immediately rather than having to carry forward the losses to offset against future profits. In the first year of the scheme, 2015/16, you can claim cash up to \$140,000 which is the tax at 28% on losses of \$500,000. This cap rises by \$300,000 a year up to \$2m.

The only problem is that it may be quite difficult to qualify. Criteria include that:

- you need to spend at least 20% of your salary cost on R and D (including sub-contractors),
- it can't include final stage of coding, only the development stage cost,
- you have to repay the cash received if you sell 90% or more of the business, the intellectual property is sold, the company is liquidated or becomes non-resident, and
- it doesn't come in till 1 April 2015.

So it may be of little use to existing small start ups but may be of huge benefit to large companies who spend huge amounts on R and D every year and to newer businesses. This tax break was first mooted late last year and administrative details are still being worked out. We'll let you know when we have more detail on this but in the meantime you can read more at <http://taxpolicy.ird.govt.nz/news/2014-05-15-budget-2014>.

**Removal of R and D black hole expenditure.** R and D black hole expenditure refers to R and D costs that can't be claimed immediately or depreciated over time. The best example is intangible assets such as patents. Under the new rules such expenditure incurred after 7 November 2013 may now be claimed as a tax deductible expense.

**Increase in the parental tax credit.** An increase in the period this is paid from 8 to 10 weeks and an increase in the amount from a maximum of \$150 per week to \$220 per week. This credit is only for low income earners and abates depending on family income and the number of children.

**Removal of cheque duty from 1 July 2014.** This is the \$1.50 or so that you pay every time you receive a new cheque book. With cheques being used less and less this is a practical decision and while it is only a small amount you can pop down to your

bank before 30 June to receive a 5 cent refund for every unused cheque you have, with a minimum of 20 cheques to receive the refund.

**Student Loan repayment threshold.** The government has maintained the annual minimum earnings threshold at \$19,084. This means that if you earn more than this amount and you have a student loan you will need to start making repayments on your loan.

**More resources for Inland Revenue.** \$48.6m has been allocated to Inland Revenue over 5 years to chase up unfiled tax returns. This is expected to generate significant revenue from those who should have been filing returns. If you have any concerns about this please call us.

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## **Westpac agency**

From 1 October 2014 you won't be able to drop off cheques or tax returns at Westpac branches. You can still make cash payments for tax at branches but cheques and returns should be posted directly to Inland Revenue.

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## **Timing of tax payments**

Also from 1 October 2014 cheque payments to Inland Revenue must be posted to arrive on or before the due date to avoid interest and late payment penalties. It is no longer sufficient to be posted by the due date. With NZ Post's planned reduction in services this means you may have to post your cheque at least a week before it is due. You may therefore prefer to make payment by internet banking.

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## **Tech corner**

Windows 8 has copped a lot of flack from business users, the main complaints being:

- The new Metro interface is optimised for touch screens, not desktop PCs
- No start menu
- Many apps are not designed for the new Metro interface yet so pop up in a desktop
- Too different so time is wasted learning new ways of doing old tasks

I think Microsoft were trying to do an Apple here by deciding to tell people what they needed and not compromising design to fit legacy systems. This strategy works in consumer goods but not so the business environment where a lot of processes rely on

a known and stable environment. Microsoft seems to have worked this out now and will be releasing version 8.2 later this year that will bring back a proper start menu.

However I couldn't wait for that as I needed Windows 8.1 to run hyper-v management tools ([blog here](#)) so we now have two Windows 8.1 PCs and I'm warming to it, with a few tweaks it looks quite like Windows 7 and does some things better ... and I quite like the new flat look.

The tweaks needed (all free) were:

- Install [Classic Shell](#) to put back a real start menu
- Install [Chrome](#), [VLC](#), [Acrobat Reader](#) (untick install McAfee!), desktop version of [Skype](#)
- Configure the default applications in Control Panel/Default Programs to use the non Metro applications for specific file types (e.g. photos).

The things I've noticed that Windows 8 does better than Windows 7 are:

- Faster to start up
- Built in antivirus and anti-spyware (MS Security Essentials) - no need to purchase or install anything
- Less intrusive windows updates
- Remote desktop connections can use multiple monitors of any size
- Some nice navigation shortcuts and improvements in explorer
- Its can be cheap - most of our PCs either came with Windows 8 licenses, or could be upgraded for \$20 for a limited period of time after Windows 8 was released.

A few things that are not so good are:

- Occasionally it just sits there spinning for a long when I try to logon, it gets there eventually especially if I restart it
- The Windows 8 to 8.1 upgrade via the Microsoft online store was a pain, it took several goes and many gigabytes
- Wake on Lan no longer works if you shutdown - it does work for hibernate though.

Martin

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## **Client profile: Willis Street Physiotherapy**

Willis Street Physiotherapy (WSP) started out as a small practice with just 3 treatment rooms and 2 physios up at 150 Willis Street. Things really took off for them when they

engaged a practice/ business development manager and moved further down Willis St to a larger space in 2011. They now employ 24 staff and contractors and this number continues to grow.

While providing expert physiotherapy and wellness services through the main clinic at level 9, 57 Willis Street, services are now also provided at 3 campus based clinics at Victoria (University) Kelburn , Victoria (University) Pipitea and at Massey University as well as on site to 7 rest homes in the Wellington area.

Growth has been founded on attracting some of Wellington's best known, and highly regarded physiotherapists and wellness practitioners onto their team, and building strong relationships with local GPs. Placing a huge emphasis on clinical governance and client service, WSP has held HDANZ accreditation since 2008. Understanding that the client experience is holistic, along with having a great clinician, the team also recognises the importance of convenient appointment availability, efficient and friendly administration, a pleasant and healing clinic environment, timely follow up, and strong communication to other providers involved with the treatment. The continual increase in demand for appointments seems to indicate that their plans are working.

Proving that physiotherapy doesn't always need to be in a clinic Willis St Physiotherapy physiotherapists Nick Conn and Gayle Synders were outdoors last Tuesday leading a running bio-mechanics session.



If you would like to have your business profiled please contact Baubre.

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