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## Important Reminders

If your business is registered for GST on a six monthly basis you may have provisional tax to pay by 28 October.

## Taxes due reminder

If your business is registered for GST on a 6 monthly basis with the six months ended 30 September and 31 March your business needs to pay provisional tax with the GST by 28 October.

If your business is registered for GST 6 monthly then only two provisional tax payments are due: by 28 October and the following 7 May.

If your business income tax return has been filed for the year ending 31 March 2009 then we will have let you know the amount to pay.

If your 2009 tax return hasn't been completed yet then you will need to pay provisional tax based on half of 105% of the previous year's income tax, that is, 2007/8.

If you are uncertain what you need to pay please contact us.

Late payment will result in a penalty and interest being charged by IRD so we recommend that you make payment on time.

Remember that your company may be registered for GST on a six monthly basis and therefore only pay provisional tax twice a year but the shareholder employees or business owners will need to pay provisional tax **three** times a year, by 28 August, 15 January and 7 May because the shareholder employees or business owners are not personally GST registered.

## GST due

GST is also due by 28 October for those taxpayers who are GST registered on a 2 monthly or 6 monthly basis. This is the GST due for the period ended 30 September 2009.

## Limit to new mileage rates

In our last newsletter we advised that IRD had just announced an increase in the mileage rate from 62 cents per km to 70 cents per km.

However a limit of 5,000 kilometres has been imposed. This means that the maximum that can be claimed is \$3,500.

For those who travel more than 5,000 kilometres a year you will probably be better off by keeping a 3 month log of the business kilometres travelled as a percentage of the total kilometres travelled and claim that percentage of the actual costs incurred. These costs include petrol and diesel costs, insurance, registration, maintenance costs and road user charges.

## Getting the most from your donation dollar

Does it matter who makes a donation?

We believe it does. Small companies may now claim a deduction for donations up to the limit of the company's taxable income. The tax benefit is 30%.

However if an individual makes the same donation then the tax credit is at a flat 33%.

While it may not make much of a difference the effect is noticeable on large sums. For example the tax benefit from a company donation of \$10,000 is \$3,000 but a \$10,000 donation made by an individual is worth \$3,333, an increase of \$333.

If you own your own company this differential may affect your decision about whether you make a donation through your company or personally.

### **Payroll giving**

From 7 January 2010 you will be able to make donations directly through payroll giving.

Payroll giving enables you to make a donation to IRD approved donees (a list is available on their website) directly from your regular salary payment through the PAYE system (in much the same way that any KiwiSaver deductions may be made). Only employers who electronically file their monthly PAYE schedules can use payroll giving.

The major advantage of payroll giving is that the donation tax credit is instantly applied so you don't need to make a claim to IRD for these donations at year end.

This also makes it easier for you to make a higher donation than you may have otherwise made.

For example if you make a \$20 donation per pay to a charity then you will automatically receive one third back instantly ie \$6.67 so the real cost to you of your donation is only \$13.33.

If you are happy to make a \$20 donation then by making a donation of \$30 it will only cost you \$20.

If you don't have PAYE deducted you can still get the same tax benefits from making donations – you will just need to complete a donation tax credit form (IR 526) after 31 March.

If you make donations through payroll giving you will have to fill out the form for any other donations you make.

### **New associated persons rules**

These long-awaited rules have been passed. They particularly affect those who buy and sell property. These people will no longer be able to use separate entities to develop property and hold residential rental property.

Tax is now payable on all gains on the sale of property by a developer or other entity dealing in property including any gain on the sale of a residential rental property.

However any gain on the sale of residential rental property owned at the time legislation has been passed may continue to be tax free.

### **IRD activity - LAQCs**

Last year IRD undertook a major project looking at people living in properties owned by loss attributing qualifying companies (LAQCs). IRD wrote to all owners of LAQCs asking that they advise IRD if they were living in the property. If they were living in the property then they would not be able to claim a loss from the costs associated with the property even if they were paying market rent.

Living in a property you own is a personal activity and no costs are deductible.

Renting a property to someone other than a relative is generally a commercial or business activity. Therefore the costs may be claimed as long as a market rental is charged.

IRD's concern was that some individuals were selling their properties to another entity which they owned and set up as an LAQC. They would then pay market rent to the company, claim a loss against their salary income and then receive a refund from IRD. This worked when there was a large amount of mortgage and interest rates were high.

However this is a personal transaction, not a business one.

IRD sent its letter to LAQC shareholders providing the opportunity for voluntary disclosure if they were involved in this practice. Voluntary disclosure results in lesser penalties than if IRD discovers the activity.

At that time we advised clients who were living in their properties owned by LAQCs to advise us immediately as this is not a practice we recommend or condone.

If this situation applies to you now please contact us.

## **IRD activity – GST on properties**

Recently IRD has sent similar letters to owners of companies which own properties and are registered for GST.

Many companies or trusts have claimed GST on the purchase price of development of business properties but have not paid GST when the property has been sold.

If you have purchased a property from a vendor who is not GST registered you can claim back the GST at one ninth of the purchase price. This only

applies if you are developing the property or if it is being used commercially. You cannot claim GST on the purchase of a residential rental property.

If you sell to a non-GST registered person you will have to pay GST on the sale price. This may make a significant dent in your profit.

If you sell to another GST registered person you can agree to zero-rate the transaction and you will need to put the agreement in writing. If the transaction is zero-rated GST is neither claimed nor paid and this can avoid/ help cashflow issues.

A deemed sale can also occur when there is a change in use for the property. An example of a change in use would be where a property has been purchased for development but hasn't sold so is being rented out to residential tenants. As residential rental is not a GST taxable activity there has been a change in use.

If the property is being rented out temporarily until sold then you should pay an amount equal to one ninth of the rent received to IRD as GST on a taxable supply. This effectively claws back some of the GST claimed. The accumulated amount may then be deducted from the final GST payable on sale.

## **Tech Corner**

The best things in life seem to be free at the moment. If you have a domain name and are looking for free website hosting have a look at [www.weebly.com](http://www.weebly.com). You can quickly create a website from a number of templates and map it to your domain name.

For email try Google Apps Standard Edition (Google it to find it) – it's free. Set it to use your domain name and you can create up to 50 email accounts. It also has a website creation tool but not as pretty as weebly.com!