

# New Zealand B & B Conference 2010

## Financial Management

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[www.dowsemurray.co.nz](http://www.dowsemurray.co.nz)

- Planning
- Structures
- Financial Management
- Budgeting
- Tax

# Planning

- A Business Plan – the who, what, when, where, why, and how – provides a focus.
- Document
- Review regularly and update

# Structures

- Partnerships/ sole trader
- Companies
- Trading Trusts

# Partnerships/ Sole trader

- Advantage:
  - Easy/ no set up/ don't need a Partnership Deed if a couple
- Disadvantages:
  - Unlimited liability so take out insurances eg public liability
  - Need to document if splitting income other than evenly

# Companies

- Advantages:
  - Limited liability
  - Some ability to spread and split income as required
- Disadvantage:
  - More paperwork and legal work

# Trading Trusts

- **Advantages:**
  - House may already be owned by a trust so capital/ wealth and income accumulating in trust
  - Some flexibility about distributing the income
- **Disadvantage:**
  - Unlimited liability
  - More paperwork required for decisions eg Minutes

# Structure conclusion

- Probably use a partnership unless the property is already owned by a family trust if the house that you live in.
- Could be a company if a separate structure on a separate title.

# Financial Management

- Budgeting ie the costs
- Pricing
- Accounting system

# Budgeting

- Need to know:
  - your costs
  - the occupancy rate
- Good budget calculator at [www.bookip.co.nz](http://www.bookip.co.nz)
- Understand difference between fixed and variable costs:
  - Fixed – the same regardless of whether you have guests or not:
    - Furnishings, linen and other supplies
    - Legal and accounting fees
    - Interest on any mortgage
    - Insurances
    - Marketing and advertising costs
    - Membership fees
  - Variable – change depending the number and frequency of guests:
    - Your labour cost
    - Cleaner and cleaning supplies
    - Food and drinks
    - Commissions
    - Bank and credit card fees
    - ACC levy

# Home office costs

- A percentage (eg 10%) of:
  - Electricity and gas
  - Rates
  - Insurance
  - Repairs and maintenance
  - Phone and internet
  - Interest on mortgage (but not principal repayments)

# Depreciation

- An allocation of the cost of an asset >\$500 over its useful life
- No longer available on buildings from 1 April 2011
- Depreciation claimed is added back on sale or change of use
- Recommend don't claim

# Pricing

- Use your costs as a base
- Consider market price for the type of accommodation
- Higher price for high season, discount for low season
- Review based on experience

# Accounting system

- Need a way to keep on top of the paperwork to focus on being a good host
- Need to be on top of tax obligations including GST
- Separate bank account for the business
- Accounting system could be simple spreadsheet
- If GST registered then would need an accounting system – recommend Xero (online so no installation, no version updates, no backups needed, easy to use)

# Taxes

- GST: need to be GST registered if turnover ie total gross income > \$60,000 in any 12 month period.
- Advantage if you don't need to be GST registered as it makes your business more profitable or provide cheaper rates eg
  - \$1,000 received from guests
  - \$ 400 costs
  - \$ 600 surplus
- If GST registered based on 15% GST ( $15\% = 3/23$ )
  - \$ 869 received from guests
  - \$ 348 costs
  - \$ 521 surplus
- So if not GST registered could charge \$921 and still have same \$521 surplus

# Income Tax

- Partnerships: surplus at year end split between partners and taxed in individual's hands
- Individual tax rates reducing from 1 October

<b>Income</b>	<b>2009/10</b>	<b>2011/12</b>	<b>2010/11</b>
0-14,000	12.5%	10.5%	11.25%
14,001-48,000	21%	17.5%	19.25%
48,001-70,000	33%	30%	31.5%
70,001 upwards	38%	33%	35.5%

- Companies:
  - taxed at flat rate of 30%
  - 28% from 1 April 2011
  - BUT any surplus taxed at individual rates
  - so no real tax saving through a company although can spread income.
- Trust:
  - taxed at flat rate of 33%
  - surplus can be allocated directly to individuals who are then taxed on own rates.

# Provisional tax

- If your own tax is more than \$2,500 during the year you will need to pay provisional tax for the next year
- Provisional tax is calculated on last year's tax
- Payable on:
  - 28 August
  - 15 January
  - 7 May

ACC levy: calculated on earnings or salary paid

Happy hosting!

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