



MaximsAccounting
BUILDING BETTER BUSINESS

October 2011 News

While the focus of the nation is on the Rugby World Cup and waiting for the All Blacks to win, there have been lots of announcements of interest lately. We have been working hard to keep on top of all the changes as well as making sure we get all of your jobs completed as soon as possible.

Our doors are always open, feel free to give us a call or drop in for a chat to discuss the issues in this newsletter or anything else going on in your business.

IRD compliance focus

Have you ever wondered if the IRD is looking at you?

The IRD has released details of its compliance focus for 2011-12. This document highlights the areas that will be the subject of closer scrutiny by the IRD in the coming year.

One of the key points is that the IRD now has access to a lot of electronic information, whether it be from websites, other government agencies, banks, and now a number of overseas governments. It is a matter of when not if they catch up with people dodging the tax system.

The other key point that comes through is the continued focus on aggressive tax planning. The IRD noted in its report that taxpayers are entitled to manage their affairs to minimise the amount of tax they pay but notes that there is a fine line between tax planning and tax avoidance. The IRD's view is that any arrangement should be commercially justifiable and not rely on any supposed tax savings to make it worthwhile. The 28 page document contains a lot of discussion about the areas of focus, but the main ones we believe our clients will be interested in include:

- ▶ Looking at the diversion of personal income to minimise tax and child support obligations or increase entitlements

- ▶ Losses – common errors with loss utilisation and carry forward
- ▶ The use of offshore bank accounts (18 tax information sharing agreements have been signed with more to follow)
- ▶ The hidden economy – focus on industries such as hospitality, scrap metal, fishing and aquaculture, tourism and agriculture, construction and ACC providers
- ▶ Monitoring online trading and short-term property rentals ahead of major events (see our short article on the Rugby World Cup)
- ▶ Issuing industry benchmarks for small businesses in different industries to help IRD identify businesses with potential issues
- ▶ Continued focus on income from property, especially property speculators and dealers
- ▶ High wealth and high income individuals
- ▶ Trying to get employer monthly schedules filed on time
- ▶ Keeping on top of debt – particularly what the IRD calls 'new debt', which it will be aggressively trying to collect. Trials will continue with the use of debt collection agencies.

Hot hints

HOAX EMAILS

Hoax emails claiming to be from the IRD continue to be from the IRD continue to be the rounds. The IRD does not send emails to taxpayers asking them to file returns or advising them of refunds owing, nor do they address you as "Dear Valued Member".

TAX DEBT

The IRD are using external debt collectors to collect short term debt. They will even call on a Saturday.

DONATIONS

The IRD has issued an alert warning people against claiming a donation tax credit where there is not a true gift of money. There are a number of schemes where people received something in return for the payment of money and in many cases the money is paid back to the donor in a short period of time, albeit with the ability to then claim the donation tax credit.

“The harder you work the luckier you get.”

Key dates

20 OCTOBER 2011

Quarterly FBT return
and payment due

ONGOING

20th Each Month PAYE due

28 OCTOBER 2011

August/September 2011 GST

28 NOVEMBER 2011

September/October 2011 GST

Are you renting out your house for the Rugby World Cup?

It has been widely publicised that those who make their homes available for rent during the Rugby World Cup may face targeted scrutiny from the Inland Revenue.

The Inland Revenue itself has commented that it will be scanning sources, such as property rental websites and Trade Me, to identify potential rental earners and then checking their income tax returns to make sure the income has been reported.

The amount of taxable income will depend on how much rent is received and what expenses can be deducted. If rental earners are identified by the Inland Revenue as non-compliant, penalties and interest can apply.

For more information about how this is calculated, a suitable starting point is to refer to the Inland Revenue's statement on the income tax treatment of holiday homes that are rented out (see link below). While the statement relates to the use of holiday homes to derive income, it can also be applied in this context. It should be noted that depreciation on residential buildings was removed after the statement was released.

<http://www.ird.govt.nz/technical-tax/questions/questions-general/qwba-0902-holiday-houses.html>.

Gift duty is being abolished – what to do now is obvious, right?

Gift duty is to be abolished from 1 October this year. So what to do now is obvious, right? Currently if you gift more than \$27,000 over a 12 month period then gift duty is applied.

Come 1 October, for many people the obvious decision will be to do a one-off gift. There are a number of people who have sold assets (eg the family home) to trusts and have been gifting back \$27,000 each year. Now they will be able gift it all at once, saving them time and money with annual gifting.

Circumstances where a one-off gift might be beneficial:

- ▶ Where creditor protection is important in a highly risky business
- ▶ Where the debt could be subject to property relationship claims
- ▶ To help avoid immediate family contesting a will as there would be no estate assets to claim against.

Circumstances where a one-off gift might not be beneficial:

- ▶ Where a settlor of a trust is reliant on the trust for living expenses. While there is a loan in place, the settlor has an absolute right to call on this loan for funds. With no loan in place, the settlor / beneficiary is at the mercy of the trustees

- ▶ Rules regarding eligibility for rest home subsidies could mean that if one lump sum over \$27,000 is gifted, you may not be eligible for rest home subsidies as you may be seen as “depriving” yourselves of assets
- ▶ A gift can be cancelled where the donee was insolvent at the time of making the gift
- ▶ Gifting once before October 2011 and again within the same income tax year could mean that the IRD may choose to aggregate those gifts and charge gift duty.

We welcome the abolition of gift duty, it will save many of our clients the need for an annual gifting programme and associated costs, but the decision is not one that should be made lightly. We recommend that you talk to us and your lawyer before making a decision on gifting.

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CLIENT CORNER

Splatter Pest Control

Splatter, previously known as IPM Pest Control Services, remains locally owned and operated by Garon and Shaz Buczynski. We proudly support a wide range of Hawke's Bay businesses and households to eradicate and control pests. We are continuously researching innovative ideas to solve our clients' issues. In our line of business, prevention is key.

With the recent revamping of our company image, we have introduced a revolutionary cost-effective package for domestic households, offering clients the option to pay in monthly instalments for a round-the-year service.

We continue to also have a strong focus on our commercial clients. For new clients, we provide a free initial assessment to identify any concerns or requirements, and subsequently customise our treatments for each company. Service visits are documented, to ensure that any criteria for internal or external audits are satisfied.

So the only thing you have to do now is contact us for the ideal programme for you.



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