



RichardsWoodhouse

Update

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IMPORTANT DISCLAIMER

The information contained herein is of a general nature only. Not all of the information will be of interest to all clients; however we hope there is some content that is of benefit to you. If this information requires more detailed explanation, or should you require information on topics not covered by this newsletter, please contact our office. The information in the report is confidential to clients and staff of this firm. While every effort has been made to ensure accuracy, no liability is accepted for errors of fact or of opinion herein.

SELLING BONDS OR FINANCIAL ARRANGEMENTS

When a bond (or any other financial arrangement) is sold on either the secondary market or when it matures, we are required to calculate the base price adjustment. A base price adjustment (bpa) is a reconciliation of the gain or loss on the bond. If the result is a gain, then that gain is taxable income. If the result is a loss then it may be deductible for tax purposes depending on the general provisions.

For example: A Telecom bond is purchased for \$30,000 and three years later is sold on the secondary market for \$27,000. The base price adjustment would be a loss of \$3,000 (\$30,000 original purchase price less the consideration received \$27,000).

Typically the factors that will influence a gain or loss are:

- ◆ The risk associated with the company that the bond is with. If the company is in financial trouble, the market value of the bond on the secondary market would be lower than the face value because there is a very real chance that you may not get all of your money back at maturity.

- ◆ The coupon rate of the bond in relation to the prevailing interest rates. For example, if a bond was issued with a coupon rate of 4% which was the market value at the time, and in the subsequent 3 years, bonds of a similar nature are returning 3% we would expect that the market value of our bond would be higher than cost as our bond would be giving a higher return.

Information we require to calculate the base price adjustment:

The calculation requires us to know which bonds have been sold and the purchase price or cost of the bond sold. Clients often send in the taxation report from their investment portfolio manager. **We also need the portfolio listing of transactions, as this will record which bonds have been sold, the sale price and the cost price.** When there are no portfolio reports, we will need a list of bonds sold, the sale proceeds and details of the original purchase price.

THE PARTNERS AND STAFF OF
 RICHARDS WOODHOUSE WOULD LIKE TO WISH ALL OUR
 CLIENTS A VERY MERRY CHRISTMAS & A HAPPY,
 PROSPEROUS 2012.

OUR OFFICE WILL BE CLOSED FROM 11AM
 22 DECEMBER 2011 AND WILL RE-OPEN AT
 8.30AM THURSDAY 12 JANUARY 2012

DEPRECIATION ON COMMERCIAL FIT-OUT

Our last newsletter included the change to depreciation on buildings. There is no depreciation claim for buildings with an estimated useful life of 50 years or more from the 2011/12 income year.

Given this change taxpayers have asked Inland Revenue if costs of a commercial building fit-out can be retrospectively identified and split out in order to claim depreciation.

Inland Revenue have issued an exposure draft and taken the position once an item of depreciable property has been identified and depreciation claimed on that item, the item cannot be split into multiple depreciable items.

Therefore, the only depreciation claim available for commercial buildings will be the one off transitional concession. This allows a pool of depreciable fit-out to be created of 15% (in some cases this will be adjusted where items of fit-out have already been identified) of the tax book value of the building. This fit-out pool is depreciated at 2%. No loss or recovery rules apply to the value of the pool when the building is disposed of.

e.g. A commercial building purchased on 1 April 2001 was

recorded at \$1m in the asset schedule. Refurbishment costs of \$200,000 were incurred in July 2003 and listed on the asset schedule. At the end of the 2010/11 year the book value of the building and refurbishments were \$850,700 and \$98,316 respectively.

The depreciable pool starts as 15% of \$850,700 less \$98,316 or \$29,289. Assuming the building is held for the whole of the 2011/12 year, the pool depreciation claim is 2% of 29,289 or \$585.

Where there have been significant fit-out costs acquired and depreciated, there may be no starting pool.

It is also important to note the pooling concession only applies where no part of the building fit-out on acquisition was separated out. So that even if one item of fit-out was identified on acquisition and depreciated, the pooling concession would not be available.

Therefore, dates of additions and alterations of fit-out are important. The 15% pool will not be an automatic calculation. Future significant refurbishments should be detailed so they can be listed as separate depreciable items.

The 'I.C.E.' (In Case of Emergency) Campaign



If we were to be involved in an accident or were taken ill, the people attending to us would have our mobile phone but wouldn't know who to call. Yes, there are hundreds of numbers stored but which one is the contact person in case of an emergency? Hence the 'ICE' (In Case of Emergency) Campaign.

The concept of 'ICE' is catching on quickly.

It is a method of contact during emergency situations. As mobile phones are carried by the majority of the population, all you need to do is store the number of a contact person or persons who should be contacted during emergency under the name 'ICE' (In Case Of Emergency). The idea was thought up by a

paramedic who found that when he went to the scenes of accidents there were always mobile phones with patients but they didn't know which number to call. He therefore thought that it would be a good idea if there was a nationally recognised name for this purpose. In an emergency situation, Emergency Service personnel and hospital staff would be able to quickly contact the right person by simply dialing the number you have stored as 'ICE'. For more than one contact name simply enter ICE1, ICE2 and ICE3 etc.

Please spread the word!

It won't take too many conversations and emails before everybody will know about this. It really could save your life, or put a loved one's mind at rest.

ACC REVIEW

Do you find your ACC invoices complex and confusing?

We can review these for you.

Our review includes:

- Checking the ACC business code and liable earnings
- Arranging any adjustments

Our fee for this review is \$200 plus GST

For an agreed fee we can investigate and report on the following:

- The ACC entitlement you would expect to receive in the event of an accident
- Advantages and disadvantages between CoverPlus and CoverPlus Extra

"No ACC levies paid can mean there is no entitlement to ACC following an accident."

Repairs & Maintenance or Capital

With depreciation no longer claimable on buildings and local authorities requiring buildings to undergo earthquake strengthening as a result of the Christchurch earthquakes, we believe what constitutes repairs and maintenance and what is required to be capitalised is going to become a hot topic in the coming years.

In some cases how the expenditure is treated is easy to determine. For example replacing a broken door or repainting the interior of a rental property will generally be regarded as repairs and maintenance (deductible) whereas adding an additional bedroom to a rental property will be regarded as capital (non-deductible) expenditure.

Sometimes the expenditure may be on the borderline. Getting this wrong can be costly (given the potential for penalties and use of money interest being charged by IRD). Repairs and Maintenance is not defined in the Income Tax Act therefore principles from Case Law (some cases go back 100 years) should be looked at for guidance. As a general rule this is a three stage process:

Identify the Asset

Determine if the item that is being repaired or replaced is part of a larger asset (for example the roof on a building) or a single asset (for example a laptop computer).

The Nature and Extent of Work Undertaken

This involves looking at the nature, cost and extent of the work undertaken and determining if the work has remedied wear and tear (which is generally deductible) or if the asset has been improved or substantially changed (generally non-deductible).

Has The Work Gone Beyond Remedying Fair Wear & Tear

As mentioned above if the work undertaken has remedied fair wear and tear then generally the expenditure will be deductible. If however the expenditure alters the asset, improves the asset or forms part of an overall project (which may take some years to complete) to replace the asset then this is more likely to be capital expenditure.

For earthquake strengthening work (EQSW) Inland Revenue is likely to follow existing Case Law. There have been two cases in this area (one in the Court of Appeal and one in the Taxation Review Authority). In both of these cases it was held that the EQSW was capital (non-deductible) in nature.

Capital/revenue expenditure issues can be fact specific. Where you have a R&M item or EQSW work that appears to be on the borderline or you are unsure, we suggest you contact your Richards Woodhouse advisor to discuss the options available to you.

SMALL BUSINESS NEEDING FULL ACCOUNTING SUPPORT??

Read on...

Did you know we can offer an accounting support package to suit your needs?

Are you sick of pouring over paper work to the wee small hours?

Struggle to remember how to complete all those IRD returns?

We are the experts who can come to the rescue.

Our team can:

- ◆ Pay your monthly creditors
- ◆ Run your monthly accounting reports on Banklink or Xero
- ◆ Hold a quarterly meeting with you to keep a check on your operation and performance
- ◆ Take care of the regular returns like GST, FBT, RWT
- ◆ Even process your staff wages and deal with PAYE returns
- ◆ And of course attend to your year end Annual Accounts and tax returns.

We can do all this for a fixed fee, agreed up front and paid monthly to help your budget.

In summary we can provide for as low as \$250+GST per month the following base package using Xero or Banklink programs

- ◆ Year round phone support
- ◆ Year end accounts and tax returns
- ◆ GST Returns
- ◆ Monthly reports of your business performance
- ◆ Quarterly meetings

Call one of our team today to have an obligation free chat and an estimate.



SPONSORSHIP OF SPORTS TEAM

We are often asked to advise if sponsorship payments to a sports team are tax deductible.

E.g. Maria plays in a women's rugby team and her team wanted to participate in a tournament held in Italy but her team needed some funds to travel there. Maria approached her local butcher about the possibility of a one off \$20,000 sponsorship payment. In return for the sponsorship, Maria and her team members would try to promote her butcher's new range of sausages.

For the butcher to receive a deduction for the sponsorship payment, the butcher must be able to prove a nexus between the sponsorship of Maria's rugby team and the butcher shop's income earning activity.

The butcher would need to demonstrate that there is a very strong likelihood of the shop generating more business as a result of the sponsorship in order to receive a tax deduction.

Given that the butcher shop is in New Zealand and Maria's rugby team will be playing in Europe, it may be difficult to demonstrate how the sponsorship will benefit in future sales for the butcher, unless the butcher has export markets in Europe.

However, if Maria's rugby team will be promoting the butcher's sausages in New Zealand (e.g. by visiting local shopping centres and promoting the sausages) either before or after the rugby tournament, then arguably there will be a nexus.

ABOLITION OF GIFT DUTY

As from 1 October 2011, Gift Duty is abolished. However, to make an effective gift proper documentation is still required. A gift duty statement is no longer required to be filed with IRD.

Clients with gifting programs to their family trust will need to consider how to proceed.

One final Deed of Forgiveness could be completed to transfer assets of the program to the trust. Any further gifts will need the appropriate documentation such as a Deed of Gift and the change of ownership e.g. if land is transferred, the land registry will need to be updated.

There could be reasons not to make a gift.

There are potential issues that arise from making gifts. Under

the financial rules, debt forgiveness can give rise to income if the gift is not for natural love and affection. There are general and specific anti-avoidance income tax provisions which are triggered if the consideration is insufficient. Provisions in insolvency acts and property law acts protect creditors and allow gifts to be clawed back, particularly if the donor is rendered insolvent subsequent to making the gift. Under relationship property law a court order can claw back property if a partner's claim is defeated by a gift. Residential care subsidies maybe affected when there are gifts over \$6000 in the last five years or over \$27,000 per year.

Proper trust administration will still be required e.g. financial statements, resolutions. This may be overlooked without the annual gifting program.

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PLAN YOUR CASHFLOW OVER CHRISTMAS AND NEW YEAR

As a business owner, now is the time to plan your cashflow to sustain your business until well into the New Year. Put extra focus – and heat – on your DDs (Delinquent Debtors) to get that money in the door. It is your money. You have provided a service, labour and materials so go and collect what is owed to you.

If you don't get it before Christmas, you won't see it until February or later.

If you keep your records on Banklink, please send a copy of the your Banklink file to Orbus when you forward your accounting information to us. This allows us to commence your job.

Email: info@orbus.co.nz