THE L O DOWN

Winter 2017

There are have been some exciting changes at Leslie & O'Donnell. Alex Barton joined Leslie & O'Donnell as a director on 1 April. Alex will be well known to many of you and has over 15 years' experience in accounting, finance and corporate governance in the UK, Australia and New Zealand. She now specialises in working with small to medium sized businesses and having grown up on a farm she has a special interest in agriculture and horticulture.

John Leslie has taken on a new role as a consultant focusing on estate planning, farm succession and restructuring. After 30 years in business this will free up John to enjoy more travel and time in his vineyard.

The Leslie & O'Donnell team continues to grow with three new members. Sue Howard joined us as a Senior Accountant last year after returning home to Marlborough with her husband Steve and daughter Grace. Sue has spent time working in Palmerston North and Auckland accounting firms, including Ernst & Young. Part of Sue's role will include looking after many of Pauline Taylor's long-standing clients as she steps back to a part-time role. Pauline has been with us from Wallace Cooper days and is looking forward for some extra time for family and recreation.

Melissa Gardiner and Fiona Wratt have also joined us in the past year bringing fresh faces and enthusiasm. Both are finishing the last papers in their accounting degrees and will be working towards becoming chartered accountants. They are both Xero certified and keen to help – so feel free to give them a call.

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Farm Deductions

The IRD has been reviewing the deductibility of farm house expenses. Prior to the release of a statement from the IRD in March 2017 it was permitted for full-time farmers to fully deduct dwelling rates, mortgage and interest and to also claim 25% of farm house expenses.

Under the new rules the deduction of farm house expenses has reduced to 20% and the deductibility of the dwelling's rates and mortgage now depends of the relative value of the farm house to total assets.

If the value of the house is less than 20% of total value of the property 100% of the rates and interest can be claimed. If the value of the farm house and curtilage is greater than 20% a home office claim should be completed instead.

All farmers should be reviewing the value of their farm houses in relation to the total property's value. This maybe done using rateable values, a bank valuation, historical values, insurance values or a formal valuation.

Another change is the house phone connection is now not fully deductible. You should deduct 50% unless a higher usage can be justified.

These rules apply in the 2017/2018 financial year. Farmers should be altering any bank rules in their accounting systems to make sure the correct deductions are being made.

Welcome Paige Elaine Adair
Born Saturday 24 June

Rosie Adair is now officially on maternity leave. Rosie was diligent as ever finishing work the day before the arrival of gorgeous Paige.

Congratulations to proud parents Rosie and Sam. Rosie is planning to return to Leslie & O'Donnell part-time next year.

In the mean-time Melissa Gardiner and the rest of the team will be able to help with any of your queries.

Home Office Options

From 1 April 2017 (for standard balance date taxpayers) IRD are offering an alternate method of calculating Use of Home as Office. There are now 2 options for calculating the cost of the business space at home.

1. Continue to make your calculations in the usual way using the percentage of area used for income-earning activities divided by the Total area of home and applying that percentage over, power, insurance, rates or rent, mortgage interest, etc.
2. The new method involves 2 steps. Firstly, calculate the business square metres and multiple this by a specified rate set by the IRD – These covers utilities, insurance, etc. The second step then requires the total premises costs being mortgage interest or rent and rates paid for the year to be multiplied by the business portion % as per option.

So the calculation is (business square metres x IR square metre rate) + (total premises costs x business portion%)

Upcoming changes to Provisional Tax

There has been a raft of legislative change recently introduced which will affect businesses. At present, we are just flagging the changes to you without going too deeply into detail. That said, let's sketch in how it's looking.

Provisional tax

The provisional tax changes mentioned last year will apply from 1 April 2018. These include the proposed accounting income method (AIM) of paying provisional tax.

While current methods for calculating and paying provisional tax will still be available, AIM proposes that you pay provisional tax from your accounting software, where you are a business with less than $5m annual gross income. AIM capable software will calculate provisional tax owing throughout the year and enable you to pay provisional tax direct to Inland Revenue. So the year-end tax return becomes more about verifying payments made through the year and making any adjustments or corrections needed.

This could work well for new businesses, in particular. Currently, a new business doesn't have to worry about tax in its first year. But when it enters its second year, it must meet not only its tax obligations for that second year but also its provisional tax for the following year. This is something of a double whammy business struggle with. With AIM, new businesses would start paying tax when they start making a profit, paying instalments over the year timed to the business operating cycle.

With AIM capable software we could monitor tax paid direct from your business and contact you if we notice anomalies requiring further investigation or adjustment. If you are interested in exploring what this method can do for your business, we can discuss how we could help you.

Use of money interest

Another part of the package of changes applying from the 2018 income year (i.e. from 1 April 2017 for standard balance date taxpayers) is to remove use of money interest from the first two provisional tax instalments (for those who pay in three instalments) and who continue to use the standard method to calculate and pay provisional tax (commonly referred to as the 'uplift method').

Businesses (including companies) and individuals with residual income tax of less than $60,000 and paying provisional tax in three instalments using the standard method will not be subject to use of money interest.

Secure Client Portals and Docu-Sign

With the increase in spam, the large size of files and the insecurity of email, we have invested in providing Secure Client Portals for our Clients. This is a secure space where we can share files with our clients. The Space is specific to each client and both they and us can upload files to be viewed. Clients may get an email from us inviting them to register for the Client Portal. This registration is specific to the email address. If clients have several entities, they will have separate portals but can be accessed with the one log in. There are videos on the welcome page of the portal showing clients how it works. Clients will also see the information we hold for them, addresses, emails, etc. and be able to update these.

The added bonus of the Client Portal is our ability to invite clients to e-sign documents. Electronic signing is now legally accepted and an easy way to get all documents signed off. A client will be sent an invitation specific to them to log in and sign documents. They will then be led through the document to check and to sign. There are options in how clients put their signatures on the documents but the visible signature is not the important confirmation of signing, it is the digital signature stamp that the system puts on the document confirming the date, time, IP address, location, and name.

We are happy to work with clients to help them use this new technology and would also like to acknowledge those that are already enjoying Client Portal and Docu-Sign. It is exciting to offer new technology that allows us to work closer with our clients.

Miles to go – changes proposed for motor vehicles

Currently close companies (such as LTCs and QCs) providing a motor vehicle for the private use of shareholder-employees must pay FBT on the value of the benefit provided. This value is based on the availability of the vehicle rather than its actual private use and this means higher FBT compliance costs for close companies.

New option for close companies

The recently introduced legislation changes this for the 2018 tax year (i.e. from 1 April 2017 for standard balance date taxpayers). Under the new rules close companies which provide one or two vehicles to shareholder-employees could elect to use the motor vehicle expenditure rules instead of paying FBT. This would mean that, like sole traders and partnerships, close companies could measure the business use of a motor vehicle and calculate the tax deductions allowable for motor vehicle expenditure based on business use.

New method for calculating business use to claim deductions

Also introduced is a new simplified method of calculating business use for vehicles. The new option would allow you to choose to calculate your business usage and resulting deductible expense differently. The new method does not have a ceiling (currently the ceiling in place is 5,000 kilometres of business use).

What you need to know

If you are self-employed or if you operate through a close company and this applies to you, you would need to know the total mileage travelled each year and be able to work out what proportion of that is business use.

The actual requirement would be for you to keep a vehicle logbook for three months every three years.

When it comes to calculating the tax-deductible amount, the calculation is 'two tier':

- for the first 10,000 kilometres, the rate is calculated on the proportion of business use for the vehicle (say 60%) multiplied by Inland Revenue's first tier rate (for example 75 cents/km but the IRD will advise the rates each year)
- for every kilometre after that, the rate is calculated on proportion of business use for the vehicle (e.g. 60%) multiplied by Inland Revenue's second tier rate (for example 25 cents/km but again subject to change)

Doug Avery recognised in Queen's Birthday honours

Congratulations to Doug Avery! Doug has received a Queen's Birthday award of the Member of the New Zealand Order of Merit (MNZM) in recognition for the work he has put in to highlight mental health problems in the rural community.

Doug devotes most of his energies to helping farmers develop resilience in the face of multiple challenges. Check out Bonavaree Farm Co Ltd on Facebook for some of Doug's incites and videos on building resilience.
Doug has also completed writing a book which is due for release in August – The Resilient Farmer – weathering the challenges of life and the land.   This will be a great read.   Congratulations Doug.

He has been the recipient of a number of awards including Landcorp Agricultural Communicator of the Year, 2013, New Zealand Land Care Trust Ambassador, 2012, Malborough Environment Award, 2011, Lincoln Foundation South Island Farmer of the Year, 2010, and Ministry for the Environment's Green Ribbon Award, 2008.

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