

Newsletter

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DB CHARTERED
ACCOUNTANTS LTD

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In this newsletter we look at two new laws regarding residential property sales and digital communication, as well as potential new rules for employers. We have information on the latest IRD mileage rate, mark-up calculations, a book review and as usual, a couple of jokes.

RESIDENTIAL PROPERTY UPDATE

Legislation has been introduced to tax any capital profit on residential land sales where the purchase and sale dates are within a 2 year period (known as the Brightline Test). Profits will be taxed at the taxpayers marginal income tax rate.

The new rules apply to agreements for sale and purchase entered into from 1 October 2015.

When a residential property is sold the following will now be required:-

- Parties to property transactions require an IRD number (including Trusts)
- Offshore persons are required to have a New Zealand bank account as a pre-requisite to getting an IRD number
- Non-residents are required to provide foreign tax identification number and country details



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MILEAGE RATE CHANGE

Inland Revenue advises that the mileage rate for the 2015 income year reduces from 77c to 74c per kilometre.

This rate can be used when reimbursing employees for their work related travel (including shareholder employees). Note that home to work travel is not considered work related.

For Self Employed people this rate can be used for up to a maximum of 5,000 kms of work-related travel per year. If there will be more than 5,000 kms travelled, you must keep a record of the actual vehicle expenses incurred.

You do not have to use Inland Revenue's mileage rate. You may choose to record actual costs or you may use the motor vehicle running cost data published by other reputable sources (e.g. NZAA).

"If you really want to do something, you'll find a way. If you don't, you'll find an excuse."

RESIDENTIAL PROPERTY UPDATE (Continued from page 1 ...)

The definition of residential land includes land with a dwelling (or an arrangement to build) and bare land with area and nature capable of having a dwelling built in it. Dwelling includes serviced apartments but not rest home or retirement villages.

“Offshore Person” is defined and includes a NZ citizen who has not been back in NZ within the last 3 years, and a NZ resident who has not entered NZ in the previous 12 months. The definition is based on immigration status not tax status.

The **acquisition date** is considered to be the latest date of (i) the date that the title is registered to the purchaser or (ii) the date the sale and purchase agreement is signed.

The **disposal date** is the date of the sale and purchase agreement.

A “main home” exemption is available if the sale involves the family home, **but** this exemption is not available if it has already been used twice within the previous two years.

Where more than one home is owned a “days” test is required to determine the predominant home for exemption. Records may need to be kept if proof is required.

Where a Trust owns the family home, the sale will be exempt if it meets the “main home” exemption for a beneficiary of the Trust.

Other exemptions for residential property sales include transfers under Relationship Property Agreements, inherited land and when sold by Mortgagee Sale.

Subdivided land will be caught for example where a farmer divides off a portion of land and this is sold as residential land.

A “Land Transfer Tax Statement” will now be required to be prepared by the solicitor as part of the sale and purchase for both the transferee and the transferor. This statement will include full name of seller or buyer, property details, if there is a dwelling on the land, status - NZ citizen, resident visa, work visa, student visa. Also required are IRD number and, if a tax resident in another country, the country and foreign tax number. It is a finable offence to provide incorrect information (\$25,000 - \$50,000). Transfer of title cannot be actioned until the Statement is completed.

The Statement is provided to LINZ (Land information New Zealand) who then forward to IRD. It is not publicly available.

Remember that existing tax rules still apply. If any property was purchased prior to October 2015 with the intention of sale for a profit, any gain will still be taxable even if owned for longer than 2 years. If you need to confirm any matters in relation to property transactions feel free to contact us.

JOKE #1

A man was driving along in his car when he saw two men alongside the road eating grass. Disturbed, he pulled over to investigate.

“Why are you eating grass?” he asked. “We don’t have any money for food,” one of the men replied. “We have to eat grass.”

“Well, then, you can come with me to my house and I’ll feed you,” the man replied. The men thanked him and climbed into his car. As they got comfortable, the man turned to them and said, “You’ll love my place. The grass is almost a foot high.”



CYBER BULLYING AND DIGITAL HARASSMENT

The Harmful Digital Communications Act 2015 looks to deter, prevent and mitigate harm caused to individuals by digital communications by providing victims with a quick and efficient means of redress.

The Act records a set of 10 “Communication Principles” including that communication should not; disclose sensitive personal facts, be threatening, intimidating, offensive, obscene, be used to harass an individual or cite or cause harm.

The Act states that it is a criminal offence to post digital communication with the intention to cause harm (or harm could be or is caused). An Approved Agency is to be set up to hear any complaints which can then be taken to the District Court if a resolution is not found.

In most cases the on-line host will be required to take down or disable any specific content under the complaints process.

The police can take action if the digital communication constitutes a threat to the safety of an individual.



JOKE #2



Have you heard about the three French men who were run over by a bus?

Their injuries were “Savea”. ☺

MARK UP v GROSS PROFIT

We have covered this previously and provide a reminder to make sure you can accurately calculate mark-up (and gross profit) so that gross profit levels can be maintained or improved.

In summary:

Mark-up is the percentage added to a product to determine the price;

e.g.	Product cost	\$200
	Add Mark-up 100%	<u>\$200</u>
	Sale Price	<u>\$400</u>

Gross profit percentage is the resulting profit made from the sale after allowing for direct costs;

e.g.	Sale price	\$400 (A)
	Product Cost	<u>\$200</u> (B)
	Gross Profit (and %)	<u>\$200</u> (C) (50%)

(Gross Profit % = “C” divided by “A” x 100 = %)

A mark-up of 100% will provide a gross profit of 50%.

A mark-up of 50% will provide a gross profit of 33%.

A schedule of mark-up and gross margin is located on our website. Go to www.dbchartered.co.nz and find the schedule under Common Forms and Planning (or a Google search under “dbchartered markup” should get you there).

BOOK REVIEW

“Diane Foreman – In the Arena” - (2015)

Diane was the 2009 NZ EY Entrepreneur of the Year and represented NZ at the international event in Monaco (and has since been a judge at the international event). Her global business, New Zealand Natural/Emerald Foods, was sold to overseas interests in 2015.



In this book Diane gives a detailed account of her career, including the highs and the lows. The book provides guidance for entrepreneurs and Diane shares her ideas on what it takes to succeed, including planning, marketing, networking, hiring staff (clean shoes a must), personal development and surviving through difficult times.

EMPLOYER OBLIGATIONS

The Government is looking to take a harder line on employers who are not providing their employees with minimum standards. Particularly they are concerned about employers that are not paying the correct minimum wage, are not paying the correct holiday pay and who are making unauthorised deductions from salary or wages. Fines are likely to be increased for non-compliance to \$50,000 for individuals and \$100,000 for Companies. If individuals consistently breach the requirements they could be banned as employers.

Currently all employers should ensure:

- They have accurate and easily accessible records showing hours worked, what staff are paid and when they take leave.
- Holiday pay is calculated including bonus entitlements and the cash value of accommodation provided
- Employees are paid time and a half for working public holidays
- That the minimum hourly wage rate is paid (especially if a person is on a salary and often works additional hours in the busy season). This is currently \$14.75 per hour.

If you need to confirm any details regarding paying wages, please contact us.

JOKE #3

A judge tells the defendant, “You’re charged with attacking your boss with a hammer.”
 “You jerk!” yells a voice from the back of the courtroom.
 “You’re also charged with attacking a bartender with a hammer,” says the judge.
 “Jerrrrkkkkk!” bellows the same man.
 “Sir,” says the judge, “one more outburst, and I’ll charge you with contempt.”
 “I’m sorry, Your Honour,” says the man. “But I’ve been this jerk’s neighbour for ten years, and every time I asked to borrow a hammer, he said he didn’t have one.”



Thanks for reading.

You can read earlier copies of our newsletter at <http://www.dbchartered.co.nz/newsletters.php>

You can also download our annual checklist and common forms from the website.

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