

## The bach tax

Owning a holiday home just got more expensive



through Parliament late July and for most tax payers took effect from 1 April.

Known as the bach tax it reduces the level of deductible expenses that a holiday home owner can claim against the rent they derive from letting it out.

Historically a holiday home owner who rents their holiday home out has been able to claim deductions based on the time that it was available for rental with only the "private" family use time being non-deductible.

From 1 April 2013 deductions are only be available based on an apportionment between days rented or used for earning income and private use.

So, where as in the past, if the Bach was used by the family for 6 weeks, rented for 6 weeks (the national average time by the way) and "available" for the balance instead of the owner being entitled to a deduction for 88% of the costs the deduction will be limited to 50%.

The rule applies where the holiday home is not used for at least 62 days in a year.

Where the holiday home is used by the owner while repairing damage caused by a tenant the time is a deductible day.

If however the owner stays at the 'bach' to do general repairs (paint the exterior, mow the lawns etc) this time will be 'private' time.

The definition if private includes not only time the owner and family use the property but also includes any time when it is rented for less than 80% of the market rent. So allowing a friend to use the place for free or (say) \$50 a night when you usually let it out for \$200 a night is private use.

Direct costs of renting out the Bach such as advertising it on a website and cleaning up after a tenant remain fully deductible.

If you own a holiday home and make it available for rental you should be keeping a logbook recording its use each day of the year.



These rules will be extended to boats and aircraft from 1 April 2014.

With the removal of depreciation from 1 April 2012 this change adds further cost to holiday home ownership.

## Are you prepared?

You are probably aware that the lower North Island and top of the South was hit by an earthquake on Sunday 21 July. It wasn't the "big one" but it gave a taste of what the people of Christchurch went through.

Both Christchurch and the "Wellington" event highlights that New Zealand is an earthquake prone country.

The Napier, Inangahua and Edgcumbe quakes also wreaked havoc amongst others in past years.

So, are you and your business prepared?

Have you conducted a safety review to ensure all equipment, shelving, filing cabinets etc are adequately secured to the wall or ground?

Do you do regular back-ups of you computer and hold them off-site?

Do you have an evacuation plan?

Are you adequately insured including loss of income including for business interruption so you can continue to pay your staff?



## What are your plans for the future?

There are thousands of baby boomers rapidly heading towards retirement. The first of them recently hit 65. Many of them are self-employed and will have to face the future of their business soon. For many the value of their business is their superannuation fund and valuable it may be.

What are your plans?

One thing is for sure - you should be planning now. You should be thinking about who (if any) in your family may be suitable to take over the business or whether it will need to be sold.

Just because you have aspirations for a family member to take over does not mean they do and putting the "hard word" on may not be the best thing for the business, the family member on the family. Statistically only 30% of family businesses survive being passed to the next generation and a mere 12% to the third so it may not be the best plan.

If you in your 50's or over now is the time to be thinking about:

- When you will step aside?
- Is there a successor in the family?; if not
- Is there one in the business?
- What do they need to learn and when should you start training them?
- How much is the business worth?
- How the change of ownership be funded?
- What needs to be done to the business to lift its value and make it saleable

Letting go of "your baby" is often an emotional wrench which should also not be underestimated. It is emotional for the owner, for the successors and for family members excluded from the succession, for clients and employees.

The transition needs to be carefully planned to ensure that clients/customers are retained, staff and suppliers are not unsettled. For many family businesses the respect and standing of the owner to these people is a fundamental aspect of the success and standing of the business - your business.

Now is as good a time as any for you to begin to plan. It is better to take control of your succession than for it or life to do it for you.

We are happy to discuss your thoughts and assist with a plan.

**This is a text box, click in here to add Your Company Details**

## Due dates in August

### 5 August

- PAYE returns for 16th – 31st July 2013 (bi-monthly filers)

### 20 August

- PAYE returns for July 2013 (monthly filers)
- PAYE returns for 1st – 15th August 2013 (bi-monthly filers)
- RWT on interest, dividends and royalties paid in July 2013 for monthly payers
- NRWT deducted in July 2013 (monthly filers)

### 28 August

- GST return for the period ended 31st July 2013
- 1st Instalment of provisional tax for taxpayers with a March 2014 balance date
- 2nd Instalment of provisional tax for taxpayers with a November 2013 balance date
- 3rd Instalment of provisional tax for taxpayers with a July 2013 balance date
- 1st Instalment of provisional tax for taxpayers with a January 2014 balance date – 6 monthly filers
- 2nd Instalment of provisional tax for taxpayers with a July 2013 balance date – 6 monthly filers
- Provisional tax for taxpayers using the GST ratio method with a January, March, May, July, September or November balance date

### Mr Selfridge

#### On the Boss

"The boss inspires fear; the leader inspires enthusiasm."

"The boss says "I"; the leader, "we"."

"The boss knows how it is done; the leader shows how."

"The boss says "Go"; the leader says "Let's go!""