BTA BUSINESS & TAX ADVISORS LTD

Newsletter – June 2015

The Kiwi Quarter Acre Dream

In keeping with more recent Budgets past there was little in the recent Budget of a tax related nature.

Indeed, the most significant tax measure was announced prior to Budget Day and involved a proposal to tax any gain from the sale of residential property sold within two years of purchase.

This new rule will apply from 1 October 2015 but will not apply to:

- family homes;
- an inherited property from a deceased estate; or
- a property acquired under a relationship property settlement

Nothing has changed

Nothing has change however. New Zealand has for decades taxed certain profits from selling land.

All that has happened is that a presumption (the 2-year rule) is to be introduced. The presumption will be that if a person buys a property and sells it within two years the property was acquired to sell and so any profit will be taxed.

The long standing rules relating to land remain and continue to apply.

These long standing rules include the taxation of profits from the sale of land acquired with the intention of selling.

Take for example the young couple who want to get ahead. They buy a house; live in it while they do it up at nights and on weekends and sell it for a profit. Then they do it again, and again, and (maybe) again.

There has always been an exclusion from tax for profits made from buying and selling family homes and this remains whether the sale occurs within or outside the two year window.

However, the exclusion is not (and never has been available) if there is a regular pattern of buying and selling and/or due to actions of homeowners the properties were not occupied mainly as a residence but were occupied mainly as a do up.

We are aware that (especially) amongst the "young couples" there is almost a sport of buying, doing up and selling or buying a section, building, living in for a short time and selling.

Such activity can fall within the tax net.

They'll never catch me!

Well……….don't be so sure! Inland Revenue has a very experienced team of property investigators who monitor land transfers and understand the law.

Indeed, they have had quite a lot of success finding taxable land sales. They have also had success in Court if it gets that far.

Such has been the success, the Government has given Inland Revenue an additional $29 million ($62 million in total) over the next 5-years to find taxable property transactions.

That should fund an extra 60 Investigators on top of those already "on the job".

Inland Revenue is expected to collect $500 million (about $8.00 for each dollar spent) of extra tax from the increased surveillance.

To help Inland Revenue catch people who should be paying tax on profits from land, from 1 October 2015:

1. All vendors and purchasers of land will be required to disclose their IRD Numbers when they buy a house;
2. Inland Revenue will access the Names and IRD Numbers via the land transfer process;
3. Non-resident vendors and purchasers will have to provide their tax number in their home country;
4. Non-resident land owners will have a New Zealand bank account;
5. Non-resident land owners will have an IRD number;

Worth the gamble?

Talk to us if you think you may be at risk.

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Are you prepared?

We aren't pessimists in ATAINZ – indeed we love life and business; but we are realists.

The milk price paid and to be paid to farmers is down – way down.

The dairy industry is working on plans to help farmers cope with what is likely to be a "very tough and grim season".

At best, dairy farmers may breakeven and they may even go into loss.

About a third of New Zealand's exports are dairy related and it is expected that around $7 billion will be lost to farmers and to the Country.

What this means is that farm expenses will be reduced with a consequential flow-on effect to the local economy as less is spent on things like feed, fertiliser, repairs and maintenance and capital items. It also means that less will be spent on private discretionary items.

All this will flow into towns and cities (even Auckland will not escape). It will take a little time for the impact to be felt – but rest assured it will be; so are you prepared.

So what can you do?

We suggest that you start by getting your information in to us so we can prepare your accounts and tax returns. This can then assist you in knowing where you are at and provides a basis for budgeting and securing finance.

This then leads to some cash flow planning – we have said before CASH IS KING! Even if a business is profitable it doesn't mean it won't run out of cash so cash in and out should be monitored closely and if additional funding will be required it is best to seek it earlier rather than later.

A good cash planning measure is to cut costs wherever possible – especially non-essential and luxury items; so now would be a good time to undertake a review.

The one cost to not cut is marketing. When times get tough the marketing/advertising spend should not be cut. It should be reviewed for effectiveness to ensure your target market is being reached – other than that; an increase in such spending may even be worthwhile.

You could also look at opportunities to widen your product/service attract a new customers base. Even if the going gets tough there will be opportunities to grow parts of your business. It's just a matter of finding them.

Finally, don't forget your existing customers. As spending power decreases your existing customers are your best source of income so review your product range to enhance your existing customer spend and reward their loyalty to you.

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Hitting Hospo

Inland Revenue has been very active over the past few years reviewing, investigating and auditing restaurants and cafés.

It has recently altered the game and upped the ante and moved its focus wider than the big cities into the towns!

We have mentioned before but it is worthwhile to mention again that Inland Revenue knows more about business and how they perform than any other organisation. Its intelligence gathering is second to none.

It knows what an average restaurant or café should make on food, how many staff are required to run an operation based on size and what percentage of sales are cash as a ratio to Eftpos.

If a food business does not fit the "norm" from information it holds an investigator is likely to call.

A couple in Auckland were just this week sentenced to home detention for under reporting cash sales and wages.

They were "discovered" because of the low profit ratios in the accounts and the supposedly low percentage of cash sales.

Any business is open to review – not just hospo; it's just that hospo is in the searchlight.

If you have concerns about cash sales not disclosed and cash - no PAYE wages – please talk to us.

The voice of experience

"Opportunity is missed by most people because it is dressed in overalls and looks like work"

- **Thomas Edison**