

Newsletter July 2009

IRD Interest Rates

As from 1 July 2009 the Government has announced the following changes to interest rates:

- For overpaid tax, the new rate is 1.82% (down from 4.23%)
- For underpaid tax, the new rate is 8.91% (previously 9.73%)

Given these rates you:

- a) definitely don't want to overpay your provisional tax commitment;
- b) should consider using the IRD as a bank if cash flow is tight.

If you have a 31 March balance date your first 2010 provisional tax payment is due on 28 August 2009. In theory you could estimate this to Nil and delay paying the tax until 7 April 2011 (and pay 8.91% interest) **but** remember:

- i) there are penalties for deliberately under estimating provisional tax;
- ii) if you use the IRD as a bank they are not very friendly if you ultimately don't pay.

Wills

We are continually amazed by how many people don't have Wills. Dying without a Will can leave your family in a mess. If you don't have a Will or haven't updated it for a few years do something NOW.

PIE Tax Rates

Remember that your tax rate for investments in PIE's is based on the lower of your income for the previous 2 years. If you use the wrong tax rate you lose all the benefits of investing in a PIE. So each year at 31 March check your PIE tax rate is still valid.

Property Depreciation

If buying property you should consider getting chattels and fit-out valued.

A recent newsletter from a valuation firm claims higher depreciation claims of as much as 60% are possible by having a valuation done.

If you own residential rental property remember that the IRD view is that you can't depreciate fit-out. However as far as we are aware that view has yet to be tested in Court.

We have also heard a recent rumour that the IRD are looking at denying any claim for depreciation on chattels/fit-out unless the cost is shown separately in the Sale & Purchase Agreement. If buying property in future it may pay to ensure the figure is shown in the Agreement (if you are the buyer). If you are the seller and no value is shown for chattels/fit-out does this mean the IRD accept they have no value - we doubt it!

WK Website

Our website contains a number of articles on taxation matters including:

- Does NZ have a Capital Gains Tax?
- Taxation of Rental Properties
- Tax Tips and Traps
- Tax Issues for Persons Shifting to NZ
- A comparison of the Benefits and Disadvantages of Trading via a Partnership, Company or Trust.
- If interested in any of these articles go to our website - www.winkerr.co.nz

ACC

We note that many taxpayers are on the standard ACC CoverPlus scheme and not CoverPlus Extra. We have previously written about the benefits of CoverPlus Extra and don't want to sound like a broken record, but the benefits are so overwhelming compared to the standard ACC scheme that we will repeat them:

- a) Under CoverPlus Extra you can set your level of cover at between 40% to 120% of the average of your last 3 years earnings. This gives far greater ability to choose the level of cover you need.
- b) CoverPlus Extra pays out 100% of the sum insured, normal CoverPlus pays out 80%.
- c) CoverPlus Extra pays out without any proof of loss of income.

Under normal Cover Plus you have to prove loss of income - very difficult in most cases.
- d) CoverPlus Extra continues paying until you can return full-time to work.

Hopefully the above is enough to convince you to ring ACC and change to CoverPlus Extra, NOW.

Not to do so means you could well be paying far higher levies than you need **and** end up with no ACC entitlement in the event of an accident.

We also note that there are now insurance products available which can cover both accident and sickness for little, if any, more cost than paying standard ACC. These policies are based on you taking the minimum 40% cover under CoverPlus Extra and the private insurer tops up accident cover and provides sickness cover.

Remember ACC does not cover sickness.

Break Fees

Fees paid to break a mortgage may not always be deductible in full up front. They will be if the loan is repaid and a new loan taken out. They will not be if the existing loan is simply varied and the break fee is over \$40,000.

Budget Highlights

Wrong word - there were NO highlights!

Tax wise there was no good news. The only real tax issue was the cancellation of future planned tax cuts. This means that the rates of tax applying in NZ are now:

<i>Individual income \$</i>	<i>%</i>
0 - 14,000	12.5
14,001 - 48,000	21
48,001 - 70,000	33
Over 70,000	38
Company	30
Trust	33
PIE	19.5 or 30

Banks and Hard Times

If you experience cash flow difficulties it is important to let your financier know of impending problems before they arise. Ignoring the problem will not make it go away. We also suggest that it is a good idea to involve us in any meeting with your financier.

Most banks now want current financial statements (no older than 6 months past balance date) before they will lend further funds.

If you are likely to need accounts done in a hurry please give us as much warning as possible.