

Newsletter

SUMMER 2019

No more cheques for IRD

IRD will not be accepting cheques from 1 March 2020. If you prefer to use cheques, start preparing to change the way you pay your tax.

If online banking worries you because of the risk of a hacker stealing your money, you could have a special bank account and put your tax money in it only when you are ready to pay it.

Inland Revenue has advised us the payment options will be:

- **myIR:** Direct debit and card payments can be made from myIR.
- **Online banking:** One-off or scheduled recurring

payments can be made using online banking.

- **Money transfer:** Your clients based overseas can pay us using a money transfer service. Search for "Make a payment" on our website for more information.
- **Credit or debit card via our website:** Payments can be made by credit or debit card through our

secure payment website. Go to our website and search for "Make a payment" and select "Pay using credit or debit card".

- **Westpac:** EFTPOS or cash payments can be made at any Westpac branch or Smart ATM.

If you need some help, call us

Some interest rates are going up

If you underpay your tax you will be charged 8.35% (was 8.22%) interest compounding monthly. This new rate was introduced on 29 August 2019.

At the same time, the rate payable to those who have overpaid was decreased from 1.02% to 0.81%. IRD says the new rates are consistent with the floating first mortgage new customer housing rate and the 90-day bank bill rate.

Those who have an annual tax bill of \$60,000 or more should beware of this Use of Money Interest (UOMI) charge and aim to minimise it. If you have a 31 March balance date (most people) and if you pay your provisional tax in accordance with the amount calculated by Inland Revenue (5% more than last year for those who have got their accounts done or 10% more than the year before for those who have not got their accounts done), you will not be bothered with UOMI for your first (28 August) and second (15 January) instalments of provisional tax. However, you will get caught if your third instalment of provisional tax is not sufficient (see below) by 7 May.

As we mentioned in the autumn 2019 newsletter, Inland Revenue expects you to be able to work out your income for the year ending 31 March 2020 by 7 May 2020. Therefore, if your tax for the year is likely to exceed \$60,000, make a best guess at your income for the year ending 31 March 2020 within the five weeks allowed and if necessary, top up your 7 May payment.

Get tax right in first year of business

Be careful if you are expecting a taxable income in excess of \$200,000 in your first year in business.

If the tax you have to pay at the end of the year is \$60,000 or more, Inland Revenue will charge interest on any short-paid tax at the rate of 8.35%.

Don't sail through your first year waiting to see what happens. Get some tax paid.

A 6.7% discount of tax is available for individuals receiving self-employed or partnership income, who pay tax voluntarily in the year before they begin paying provisional tax.

Slash the phone bill with VoIP

The phone bills keep coming in regularly, and like all bills, you wonder if technology can help you cut your costs.

You might have heard of VoIP, an acronym for voice over internet protocol. It's a technical term for phone calls via the internet. But it's a lot more, too.

So is it worth investigating as an option to replace your old phone line, is it as cheap or "free" like they say, and has the technology developed enough to make it worth taking up now?

The answer is probably yes to all. But before you move to adopt it yourself, here's some information that might help you make a decision.

VoIP is certainly great technology. It's been described as the most successful of the past decade. So it's well advanced and there are plenty of providers keen to hook you up.

There are three ways of hooking up to VoIP:

- 1 Computer to computer or smartphone to smart phone. This only works where both people are using the same service. It can be free.
- 2 Attaching an analogue telephone adapter to a standard phone.
- 3 Throwing out your old telephones and buying IP phones.

To give you an idea of savings, a small business transferred the phones at home and at work to VoIP. The first thing that happened was the owner was able to get rid of a telephone line because the VoIP system could take inwards and outward calls at the same time. He then only needed internet for home and work costing \$148 inclusive of GST, plus his monthly fee to the VoIP provider of \$25 plus a little more if he made too many telephone calls in the month.

It is working out at about \$30 a month GST inclusive.

That's \$178 a month compared with almost \$300 previously. On a cost basis only, VoIP has to be worth considering.

In this case the customer bought new telephones. He needed two base stations and a couple of extensions as a minimum, but he decided to add a few more for convenience, costing a total of about \$1000. As you can see, he recovers this money well within one year.

One small problem. He bought both corded phones and cordless phones. If you buy a corded phone you have to be able to connect it to the internet, which is not just a case of plugging it into a jackpoint. This might cost more to sort out than choosing the slightly more expensive cordless phone. His supplier agreed to a swap and payment of the difference in price.

VoIP offers benefits not available on the normal telephone system. One of them is an ability to convert a message to an email. If you look at your messages regularly during the day, this can be very handy. How often do you forget to see if any messages have been left on your phone? In addition, you don't have to put up with the telcos' verbal diarrhoea before you can access your

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message when you use VoIP. You get it instantly. Think of the advantage if you go on holiday of being able to get your telephone messages on the internet.

You can redirect calls much more easily using VoIP. For example, suppose you have a small office with just a secretary. You can access the office telephone system from your home. This means if the office is closed you can redirect calls either to your home or to your cell phone without having to go anywhere near work.

The switchover was almost seamless. The only thing which went wrong is that the telco insisted on making the switchover in the morning instead of late afternoon as arranged.

And what about clarity? It's brilliant according to this user.

Suppliers have their various contract terms. For this customer, there's no ongoing contract. He's free to change suppliers at any time.

Communication with employees on the road is easy and talking to family overseas is cheap – and fun. That's because VoIP allows you to also share messages and make video calls in real time, with multiple people.

One of the downsides is privacy and security, which can still be a factor. Like many advances, privacy often comes after the technology, so there's probably still work to be done.

The best advice is to do your research on VoIP. Talk to other users and the experts. It's likely that VoIP will totally replace the old phone service within the next 10 years, so now seems a good time to adopt it.

If you are removing your landline and retaining Internet, we have heard some providers might ask for a month's notice of the change. It seems this helps to get the billing right.

Crypto wages under IRD spotlight

Inland Revenue has outlined its position on wages paid in cryptocurrency.

Inland Revenue publication PUB00344 discusses the implications of an employee getting part of their income in crypto currency. It's reasonably straightforward. For example, someone receiving \$9000 of salary in New Zealand currency and \$1000 of salary in cryptocurrency will be taxed on an income of \$10,000.

A problem arises if the employee is to receive a cryptocurrency denominated amount. In this circumstance, convert the cryptocurrency amount to New Zealand dollars on the date of payment. That amount is added to the salary and subject to PAYE.

Be ready to justify your conversion rate. It needs to be a rate used by a reputable exchange with a reasonable volume of trading.

Not all types of cryptocurrencies will be subject to PAYE. The cryptocurrency needs to be sufficiently similar to existing notions of wages to be considered a wage. Clause 41 of the document sets out the features of a cryptocurrency wage.

If the payment is subject to "lock-up" and cannot be converted by the employee to currency, for a material period of time after payment, it does not sufficiently resemble a payment of salary or wages and is therefore subject to FBT.

The ruling is to apply from the beginning of the 2020 income year to the end of the 2022 income year. It is, at this stage, only a draft for comment and therefore might be changed.

BRIEFLY

Child support relief

Inland Revenue will consider relief from child support debt on a case-by-case basis. Requests for a payment agreement may be made in writing or by telephone.

KiwiSaver change

The KiwiSaver scheme is to be changed to allow those with congenital life-shortening illnesses to withdraw their money from KiwiSaver early. It is proposed that the applicant may choose the date of withdrawal and the amount. Once a withdrawal is made, the scheme will be considered to have ceased and the Government will not make any more contributions to KiwiSaver and neither will the employer be expected to contribute.

Business lessons from the world of sport

Top sports people have to be physically fit, but they also have to work on constantly improving their skills and tactics

They are in the most extreme of competitive industries. Either they have a top-notch product or no business at all.

The DominionPost recently ran two interesting articles about how top sports people improved their game.

Stuart Broad was close to missing selection for the England cricket team, then ripped through the Australian batsmen in the recent Ashes series. What did he do to improve? He sought a mentor, an excellent business move.

Sir Richard Hadlee, as you might remember, shortened his run towards the end of his career and got even more accurate with his bowling. He advised Broad

about the changes he made.

You might also remember John Mitchell, the All Blacks coach in 2003. He changed his coaching technique.

"I am now far less at the athlete and more working with the athlete..." he told the DomPost. He doesn't try to tell his charges what to do but rather draw the answers out of them.

Why is this change important?

From a business perspective, if you can get your staff to tell you how to make improvements, they will own the changes and be comfortable with making them.

The Japanese talk about Kaizen, constant improvement. This is what we should all be doing in our businesses. Small, ongoing positive changes are likely to work better than instructions from above.

England cricketer Stuart Broad, who sought a mentor in Sir Richard Hadlee and found renewed success.



Boost wifi for better performance

Poor wifi connections in parts of your home or office can be incredibly frustrating.

It can mean slow speeds or “dropping” of your wifi signal to your smart TV during your favourite game, or when you’re about to email a client from your laptop in the kitchen.

The problem is likely to be you’re too far away from your wifi router, and/or metal cabinets and solid walls blocking the signal. Wifi boosters and advanced routers can help by extending the coverage area of your network.

Boosters grab the wifi signal from the router, amplify it and then transmit the boosted signal. You should be able to double the coverage area of your wifi network. One client we know boosted wifi so it could reach a smart TV in the backyard shed.

Wifi “boosters”, “repeaters” and “extenders” work much the same. But what’s the best? As always, money will talk. Pay more, get more.

Some boosters will simply “hop” the signal to one or more boosters, and some will allow you to send your internet signal through the electrical circuit in



your home or office.

Basic models start at about \$50. Most boosters are simple to install, even for novices (check online reviews to see if anyone has a problem).

Advanced routers (without boosters) have super-fast processors and technology targeting the wifi signal to where it’s being used. So instead of hopping the signal to a booster, the source router has much more grunt, improving speed and performance. For that you’re starting close to \$300 and will pay more than \$500 for top-of-the-line models.

As always, check online to see what might be best for your circumstances, and to see if reviews show up any potential problems with installation or performance.



TAX CALENDAR

November 28

First instalment of 2020 Provisional Tax (June balance date)

January 15

Second instalment of 2020 Provisional Tax (March balance date except for those who pay Provisional Tax twice a year)
Pay GST for period ended 30 November 2019

April 7

Terminal tax for 2019 (March, April, May and June balance dates)
For all clients except those who have lost their extension of time privilege

Debt forgiveness

If you are going to forgive a debt, for example a parent forgives a debt to a child, document it properly to ensure it is a valid forgiveness. Consult your solicitor. This is not a do-it-yourself job.

GST trap for Air B&Bs

Be careful if you have an Air B&B and have to register for GST.

If you sell to a non-GST registered person, such as someone who wants to use the house as a home, you will be required to pay GST on 100% of the amount you sell for. Your GST claim will be limited to 100% of what you paid for the house. Let’s use some figures:

House sells for \$750,000. GST on this is \$97,826. It cost you \$300,000 to buy the house. You can claim the GST on this figure - \$39,130. When you first registered for GST, you would have made a GST claim based on the expected business use of the house - say 60% = \$23,478. Assuming this estimate had not changed, you can now claim the difference being (\$39,130 - \$23,478) = \$15,652. So pay Inland Revenue (\$97,826-\$15,652) = \$82,174.

You might have been registered for GST for only a few months! Ow! Very nice for the IRD though.

Overseas suppliers

If you deal with overseas suppliers, be sure to let them know you are GST registered before GST on low value imports comes into effect on 1 December 2019.

For business to business transactions, an overseas supplier can zero rate your purchase.

If you are charged GST in error, you have two options:

- Get the GST back from the supplier.
- Get the supplier to send you a tax invoice so you can claim the GST back.

Any item costing \$1000 or less will be a low value import and the GST will be collected by the supplier, provided the total supplies to this country amount to \$60,000 or more per annum.

There will, of course, be suppliers who are not registered for GST, particularly those whose sales to this country are less than \$60,000 per year.