



Your accounting update from BWR Spring '10

# outside the square

## Client Profile

### Farming continues to inspire Hawke's Bay family

It's fair to say that for the Apatu family farming is in the blood.

The 70 thousand acre sheep and beef station on the Napier-Taihape Road has been in the family for nearly 80 years, passed through the generations and now farmed by siblings Ren & Nathan Apatu and Kate Bates as the Ngamatea Farming Company.

The breeding and finishing farm runs 40 thousand sheep, five thousand cattle and employs a stock manager and 10 permanent staff. Being one of the largest farms in the North Island, it is vital the Apatu family keep abreast of progress and receive timely information to allow them to make the decisions that keep the operation running smoothly.

Ren Apatu is the Managing Director and focuses on the financial and planning side of the business, monitoring budgets and forecasts and ensuring all the company's tax commitments are met. He says that's where BWR comes in.

"We get a lot of advice from our accountant Mark Coombe and over the years the team at BWR has become a vital element in the successful running of Ngamatea Farm," says Ren.

There have always been many intricacies to consider with livestock and business taxes and Ren says it is reassuring to know with the assistance of the team at BWR they have it covered. With an operation of this size there's plenty of information required to help with the planning process. A combination of Cash Manager Rural and other monthly reports from BWR helps provide the tools to get the job done.

With all three directors/owners of the company living in different parts of Hawke's Bay, BWR has also become the central meeting point for the business.

"We have our PO Box at BWR, we hold board meetings there or simply meet to discuss various aspects of the business. It gives us a central office without having to actually rent one."

Ren says while his focus is on the financial side of the business he loves nothing better than his weekly trips to the farm.

"On the farm there are no distractions. We have no cell phone coverage and mail is only delivered twice a week. I can get out there with the guys, get mud on my boots and feel like I'm a million miles from anywhere."



## Budget 2010 Depreciation changes for most buildings

One of the additional tax costs imposed on businesses in the May 2010 budget is the reduction of depreciation allowances for most buildings.

Depreciation is the non-cash tax deduction that represents a periodic reduction in the value of capital assets, essentially spreading the cost of an asset over its expected life.

For any building with an estimated useful life of more than 50 years, the depreciation rate will be reduced to 0% from 1 April 2011.

### Which buildings are affected?

The change will apply to any building irrespective of its age. Unfortunately any depreciation claimed to date will also be carried forward and will need to be recovered if the building is sold for more than its book value. The same applies if a building changes

use (e.g. your rental property becomes used as your private residence).

Currently depreciation rates for these types of buildings are between 2 and 4%. While it may not sound a lot, for a building costing \$500,000, the reduced tax deduction could add \$20,000 into your annual taxable income. This would mean more tax to pay.

### What about building fit-outs?

For commercial buildings, the change in rules does not apply to items of building fit-out.

These are separately identified items within a building that in general terms do not form part of the structure of the building, e.g. air-conditioning systems, carpets, non-permanent fixtures, etc. These can still be depreciated as shown in the following example:

### Depreciation claimed before 1 April 2011

	Cost	Opening Book Value	Depreciation Rate (CP)	Amount	Closing Book Value
Land	250,000	250,000	0%	0	250,000
Building	450,000	405,000	2%	9,000	396,000
Air-conditioning	50,000	30,500	13%	6,500	24,000
Roller door	20,000	16,000	10%	2,000	14,000
	770,000	701,500		17,500	684,000

After 1 April 2011, the amount of depreciation claimed would be as follows -

	Cost	Opening Book Value	Depreciation Rate (CP)	Amount	Closing Book Value
Land	250,000	250,000	0%	0	250,000
Building	450,000	396,000	0%	0	396,000
Air-conditioning	50,000	24,000	13%	6,500	17,500
Roller door	20,000	14,000	10%	2,000	12,000
	770,000	684,000		8,500	675,500

(N.B. The rules for residential building fit-out are different.)

## Depreciation changes for most buildings cont.

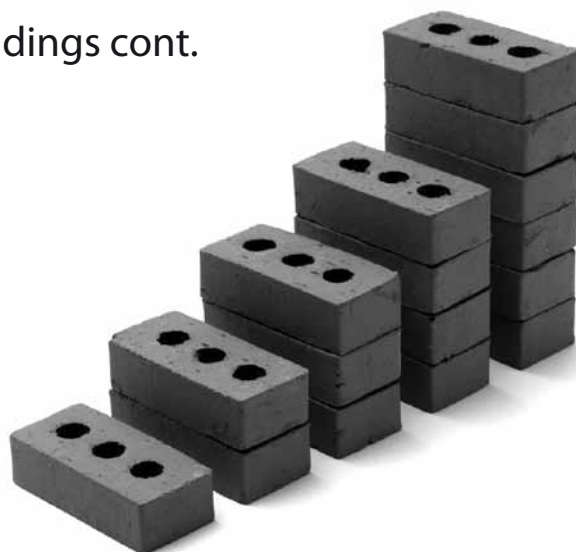
For building owners that have not previously identified fit-out separately, the government has proposed taxpayers be given the opportunity to make a “pooled” deduction for fit-out based on the value of the building. The proposal would allow building owners to create a once-only fit-out pool that can be depreciated from the start of the 2011/2012 income year.

### How does it affect future renovations or improvements?

If you are planning on making future renovations or improvements to buildings, to ensure the maximum depreciation claim can be made it will be more important than ever to separately identify items of fit-out from general structural changes.

### BWR will help you understand the new rules

The rules regarding building fit-out for residential rental properties are currently under review. We will keep you up to date as details are finalised and released.



If you do own buildings that are currently depreciated for business or rental purposes, we will highlight any upcoming impact to you as we prepare your 2011 financial statements and income returns.

If you would like to know more about how you could be affected before then, contact your accountant at BWR on **06 873 8037**.

**To understand the difference between Repairs and Maintenance and Capital Expenditure see the next page.**

The Inland Revenue has had default categories for determining the useful life of a building based on its construction materials for a considerable time. Generally, any building constructed with timber or steel framing, block or concrete panel walls will fall into the default category of more than 50 years’ estimated life. There are some limited exceptions that relate to temporary or portable type buildings, some agricultural buildings and some high (physical) stress or corrosive industries.

Inland Revenue can grant “provisional depreciation rates” for buildings that have an expected life of less than 50 years. In these cases consideration is given to the type of construction rather than the building’s use or environment. See our website [www.bwr.co.nz](http://www.bwr.co.nz) for details of the current building classes and examples of how provisional depreciation rates may apply.

## How do I know the difference between Repairs and Maintenance and Capital Expenditure?

With the depreciation rate for most buildings about to be set to 0%, the taxable deductions available to building owners will reduce. This may tempt businesses to be more liberal in their classification of expenditure on Repairs and Maintenance (R&M) vs. Capital Expenditure.

Generally, items costing under \$500 can be claimed as R&M although there are some exclusions. These include when an item is only part of a larger amount of expenditure or if there are multiple items (each costing less than \$500) purchased at the same time.

For buildings (or any asset), the distinction is often confusing. For example, replacing your roof, at a cost of say \$15,000, may be deductible as R&M (as part of a larger asset – your building); while replacing an oven, costing say \$1,000, is required to be capitalised as a new asset.

Some of the factors to consider are whether the expenditure:

- substantially improves the value of an asset (e.g. replacing wooden joinery with aluminium);
- more than makes good general wear and tear (e.g. replacing carpet tiles with solid tiles);
- changes the function of the asset (e.g. redesigning a bathroom to allow disabled access).

These points can be applied to any asset purchase (buildings, vehicles, plant and equipment) to help to determine whether expenditure should be capitalised or expensed.

We normally confirm any doubtful items with clients when we are preparing their year-end financial statements. If you want to check at the time you are considering significant items of expenditure, give us a call on **06 873 8037**.

## October PAYE payment changes

As announced in the May 2010 budget, personal income tax rates changed on 1 October 2010 to offset a planned increase in GST.

For employers, any payments to employees after this date should be made using the new PAYE tables.

Your October PAYE payment due 20 November 2010 is the first payment that will incorporate the new PAYE rates.

If you are using a computerised payroll system, please ensure your software supplier has provided you with an upgrade to accommodate the changes.

For those using manual systems, you should have received updated tax deduction tables from Inland Revenue. Alternatively you can use the online PAYE calculators on the Inland Revenue website. To find these simply click the link from the BWR website **[www.bwr.co.nz](http://www.bwr.co.nz)**.

## GST is now 15%

The rate of GST changed from 12.5% to 15% on 1 October 2010. You will need to ensure your system accommodates the change in rate. If you have a GST period that ended on 30 September and you use the payments or hybrid basis to calculate your GST, you will need to make an adjustment for accounts receivable and payable at that date.

If 1 October was in the middle of your GST period, e.g. for two and six monthly periods ending 31 October and 31 December respectively, as well as making the receivables and payables adjustment you will need to complete your return in two parts before filing your GST return.

## Tools to get your business running smoothly

You can gain enormous benefits for your business with the effective use of your information and communications technology.

BWR can help you decide which systems will suit you and your business goals, and will often provide you with those systems and help you get them up and running.

Our experienced professionals can:

- Provide project/change management
- Install and configure hardware and software to suit your purposes including customised software if required
- Recommend processes to make your systems more secure
- Suggest accounting and other software applications suitable for your business
- Provide training and support to enable clients to be self-sufficient users
- Offer advice on electronic banking
- Provide web/domain and mail server services
- Design and implement small to medium networking solutions
- Advise and implement business continuity solutions

Whether you are considering adding new computer hardware or software or completely changing your business systems, our experienced Information and Communication Team can help you.

## Let BWR take the hassle out of GST & Payroll

GST and Payroll administration can be time consuming and divert you from the core activities of your business. And with the recent increase in GST to 15% and the decrease in income tax rates the job has become even more complex. Now is the perfect time to consider out-sourcing those arduous tasks to the experts at BWR.

### Payroll Services

Do you have a growing workforce and are you finding it more difficult to complete your regular payroll duties? Let the team at BWR help – they provide a confidential payroll service including:

- Customised payslips
- Administration of PAYE, statutory sick pay, annual leave etc
- IR-filing to the IRD
- Administration of your employer and employee KiwiSaver obligations
- Payroll giving
- Summaries and analyses of staff costs
- Administration of incentive schemes, bonuses and termination payments
- Employment agreements

### GST Services

When you're running a successful business there is never enough time in the day to do everything, and now you need to get your head around the latest changes to GST. The experienced team at BWR know what they are talking about when it comes to tax and can take the worry out of meeting your GST obligations.

- Registration queries
- Preparation of GST returns
- Filing and adjusting GST returns
- IRD audit assistance
- One-off specialist event GST obligations. e.g. sale or purchase of a property

Contact your accountant at BWR to find out how this will benefit your business.

2010		
28-Oct	GST	Periods ending 30 September 2010 (N.B. Change of GST rate adjustment for Accounts Receivable and Payable should be included in this GST return)
	Provisional Tax	May, September & January balance dates
	Provisional Tax	March & September balance dates (6 mthly GST payers)
2-Nov	Be aWaRe Seminar	Demystifying Post 1989 Forestry in the Emissions Trading Scheme. To register email <a href="mailto:reception@bwr.co.nz">reception@bwr.co.nz</a> or phone 873 8037
20-Nov	PAYE/Employer deductions	October 2010 (N.B New PAYE tables apply)
28-Nov	GST	Periods ending 31 October 2010 (N.B. 2 and 6 monthly returns require a transitional two part return)
	Provisional Tax	February, June & October balance dates
	Provisional Tax	April & October balance dates (6 mthly GST payers)
20-Dec	PAYE/Employer deductions	November 2010
2011		
15-Jan	GST	Periods ending 30 November 2010 (N.B. 6 monthly returns require a transitional two part return)
	Provisional Tax	March, July & November balance dates
	Provisional Tax	May & November balance dates (6 mthly GST payers)
20-Jan	PAYE/Employer deductions	December 2010
	FBT	Quarter ended 31 December 2010
28-Jan	GST	Periods ending 31 December 2010 (N.B. 6 monthly returns require a transitional two part return)
	Provisional Tax	April, August & December balance dates
	Provisional Tax	June & December balance dates (6 mthly GST payers)

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