



Your accounting update from BWR September '07

outside the square

Team Member Profile

Craig Riddiford, Associate

Craig was born in Waipukurau and attended Central Hawkes Bay College. He joined Brown Webb in 1997, studying for his CA qualifications extramurally while working.

In 2006 Craig travelled with his young family to Scotland where they lived and worked for a year. He returned to New Zealand, and BWR, in 2007 full of enthusiasm for his new role as an associate director.

He enjoys assisting clients achieve their goals and keeping up to date in the ever changing accounting environment.

Previous honorary positions Craig has held include auditor of Waipukurau District Band and director of finance for Napier Old Boys Marist RFC . In his spare time he enjoys playing rugby and spending time with his family.



In The News

Finance firms need caution

Failed finance companies have featured and continue to feature prominently in the news with frightening regularity. With numerous stories of lost life savings from the investing public, here are some tips that might help you think about where you place your hard earned nest eggs:

1. Calculate the risk - it's generally safe to assume that the higher the interest rate the higher the risk.
2. Diversify your portfolio - no matter how high the return or how safe the bond, it's wise to spread your investments over a variety of borrowers.
3. Ensure accessibility - check if your money can be retrieved in an emergency or is it locked away until maturity. Alternatively, can the investments be traded on the open market?
4. Check the quality of lending- is your money used for first mortgage advances or more risky loans? Does the institution have significant non performing loans?
5. Watch for related party balances - these are common in New Zealand's small economy. However a high proportion of related parties can spell trouble if something goes wrong.
6. Be sure of your advisor - most work on a commission basis; check they are working for you, the investor, rather than the payer of the highest commission.

If you are not sure of an investment, we encourage you to contact your BWR Director to ask for help before you sign up.

Tax Guidance for Property Investors

Even with increasing interest rates, the residential property market remains a popular investment and retirement savings choice. Whilst commercial and industrial investment options are often more profitable, residential investment is one of New Zealand's preferred methods of wealth creation and retirement saving. However, ensuring your investment is held in the most practical, secure and tax effective manner does require careful thought and planning.

Deciding on what structure best suits you will vary according to many factors. Start by asking yourself "what other property/investments do you own?", "what other forms of income do you have?" and "what potential avenues for distributing income do you have?"

Your portfolio's ownership structure can take the form of individual, partnership, trust or company (including Loss Attributing Qualifying Company - LAQC).

Knowing what tax benefits are available for property investors will help you to enhance the value of your portfolios greatly and will allow you to maximise your wealth by ensuring you only pay the minimum amount of tax necessary.

How you fund your investment is another consideration. Can and should you borrow 100%? What is negative gearing and how can you benefit from it? Should you use your family home as security? All of these are questions that will affect the growth and return of your investment as well as your peace of mind.

"Avoidable mistakes in property investment, property development and/or property trading can lead to gains previously thought to be capital and tax free being taxed." BWR Associate Debbie Jeffares warns that people working in certain industries including building and property developing industries (and their associates) can be "tainted" when it comes to property transactions. Before you consider embarking on any rental property transactions you should make sure that the structure and documentation of your arrangements display the intentions of your purchase correctly. Talking to your BWR Director will help ensure you avoid any unnecessary taxation problems later on.

RESIDENTIAL TENANCY RIGHTS AND OBLIGATIONS

Some of these are as follows:

- Under the Department of Building and Housing regulations, you must have a written tenancy agreement.
- The landlord can make a prospective tenant pay 2-4 weeks' rent as a bond, which is held by the Tenancy Services Centre. It is refunded only when both the tenant and the landlord sign a form agreeing the amount to be allocated to each of them.
- The landlord is entitled to deduct any costs from the bond for repairs/damage (other than normal wear and tear) caused to the property by the tenant.
- The tenant is required to give a minimum notice of 21 days if they want to terminate the tenancy. However, the landlord must give 90 days' notice to end the tenancy. This can be reduced to 42 days in limited circumstances. The notices have to be in writing.
- The term of the residential tenancy may be fixed for a specified term or may be for an undefined period that continues until either the tenant or landlord terminates it.
- Either party can apply to the Tenancy Tribunal (during or after the tenancy ends) to deal with any disputes arising from the tenancy, for example if they disagree on the bond amount to be refunded.



The image shows four real estate advertisements:

- Advertisement 1:** "NOW FOR PRIVATE SALE" for \$515,000. Features include: 10 NEAR COMPLETION, 10 330m² FAMILY HOME, 10 690m² SECTION, 10 4 DOUBLE BEDROOMS, 10 2 BATHROOMS SPA IN ENSUITE, 10 DOUBLE GLAZED, 10 DOUBLE INTERNAL ACCESS GARAGE, 10 QUALITY CRAFTSMAN. Contact: MICHELLE AIRMAN, Ph: 360 2646 027 480 5319.
- Advertisement 2:** "FOR SALE" for 3 BEDROOMS + STUDY, NEW KITCHEN + CARPETS, OPEN PLAN LIVING. Ph: 359 2995.
- Advertisement 3:** "LAND FOR SALE" for OLIVE GROVE & SMALL VINEYARD. OPEN DAY SUNDAY 2-4pm. PROPERTY PRICE IS + GST IF ANY. ENQUIRIES Ph: 03 351 2201.
- Advertisement 4:** "FOR SALE" for BEAR UNIT, 2 BEDROOMS, JUST RENOVATED. Ph: 379 2557, 021 661 902. OPEN HOME SAT/SUN 1-2pm.

What negative gearing really means

Promoted as a financial leverage tool particularly throughout the Real Estate industry, negative gearing arises when the income from an investment is not enough to cover the interest cost of the money borrowed to purchase the investment.

As an example, presume a rental property investor borrows \$200,000 to purchase a \$250,000 rental house. If the house is rented for 52 weeks at \$250 per week our investor will receive \$13,000. At an interest rate of 8.5% one year's interest is \$17,000. There are council rates of \$2,500, insurance of \$750 and repairs of \$750 also. Total cash expenses for the year are \$21,000. For the first year, our investor will have to fund a loss of \$8,000 as well as any principal repayments to the bank or building society.

For tax purposes, the \$8,000 rental loss can be offset against our investor's other income eg. wages and salaries, which can result in a tax refund shown as follows:

Wages and Salaries	50,000
Rental Loss	(8,000)
Taxable Income	42,000
Tax due for year	8,730
PAYE paid during year	11,370
Tax refund	2,640

If we deduct the tax refund from the \$8,000 rental loss, the net loss for the year is \$5,360. The investor's refund will increase if the investor decides to claim depreciation on the house. However, any depreciation claimed will be added back as income if the investor sells the house for more than its written down value at a later date.

Negative gearing is profitable only if the investor will make capital gains that exceed the losses incurred each year. In this case, if the investor holds the house for ten years they would need to sell the house for more than \$304,000 (after real estate and legal fees) to make a profit.

Sounds like a simple plan? Remember – each year our investor has to be able to fund the shortfall between their rent and the cash expenses. Other issues that will have a bearing on our investor's overall profit (or loss) are interest rate changes, unexpected repair bills and periods the house is unoccupied.

If you are thinking about purchasing an investment using negative gearing or if you currently are and want to know what the "real cost" is – ask your accountant at BWR.

"Negative gearing is profitable only if the investor will make capital gains that exceed the losses incurred each year."

Information Technology

We live in a computerised age. Technology enables us to enhance a wide variety of business processes. Effective use of software and hardware can provide enormous benefits to your business.

If you are still using hand written books and other manuals forms or maybe you have taken one step further and use a spreadsheet based accounting system, you will know how much of an arduous task this can be. There are advances in technology that can provide timesaving solutions that will take you away from those manual tasks.

Modern accounting packages available today mean transactions can be automatically imported, reconciled and even coded at the touch of a button. As a minimum, any accounting package should be able to prepare your GST, produce cash flow reports and prepare profit and loss statements to assist your compliance and management needs. The advances in these packages can increase your internal reporting, free up employees' time for other tasks and hold a wealth of your information. There are a variety of software packages including Banklink, Cash Manager, Computer Concepts and MYOB

that could suit the needs of your business. If you wish to discuss accounting software solutions that will streamline your business, please feel free to contact our trained staff who will be more than happy to assist you.

" Effective use of software and hardware can provide enormous benefits to your business."

Rental Property

At Brown Webb Richardson we have the necessary expertise to assist in a variety of areas in relation to residential and commercial property.

The services we offer our clients include:

- Advice on the purchasing of a property
- Reviews of lease agreements
- Advice on funding
- Guidance in tax minimisation
- Advice on which ownership structure (individual, partnership, company or trust) to provide protection for your investments as well as maximising the tax benefits
- Periodic reviews to ensure returns are maximised

The importance of forecasts in making a rental investment cannot be emphasised enough. We are able to provide for you:

- Forecasts of revenue returns
- Forecasts of financial position
- Forecasts of potential growth

Contact us today for information on how we are able to assist you in the business of rental properties.

Management Consulting

Our aim is to ensure that your business achieves the full potential that it is capable of. We have the know-how and experience to offer advice to help you run your business more effectively.

We are practiced in acting as a sounding board for management, bringing to the relationship years of experience in business growth. We can identify key performance indicators in your business, through which you will see the positive changes occurring with the help of our professional consultants.

We are able to check that your business is as competitive, focused, and profitable as it can be. We will then offer flexible strategies designed to address the issues affecting your business.

Trusts

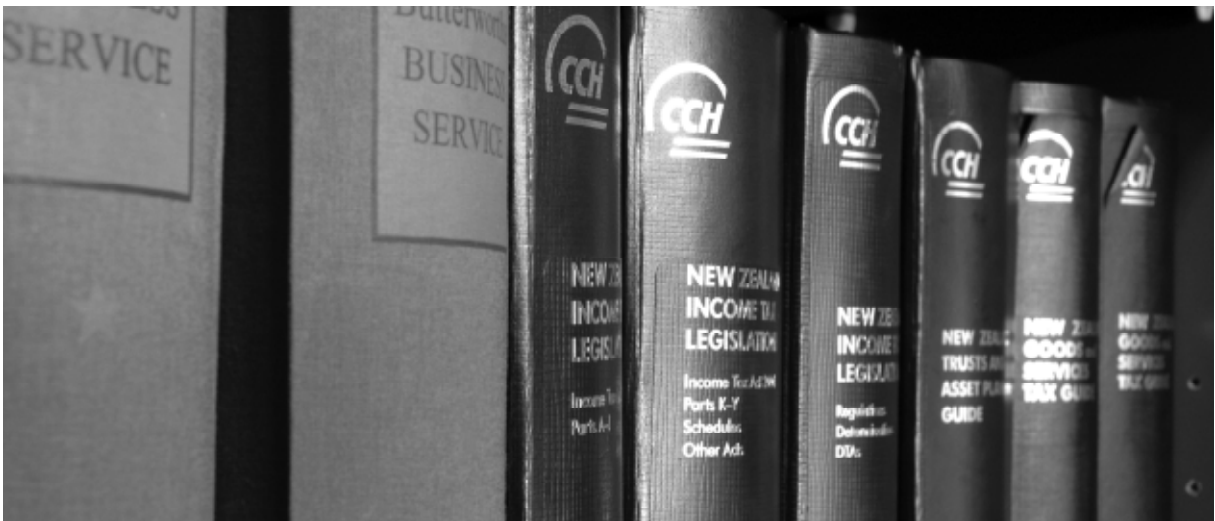
A trust can be a useful way of protecting the assets that you have accumulated over time.

We have extensive experience with trusts and are able to offer specialist advice on their formation and structure. We can also help you ensure that all statutory and Trustees' requirements are met.

We are able to:

- Attend to the reporting and taxation requirements for trusts
- Update and maintain your trust's resolutions
- Provide a Professional Corporate Trustee service using the Hawke's Bay Trustee Company Ltd

For further information or any help in forming your own trust please feel free to contact us anytime.



Heretaunga Building Society



Heretaunga Building Society

The Heretaunga Building Society was formed in 1933 by Mr R.D. Brown and a group of prominent businessmen, with the expressed purpose of providing a locally-based home loan service for the citizens of the Hastings District. Mr R.D. Brown, the founder of Brown Webb, later became the Mayor of Hastings together with holding office with various other community and professional organisations.

The Society is based on the twin principles of offering a competitive funding option to local home owners, while ensuring total safety of investors' funds. The Heretaunga Building Society's initial vision and purpose has now been clearly and fully realised.

The Society presently has an asset base in excess of \$22M, of which \$15M is mortgage advances all secured on a first mortgage.

The Society's equity of \$3.5m is one of the higher ratios among New Zealand Building Societies. This reflects a long history of sensible conservative lending.

More than 70 years later, Brown Webb Richardson Ltd occupies the Society's premises in Avenue Road and still provides management services to the Society.

The Society's activities are governed by a Board of Directors.

Current Board Members are:

- Gordon Black – Chairman
- Bryce Jones
- Neville Norwell
- Trevor Webb
- Jim Harvey

The Heretaunga Building Society offers competitive interest rates and flexible options on all of their Property Loans; they also have a successful history in Investment Funds and offer very competitive investment options with variable terms available to suit the investor's requirements.

“George Speedy and his secretarial team give our affairs first class attention and the continuing support of the BWR Directors is greatly appreciated.”

Changes Afoot for Foreign Investors

If you hold shares in foreign companies or you have interest in foreign unit trusts then there are changes in the tax rules that take effect from 1 April 2007 that may affect you. The new rules only relate to foreign investments of less than 10% of the total shares/units issued by the foreign company and/or trust.

The government's aim is to remove some disparity in the tax treatment between investments held directly by individuals and those held indirectly through fund managers.

Policy that has changed since 1 April 2007:

- Grey list exemption has been removed for shareholdings of less than 10%.
The grey list countries are Australia, Canada, Germany, Japan, Norway, United Kingdom and United States of America.

- New exemption for individual taxpayers if their investments cost \$50,000 or less. Note this is not available to family trusts or companies.
- Introduction of a new way of calculating taxable income from Foreign Investments called the Fair Dividend Rate (FDR).

Policy that has not changed since 1 April 2007:

- Taxable income from New Zealand companies has NOT changed.
- Income from most but NOT ALL Australian Company shares will be treated the same as income from New Zealand Company shares.

Definition: Fair Dividend Rate

This simply means that 5% of the opening market value of your foreign investments plus a (quick sales) adjustment for shares/units which are purchased and sold in the same tax year is added to your taxable income. Distributions and dividends received are not included in your taxable income. Therefore for the year ended 31 March 2008, 5% of the market value of foreign investments at 1 April 2007 will be added to your taxable income plus any adjustment for quick sales.

This is only one method of calculating your taxable income available in a complex area of taxation. If you have any doubts about your own investments or need any further explanation of the new rules please contact your BWR director.

2007		
05 September	Large employers	PAYE/employer & KiwiSaver deductions for August 2007
07 September	Provisional tax	September, January and May balance dates
20 September	PAYE/employer & KiwiSaver deductions	August 2007
28 September	GST	Periods ending 31 August 2007
05 October	Large employers	PAYE/employer & KiwiSaver deductions for September 2007
07 October	Provisional tax	October, February and June balance dates
20 October	PAYE/employer & KiwiSaver deductions	September 2007
	FBT	September 2007
28 October	GST	Periods ending 30 September 2007
05 November	Large employers	PAYE/employer & KiwiSaver deductions for October 2007
07 November	Provisional Tax	November, March and July balance dates
20 November	PAYE/employer & KiwiSaver deductions	October 2007
28 November	GST	Periods ending 31 October 2007
05 December	Large employers	PAYE/employer & KiwiSaver deductions for November 2007
07 December	Provisional Tax	December, April and August balance dates
20 December	PAYE/employer & KiwiSaver deductions	November 2007
2008		
15 January	GST	Periods ending 30 November 2007

DISCLAIMER

Please note this client newsletter is not advice and therefore you should not act solely on the information contained within. We recommend you obtain our formal advice before acting in any of the areas presented within.