CHANGES TO FARMHOUSE DEDUCTIBILITY

By Northern Farming Lifestyles April 2017

With farmers spending an increasing amount of time in the office, or at the kitchen table as is the case for many farmers across New Zealand, the changes to the deductibility of farmhouse expenses may come as a surprise.

"With changes impacting farmers for the 2017/2018 financial year, it is important they take the time to find out how the changes could affect them," said Tony Marshall, Agribusiness tax specialist for Crowe Horwath.

Since the 1960s, the Inland Revenue Department has allowed full-time farmers a deduction of 25% of farmhouse expenses without any evidentiary support.

Inland Revenue Group Tax Counsel Graham Tubb says that this has allowed some farmers to claim deductions for private spending.

Recently Inland Revenue finalised the proposed Farmhouse Expenditure Interpretation Statement. A key part of the statement revolves around a distinction being made between farming businesses where the cost of the farmhouse, including curtilage and improvements, is 20% or less of the total cost of the farm (Type 1 farms), compared to those where the value is more than 20% of the total cost of the farm (Type 2 farms).

"Where farmers fail the Type 1 test based on cost, they can apply a market valuation to ensure that they pass the test," said Mr Marshall.

"This would be relevant when a farm has been owned for a significant period of time, but a new farmhouse has been built recently."

Mr Marshall has summarised the notable highlights of the statement as follows:

- 20% default deduction for the farmhouse expenditure for Type 1 farms, down from the previous 25% deductibility. Taxpayers are free to complete their own calculation if the claim exceeds 20%.
- 100% interest deduction for Type 1 farms.
- 100% rates deduction for Type 1 farms.
- Minimum 50% deduction for telephone rental costs.

"Any farmer who is not Type 1 will likely see a large drop in deductions for farmhouse expenses, particularly around interest. This will hit those that fall into the Type 2 category particularly hard. This could be the likes of kiwifruit farms, orchardists and the bloodstock industry where the farming activity is full time but the cost of the farm-house relative to the total farm is significant," Mr Marshall said.

"However, Type 1 farmers will not go unaffected. They will still have a 5% drop in deductions for farmhouse expenditure such as repairs and maintenance, electricity and the likes. The telephone rental deduction could drop to 50% - not huge numbers in the whole scheme of things, but still a drop."

"It is important farmers are prepared for potential changes to their deductibility, including that they may need evidentiary proof to support higher farmhouse deductions. If they have any questions, they should contact their adviser."

INLAND REVENUE UPDATES

Proposals to improve
CHILD SUPPORT AND STUDENT LOAN PAYMENTS

Inland Revenue is to use information from payrolls and interest paid by banks to calculate child support payments on an ongoing basis.

Child support for the self-employed would be based on information they provide during the year and they would be required to make payments more regularly than once a month.

Child support is to be deducted from payments to contractors as well as employees.

The parent receiving the support will get the money more quickly. The proposal for student loan repayments is similar.

Proposals to improve
WORKING FOR FAMILIES PAYMENTS

Payments should be based on actual income and not estimates. Those with fluctuating incomes would get reduced payments when their incomes were high and increased payments when their incomes were low, instead of receiving equal payments throughout the year.

When overpayments arise, they would be settled by a reduction of future support payments. This would do away with penalties.

Inland Revenue could be more flexible when people have unusual circumstances.

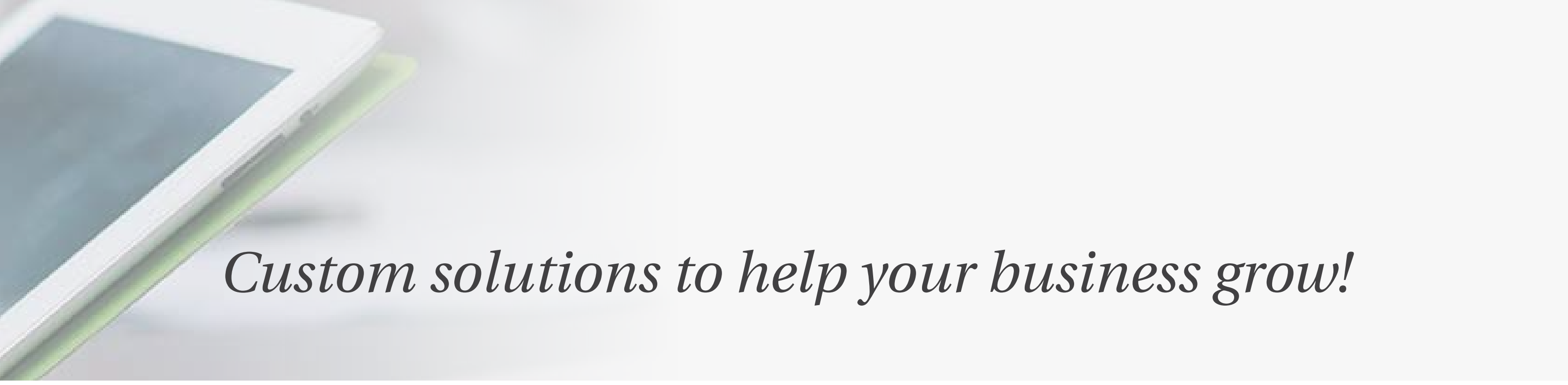
AUTOMATIC TAX REFUNDS AND TAX CALCULATIONS

In June 2017 Inland Revenue released a discussion document on making tax simpler. Salary and wage earners whose only other income is from interest and dividends are to become completely exempt from having to file tax returns.

Inland Revenue will be able to gather its information directly from the income sources. Tax refund companies will go out of business because the department will be issuing refunds without being asked.

Individuals will also be able to scan and upload copies of their receipts directly into their file at Inland Revenue Department either during the year or at year-end.

One option proposed for those whose only income is subject to withholding tax, is for IRD to calculate the difference between their withholding tax and the amount of tax which should have been paid and issue an assessment. The taxpayer would be given a set time to comment and if he/she failed to do this, the assessment would be confirmed. There will be consequential requirements on the payers of interest etc. to report more frequently to IRD.



Introducing Our New Team Members

We have had a few changes in recent months and we would like to take this opportunity to welcome our new team members.

GINA CHAPMAN – ACCOUNTANT –

Gina holds a Bachelor of Accountancy, a Graduate Diploma in Finance and is a Chartered Accountant which explains why she loves anything tax related.

She has over 6 years' experience including working as a tax specialist for KPMG, a financial accountant for Refining NZ and as a strategic planning co-ordinator for Whangarei District Council.

To relax she enjoys anything outdoors… beaching, boating, gardening and playing with her dog Mia – a small German Spitz who she describes as the bane of her life. Gina's favourite saying is "work hard, play even harder!"

JAMIE MONAGHAN - OFFICE ADMINISTRATOR –

Jamie has a Bachelor of Communication and has put her excellent verbal and communication skills to use in a variety of admin roles and industries including accounting, brand licensing and healthcare.

After hours much of her time is spent planning her November wedding or lavishing attention on her "fur baby" Smokey the cat.

Originally from Pukekohe, Jamie also loves hanging out at Northland's many amazing beaches and spending time with friends and family.

PIYUSH NAGPAL – ACCOUNTANT –

Piyush studied at the University of Delhi earning a Bachelor of Commerce. After emigrating to New Zealand in 2014, he commenced further study and went on to top his class achieving Best Overall Graduate Diploma in Professional Accountancy at Unitec.

Piyush has three years industry experience with much of that time spent working for Body Corporate and Property Management companies. He enjoys research and loves "playing with numbers".

A keen cricketer and music lover, his philosophy on life is that karma is a very real thing so he does his best to put out what he wants to get back.

Trustee Act Review

As we have highlighted in previous newsletters the 1956 Trustee Act is in the process of being rewritten and has had its first reading already. It is likely to become law in 2018.

The new Act codifies the duties of trustees and the rights of beneficiaries to trust information, amongst other things.

We are currently reviewing all trust clients with a view to highlighting these issues in readiness for the new Act.

DATES TO REMEMBER

28 October
- Provisional tax payments for ratio option customers and GST returns and payments due

28 November
- GST returns and payments due for the taxable period ending 30 November.

15 January
- Student loan interim payments
- GST
- Employer's returns and
  payments due (EDF/IR345) return and payment for the period 16 to 31 December, and
  Employer monthly schedule (EMS/IR348) for the period ending 31 December
- Provisional tax - second instalment is due for companies with a March balance date

THE BAY OF ISLANDS 'BEAST'

Back in July, a team of eight enthusiastic 'mud pluggers' got down and dirty, representing MAQ in a 7km mud run across the back of a farm in Paihia. The run was even more taxing than expected with our first staff members Neil Brown and Shery Hendrikse slogging over the line in just over 1 hour & fourty-four minutes.

Seen here Directors Steve Watene (looking slightly less glamorous than he does on our Front cover shot) and Shery Hendrikse leading the charge in her corporate green tutu.