

Business Matters

SEPTEMBER 2007

HWI Continues To grow



We are happy to announce the successful acquisition of Cecilia Clark & Associates of Newmarket by HWI. We are thrilled that Cecilia has continued on with us and know she will contribute immensely.

We would like to take this opportunity to welcome our new clients and ensure you we are working long hours to finalise your 2007 accounts and thank you for your understanding & patience.

We would like to encourage our new clients to attend some of our free breakfast seminars to get an insight into the business advice we offer our clients.

Rental Property Tax Treatment

It has recently been confirmed that the Government is considering fencing the losses incurred by landlords and property investors so that they cannot claim them against their other income.

This would have a huge impact on the New Zealand residential property investment market, which in recent years has become a favourite investment for New Zealanders on a salary or wage income with PAYE deducted.

Finance Minister Michael Cullen told Parliament this week that he was considering the move as part of the Government's wider concerns about monetary policy, however he is looking for support from National on the issue.

Clearly since the current tax treatment was introduced in 1991 there has been substantial growth in property investment by "ordinary" New Zealanders, and the ability to offset the losses against other personal income has possibly

contributed to that trend. Arguably, this has also contributed towards the heat in the housing market, but is ring fencing the losses or taxing the capital gain a fair solution?

On one hand, it seems to make logical sense that if an investor really has no hope of ever making a profit from their rental property, then perhaps they are only investing with the intention of selling the property and reaping a large capital gain.

If this is the case, then there is already scope within the legislation for that gain to be taxed, as the investor clearly purchased the property with the intention of resale and it is therefore deemed to be taxable income on realisation of the asset.

The budget this year announced an allocation of an additional \$14.6 million extra to Inland Revenue Department to strengthen the tax auditing of property transactions. One would have to argue that this is a more sensible approach as it keeps tax policy pure in that it treats all capital gains in the same manner.

Various commentators have also made the point that the loss of tax deductions may force the rents to increase in the private rental sector.

Many landlords are already finding themselves financially stretched with interest rates in double-digit territory, and therefore the loss of tax breaks will undoubtedly be a further blow. Most landlords will be left with little option other than to increase rents, taking even more money out of the take home pay from those that can least afford it.

Surely this will be even more counter-productive than a few tax benefits to investors? The government must provide housing for those in the population that cannot afford it, so they will either be forced to top up payments to landlords through benefits or be provide more state housing. Neither of these two options seems that desirable.

The absence of a capital gains tax or ring fencing of losses is not the only

feature of the tax system that makes it attractive to use investment property as a tax shelter.

The 39c rate and the continued failure of the government to lift the thresholds where the rates increase hence pushing more people into higher tax brackets have without doubt increased the incentive to dilute income from other sources in this way.

So, what do other countries do? The United States and Britain tax the capital gains when rental properties are sold, as do Australia and Canada, but at only half the taxpayer's marginal rate.

This is compared to the rule in New Zealand where the capital gains are not taxed, provided the owners can show that their intention when they bought the property was to earn income from it.

Also, New Zealand, Australia and Canada allow negative gearing, but Britain does not. The US has a "ring fencing" structure where it does not allow deduction of losses against unrelated labour market income.

This has the impact of limiting negative gearing to professional property investors or developers.

If ring-fencing or capital gains taxing were introduced and applied to existing rental properties it would be seen as retrospective taxation, but if it only applied to properties bought after introduction it would be less effective in deflating the housing bubble, if that is the object of the exercise.

Either way it seems like an ill-conceived idea, and with mortgage rates having climbed above 9 per cent as a result of tighter monetary policy here and overseas the housing boom's days ought to be numbered anyway.





HWI

HWI CHARTERED ACCOUNTANTS PH 3078500



New Zealand

Soon to be a
Spam free zone...

The Unsolicited Electronic Messages Act 2007 is at our doorstep.

From 5 September 2007 you and your staff with communication responsibilities have a legal obligation to adhere to the act for all commercial electronic communications with a New Zealand link.

Electronic message refers to all emails, instant messaging, multimedia message services and other phone messaging. It does not include voice or fax messaging.

For the message to be considered spam, it must be:

- ▶ Electronic Message
- ▶ Commercial in nature
- ▶ Unsolicited

PENALTIES

After the Act comes into force businesses and individuals will be able to lay complaints about Spam with the 'Anti-Spam Compliance Unit'. The Department of Internal Affairs will investigate these claims, and there are a number of penalties associated with the act.

These include formal warnings, infringement notices with a maximum fine of \$2000, followed by court action with fines of up to \$500,000.

On 5 September 2007 it becomes the responsibility of the sender to comply with the Unsolicited Electronic Messages Act 2007. Ensure the necessary systems are in place within your organisation, and remember that it pays not to make assumptions when becoming compliant.

If you would like to find out more information, we recommend visiting the Department of Internal Affairs website at www.dia.govt.nz

PEOPLE NEWS

Cecilia Clarke (Consultant)

Cec commenced accounting 30 years ago with one of the big 4 firms, her areas of specialties are Taxation / Trusts / Structuring

Craig Stratton (Accountant)

graduated from the University of Auckland in 1996 and has 11 years experience. He specialises in business services and tax compliance. Having recently commenced employment with HWI, Craig will work predominantly with Kevin Wilson's clients providing financial reporting, tax compliance and planning services.

Bonnie Erickson (Admin Assistant)

is one of the bubbly new voices you will hear when calling HWI. Born in New Plymouth and now living in Newmarket with partner John and her unemployed cat Comet, she is enjoying her developing roll at HWI and we are happy to have her on board.

Roseanne Brook (Tax Administrator)

has come to HWI through CCA. Roseanne likes walking, sudoku puzzles and family camping and is enjoying being part of the team at HWI.

Petra Coombe (Accountant)

comes to HWI with 5 1/2 years experience. Petra graduated with a degree from the University of South Africa and moved to New Zealand in 2005. She enjoys indoor netball and watching movies.

Hani Song (Accountant)

moved from Tauranga to busy Auckland four months ago to join HWI. She likes her work environment finding her team lovely people to work with. Being in to health and fitness she is looking forward to running the half marathon this year and sitting the PCE 1 exam.

Praneith Singh (Auditor)

finished his degree at the University of Auckland last year and is a member of the Audit team. He is a motor enthusiast who enjoys the occasional game of soccer and holidaying on sunny Fiji Islands

Sheryl Vowles (Accountant)

has come to HWI through CCA and is currently on maternity leave, raising our next generation of accountants.

HWI wishes all our new staff a warm welcome and want you to know we believe:

" The greatest Asset of any business is a well developed and loyal staff, so thank you "

FAREWELL

Deidre Williams Practice Manager has moved on after 7 wonderful years with HWI, we wish her well with her new ventures and thank her for all her contributions to HWI.

HAPPY 10TH BIRTHDAY HWI

On the 1st of September 10 years ago the initial partnership of Hislop Wilson and Iles was formed, if it were formed today it would sound like a radio station (WJHR).

Cheers to 10 more great years from all of your TEAM.

CONGRATULATIONS

Sarah our TV Star on Deal or No Deal for her big WIN.

Petra & Dean for their recent engagement.

Sheryl & John on the Birth of Alex John Vowles (Accountant) Born 16 August 2007 4:23am 9lb 10oz/4375grams Length 56cm



HWI

helping with your business is our business