

# Health Adviser

Autumn 2010

Issue 39

## Profiting from experienced Practice Managers

New Zealand's healthcare system has undergone significant changes in the last decade, some of which have lumbered primary healthcare providers with far greater administrative duties than before.

The establishment of Primary Health Organisations and restructuring of ACC are classic examples.

Add increasingly complex healthcare regulations into the mix, and it's clear that healthcare providers need a new level of practical business knowledge. Guess where that burden falls? That's right – on the Practice Manager.

Traditionally, Practice Managers rose through the ranks. Stay in an administrative role long enough, and you'd eventually find yourself with the new title against your name. Today, that approach doesn't work. Practice Managers need specialist training and ability in all facets of managing the practice including personnel

management, financial management, and even risk management.

Tasks can range from interviewing and appointing new staff, to setting salaries and preparing cash flows and budgets. Consequently, more and more Practice Managers now come from non-healthcare backgrounds such as banking and insurance. Increasingly they are being charged with developing business strategy, leading teams of people, conflict resolution as well as being skilled analysts. Previous experience in managing people and understanding how to grow a business will be key to their effectiveness.

But simply hiring someone with the requisite skills is no guarantee of success. In our experience, medical professionals often resist the efforts of non-medical Practice Managers to put appropriate changes in place. Bad mistake. If you (and that means your whole team) are not willing to give your Practice Manager the necessary power and autonomy to do his/ her job, you're throwing your money away. A skilled Practice Manager allows your medical staff more time to tend to patients and generate income. But

only if you let them.

You also need to accept that someone with the necessary skill, commercial knowledge and versatility to manage your practice demands a higher salary than even the most skilled administrator. Use them well, and your reward will be a healthier bottom line.

If you think the role of your Practice Manager could be expanded, or you would like to offer your current Practice Manager more meaningful support, contact your local Grant Thornton healthcare representative.

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# The myth of property's tax advantages



It's common knowledge, isn't it, that property investors enjoy a whole raft of tax breaks not available to those who invest in shares or businesses?

Actually, they don't – despite the ongoing criticisms of property investors and claims of “loopholes” in the rental property taxation regime. The clearest way to demonstrate this is by directly comparing investing in property, investing in shares and investing directly in a business.

## Income

All investment income is taxable. Rental properties earn rent from tenants. Shares earn dividends. Businesses profit by selling goods and/or services. To repeat, all income from each of these activities is taxable.

## Cash expenses

Very broadly, if you have to spend money to earn money, the expense is deductible. Share investing may incur advisor management fees. Businesses incur materials, wages and overhead costs. Property owners suffer rates, insurance and repair costs. The rules for claiming expenses are the same across each class of investment.

## Financing costs

If you borrow to buy an income producing asset, the interest on your borrowings is generally deductible. Property investors pay mortgage interest. Business owners incur interest on business loans. Even share investors are entitled to a deduction for interest on funds borrowed to buy shares.

## Depreciation

Businesses are entitled to a deduction for depreciation on assets. Property investors can also claim depreciation on assets, including buildings.

Some people argue that that's wrong, since buildings tend to increase in value

over time. However, that argument is based on a misunderstanding of the principle at work here. Depreciation is based on the assumption that certain assets wear out over time, regardless of how the market perceives their value. A depreciation claim is allowed for a notional expense that may, or may not, actually materialise. If it does not occur – if, for example, a building sells for more than its depreciated value – the previous depreciation deductions reverse, and become taxable.

For that reason, depreciation claims on buildings are, at worst, no more than interest-free loans. Nonetheless, if buildings rarely decline in value, there is a strong argument for a depreciation rate of 0%.

Shares are not depreciable (even though they can rise or fall in value), so no deduction is available.

## Capital gains

If a business is sold for more than the book value of its net tangible assets, the capital gain is generally not taxed. Capital gains on shares are generally not taxed, as long as the investor did not buy them with the intention of selling them for a profit, and is not in the business of buying and selling shares.

The rules applying to land investments are harsher. A property investor can be taxed on their capital gain simply by being associated with another person who is a property dealer, developer or builder.

## Tax rates

Different tax rates apply to different entities; for example, companies pay 30%, trusts 33%, individuals up to 38%. These rates apply regardless of the activity of the entity.

## Loss Attributing Qualifying Companies

LAQCs are often maligned for their special tax status that allows losses to

be passed through to shareholders. Many property investors mistakenly believe they need an LAQC to offset tax losses arising from rentals. In fact, losses can be offset against other income where property is held directly by a person. LAQCs are useful for property investment only in a couple of specific situations. However, LAQCs are appropriate for situations other than property investment; and abolishing them would be disruptive and inappropriate.

## Conclusion

New Zealanders' love affair with property is often put down to favourable tax laws. But that's a myth: factors other than tax drive investment decisions. It may be that New Zealanders love property's tangible nature, or its perceived price stability or the comparative ease of gaining credit with which to buy.

To point the finger solely at the tax system is a mistake. Current tax rules apply fairly equally to all investment categories and, in fact, you could argue that property is subject to some rules more onerous than those faced by alternative investment classes.

My view is that the Government's 20 May Budget will almost certainly specify changes to property taxation (no more depreciation claims, perhaps, or the ring-fencing of losses) that will lead to further distortions in the way that property is taxed compared to other investments.

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# Want to improve your cashflow?

## Consider proactive tax management

The recession led most companies to slash unnecessary or excessive expenditure. With little more fat left to trim, then, how will your businesses improve the bottom line in 2010? By striving to lift sales and productivity?

Not so fast. Of course lifting sales and productivity is a good thing. But in tackling expenditure, most New Zealand businesses tend to overlook one of the highest overheads on their books: the costs associated with collecting, administering and paying tax. This is not simply a compliance issue – which, in itself, is significant. Even greater can be the cost of getting it wrong once shortfall penalties and use of money interest have taken their bite. With Inland Revenue actively focusing on increasing the tax take, how comfortable are you with your historic position?

### Payroll tax and GST

Payroll taxes and GST obligations are normally driven by internal processes that have often not been reviewed since inception (“we don’t have the time or resources for that” is a common complaint). But if your original system

contains even a minor error, it can compound into a sizeable discrepancy over many transactions.

Now is an ideal time to review your tax obligations and search for increased efficiencies and potential savings. Not only because of the recession, but also because a number of thresholds and exemptions have recently increased. For example:

- You may be able to defer your GST obligations by changing your accounting basis or filing frequency.
- Group GST registration may offer savings (particularly where a holding company exists).
- Fringe benefit exclusions have been reviewed. Are you claiming all that you are entitled to?
- You may be entitled to change from twice monthly PAYE payments to monthly.

Taxation reviews can have a significant

positive impact on cash flow by allowing you to defer some obligations. The bonus is that you also gain the comfort of knowing your obligations are being met. If an error is identified it can be actively managed. While the initial news is not always welcome, the net effect is a lower cost to the business than if the error had been allowed to compound.

### Income tax

Income tax is a different beast again. The only sure thing is that you’re going to have to pay – and that if you underpay you’ll be hit with 8.91% penalty interest, despite the fact that IRD pays a paltry 1.82% interest to you if you’ve overpaid.

Tax payments can create big holes in your cash flow. However, the introduction of tax pooling intermediaries, who operate “tax pooling” accounts with Inland Revenue, provides a new tool for smoothing out payments.

Businesses deposit tax payments into the tax intermediary accounts until the intermediary instructs Inland Revenue what to do with them. Depositing funds in this way increases your options: you can easily transfer, refund or sell your deposited funds to another business to achieve a higher interest return.

In the event of an underpayment, you can make a request to purchase a historic tax payment via a tax intermediary to reduce interest costs and avoid any penalty interest.

As with all business costs, you should actively manage your tax. With a new year upon us, and a range of powerful tools available, now is a great time to start. We have some great comparative market analysis we would be happy to share with you. You may be surprised at the positive effect it will have on your cash flow and compliance costs.

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## Complete your annual questionnaire online

Annual client questionnaire time is almost upon us. To make your life easier, our annual questionnaires will be available for secure completion on our website from 31 March.

We will send you an email in early April with your login and password details, as well as other information

you’ll need to complete your questionnaire. If you haven’t received your email by 15 April, please contact us.

If you prefer to complete your questionnaires the good old-fashioned way, with pen and paper, that option is still available. Please let us know and we’ll get a questionnaire posted out to you.

# End-of-year tax considerations

Most New Zealand businesses follow the standard 31 March fiscal year. However, no matter what balance date your business has, certain 'end of year tax considerations' will always apply as your balance date approaches.

In general (and subject to cash flow considerations), any planned expenditure should be brought forward so that it is 'incurred' in the current financial year. Case law has determined that expenditure is incurred when it is 'definitively committed' to. It is not necessary that actual payment be made. However, there are various provisions in the Income Tax Act that do not allow a deduction for prepaid expenditure.

Below are some examples of where tax advantages can be gained from year-end adjustments/prepaid expenditure. Note that prepayments will not be deductible if they are treated as prepayments in your financial statements:

**Bad debts** are deductible, but only in the year that they are written off. This requires something more than the decision that a debt is bad. You must make appropriate bookkeeping entries in most cases, which ensure the bad debt is written out of the debtors' ledger at year end.

**Consumables** used in conjunction with, but not forming part of, the final product (for example, fuel and electricity) can be deducted in the year of purchase provided the unused stocks at year end do not exceed \$58,000 in value.

**Insurance** premiums are deductible in full when paid provided they are not prepaid for more than 12 months and the total annual premium under an individual contract does not exceed \$12,000.

## Leave provisions

Amounts owing at balance date for holiday pay and long service leave are only deductible for tax purposes if paid out within 63 days of balance date

(by 2 June for a 31 March balance date).

## Staff bonuses

Similar to leave provisions, these must be determined before year end and paid out within 63 days of balance date.

## Rent

Prepaid rental for land and buildings, livestock or bloodstock is deductible in the year paid unless the prepaid amount is for a period greater than six months after balance date, or for an amount greater than \$26,000.

## Stationery, postage, motor licensing fees, subscriptions for newspapers/periodicals

These items can be prepaid with no limits on how much can be prepaid or for what period.

**Membership subscriptions** are deductible provided they extend no more than 12 months after balance date and the individual subscription does not exceed \$6,000.

## Business-related travel and accommodation costs

paid in advance are deductible provided they are paid no more than six months in advance and the prepayment portion does not exceed \$14,000 per contract.

## Purchases of capital assets

Bringing forward the purchase of capital assets will have limited benefits, as depreciation is deductible on a monthly basis based on the number of months that the asset is 'owned' and 'used or is available for use'. An immediate tax deduction may be available for assets which cost less than \$500. However, the \$500 deduction is subject to a number of restrictions including same day/same supplier/same asset category limitations. These limitations prevent the splitting of asset purchases into simultaneous multiple transactions of \$500 or less each in order to take the upfront deduction. For example, the upfront write off would not be available where the taxpayer acquired 100 individual chairs at \$200 each on the same day.



If you require further information on any of these topics or would like details on other accounting matters, contact your local Grant Thornton office:

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