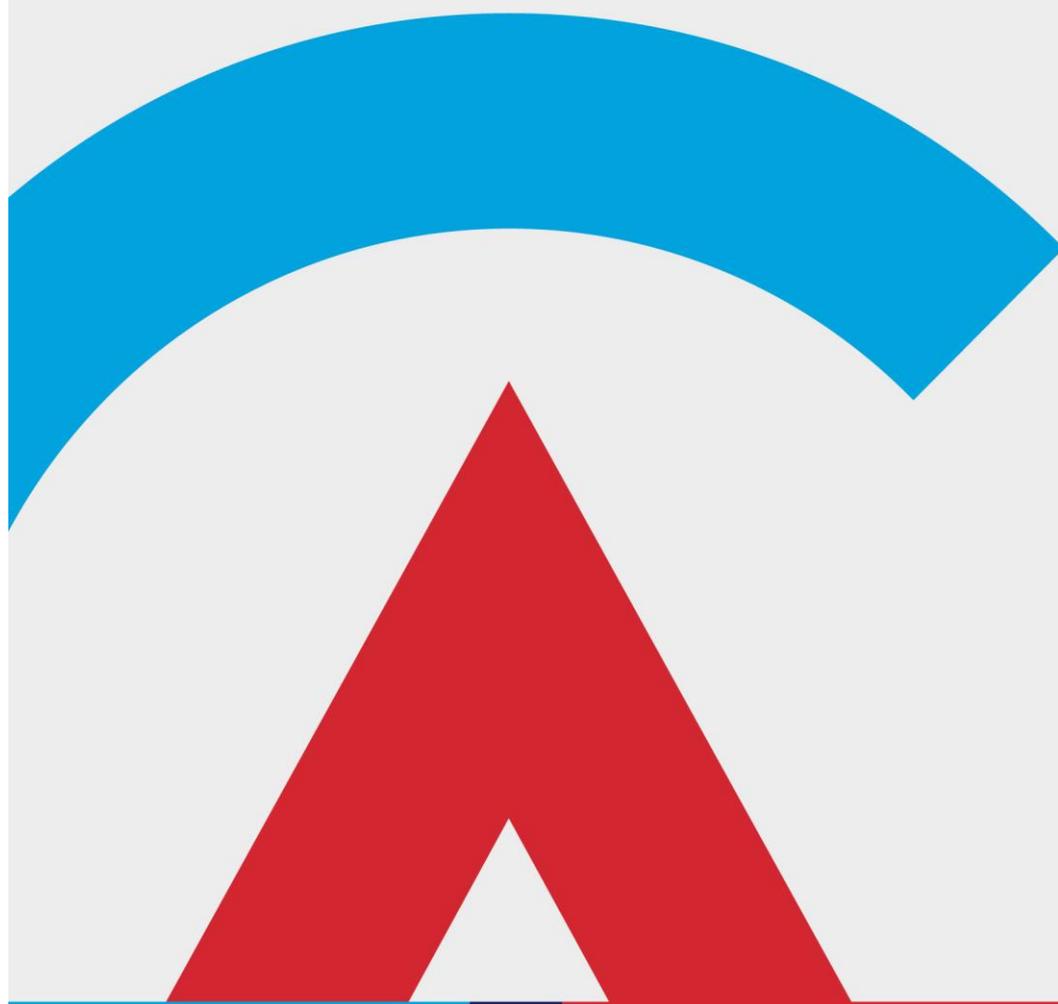


# Square metre rate for the dual use of premises ED0207

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*6 May 2019*



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Manager, Technical Standards  
Office of the Chief Tax Counsel  
National Office  
Inland Revenue Department  
PO Box 2198  
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Dear Rob

### **ED0207 Operational statement: Square metre rate for the dual use of premises**

Chartered Accountants Australia and New Zealand (CA ANZ) appreciates the opportunity to provide feedback on the draft Operational Statement that sets out how the Commissioner will interpret and apply s DB 18AA.

CA ANZ supports the publication of a statement to assist taxpayers understand the square metre rate option and how to calculate their allowable deduction.

The statement is directed towards two groups: tax agents/accountants who prepare tax returns on behalf of clients; and self-employed persons who prepare their own tax returns. The explanation of how to calculate the deduction follows a logical flow. However, we are concerned that taxpayers who prepare their own returns may find the statement very technical and not practical. The purpose of the square metre rate is to simplify the deduction calculation, yet taxpayers may struggle to clearly understand how to apply the rules to their circumstances.

We believe the following suggestions would make the statement more user friendly:

### 1. Purpose

A paragraph stating what the calculation is seeking to do could be included at the start of the statement. For example:

*“The standard square metre rate option is a simplified process that removes the requirement to:*

- *keep detailed records of utility costs such as electricity, gas, water, home and contents insurance and telephone and internet charges; and*
- *apportion actual utility expenditure between business and private use.*

*Premise costs such as rent or mortgage interest and rates (as applicable) must still be claimed based on the business proportion of actual expenditure”.*

### 2. Summary

A narrative of 1 or 2 paragraphs simply summarising the statement could be included before Background. For example:

The square metre rate option comprises the following steps:

1. Identify the:
  - business square metres used primarily for business; and
  - total square metres area of all the buildings
2. Calculate a deduction for the utility costs:
 

Business square metres x standard square metre rate
3. Calculate a deduction for the business portion of the premise costs:
  - Business square metres divided by total square metres of all the buildings  
= business proportion

- Business proportion x premises costs (rent or mortgage interest and rates)
4. Add the deductions for the utility costs (from 2 above) and the premise costs (from 3 above).

### 3. Numerical Examples

If the examples contained in the statement were expressed numerically we believe this would aid taxpayers' understanding of the rules. Taxpayers could use the examples as a template and then substitute their numbers to calculate their own deduction.

To illustrate:

Example 2: use of garage for storage

Taxpayer stores business inventory along one wall of their double garage. Personal items are also stored in garage.

Premises	M <sup>2</sup>	Business use
Separate double garage	35	9 <sup>1</sup>
Dwelling	180	0
<b>Total area</b>	<b>215</b>	<b>9</b>
<b>Expenses for the year</b>	<b>\$</b>	
Mortgage interest	5,000	
Rates	2,800	
<b>Total costs</b>	<b>7,800</b>	
Square metre rate	\$41.10 <sup>2</sup>	

<sup>1</sup> 7m<sup>2</sup> area that physically stores inventory plus 2m<sup>2</sup> area immediately surrounding inventory that allows access to it

<sup>2</sup> 2017-2018 income year. A new rate will be issued for subsequent years.

Step 1: *identify the:*

- a) Business m<sup>2</sup> used primarily for business: 9m<sup>2</sup>; and
- b) Total m<sup>2</sup> area of all buildings: 215m<sup>2</sup>

Step 2: *calculate business square metre deduction*

$$9 \text{ m}^2 \times \$41.10 \\ = \$369.90$$

Step 3: *calculate business deduction for premises (mortgage interest, rates or rent)*

- a) Business m<sup>2</sup>/total area =  $9/215 = .042$
- b)  $0.042 \times \$7800$
- c) = \$327.60

Step 4: *Total deduction*

$$\$369.90 + \$327.60 \\ = \$697.50$$

#### 4. Additional example

The inclusion of an additional example where a change of use results in a new calculation would be helpful.

#### 5. 2018/19 square metre rate

- 6. A square metre rate for 2018/19 is yet to be published. It is important that this is promptly published. The 2018/19 tax year has already ended and taxpayers who do not have an extension of time must file their tax returns by 7 July 2019.

#### 7. Editorial corrections

Paragraph 17: error in line 3 “*a business purposes ..*” should be “a business purpose”.

Paragraph 25: “*The business proportion is calculated by dividing the total area of all the*

*buildings on the taxpayer's premises by the business square metres*" should be expressed the other way around. The business square metres is divided by the total area.

Paragraph 29: the second to last line and last line says "*is further discussed below at [31] and [32] below*". Delete word "below" after [32].

Example 3: the second to last line of step 2, replace "*her*" premises with "their" premises

Example 4: step 1, second to last line of the last paragraph, delete "*The Jones complete.*"

Example 5: step 1, second line of the last paragraph, delete "*The Jones complete.*"

We would be happy to discuss our submission with you.

Yours sincerely



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New Zealand Tax Leader



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