

Spring 2019



Here's our winning entry in the recent Aroha Cruise-In business window display competition. There's nothing like a relaxing cup of tea straight from the old thermos flask when you're having a hard week!

In this edition . . .

Morrinsville office up and running

No more cheques for IRD

New Trusts Act now passed

Taxing those subdivisions

Healthy homes on farms

"I glanced out the window at the signs of Spring. The sky was almost blue, the trees were almost budding, the sun was almost bright."

Millard Kaufman

THE OFFICIAL NEWSLETTER OF

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EDITORIAL



It's always a pleasure to put together this editorial, although it can be challenging to come up with topical comments that readers will find interesting. To kick this one off, I'm thinking that we've had a fairly "easy" Winter and even Spring is treating us kindly so far, although perhaps I shouldn't speak too soon after a tough dry spell earlier in the year. What short memories some of us have!

We're now into the time of the year when more staff are taking holidays, so we're happy that we're reasonably up to date with our work. Certainly the staff have been busy preparing GST returns and financial statements. We've had considerable demand from banks for updated financial information and forecasts, but this has now dropped off a little. Financial institutions have definitely tightened their lending policies in the farming and lifestyle block area.



Interest rates are at an unprecedented low which makes borrowing attractive, but also means that investors are forced to look outside of term deposits to secure a reasonable return. But with greater returns comes greater risk. We're talking with many clients about alternative investment opportunities and referring them to qualified investment professionals.

As mentioned elsewhere in this edition we have now officially opened our new office in Morrinsville. Jeanette and her staff are enjoying their new working environment, however they're definitely noticing the difference between an office in the middle of Morrinsville compared to the outskirts of Te Aroha.

"The brain is a wonderful organ. It starts working the moment you get up in the morning and does not stop until you get to the office."

Robert Frost

Overall, we're very pleased with the quality and presentation of the client financial statements being produced by the Xero software. It's taken a while for me personally to get used to the change, but the ability to easily create customised reports and present information in a more user-friendly way makes Xero a valuable tool for us.

Enjoy the Spring. Before you know it, we'll be sending you our Summer (Christmas) edition!

Cheers, KB

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Keeping You Up to Date

A Grand Opening



Our new Morrinsville office is now officially up and running. We celebrated this milestone with a social occasion recently to allow other local business owners to check out the new premises.

The office is compact, and the views struggle to compete with those available in the Te Aroha office, but the team in Morrinsville are all enjoying their new “digs”. They’ve lost count of how many food outlets are within a single block of the front door. Let’s hope we can still recognise them all in a few months’ time!

**It’s a 5-minute walk from my house to the pub.
It’s a 35-minute walk from the pub to my house.
The difference is staggering.**

A Few Basic CAANZ Stats

Our governing professional accounting body is Chartered Accountants Australia and New Zealand (CA ANZ). CA ANZ was formed in December 2014 as the result of a merger between the Institute of Chartered Accountants Australia and the NZ Institute of Chartered Accountants. CA ANZ has 125,000 members, of which 42% are female. 11,000 are based outside of NZ and Australia and in 2018 133 members received awards for more than 60 years of service.

“Short Process” Rulings ?

Inland Revenue has announced a new option for taxpayers seeking confirmation of the correct tax treatment for their particular situation. This can be very helpful to ensure that the tax approach adopted cannot be easily challenged by Inland Revenue at a later date.

The Short Process ruling should take around six weeks and cost no more than \$2,000. This is significantly shorter and less expensive than the current “Binding Ruling” process, which is generally impractical for most taxpayers.



The new process is available to taxpayers with an annual gross income of \$20m or less, and where the tax involved is less the \$1m.

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We're Always Learning

The Growth of Digital

Here's some interesting facts on the remarkable growth of digital services on our planet.

1. 90% of all current internet data has been generated in the last 2 years.
2. The first Apple iPhone was introduced in 2007. There are now 2.5 billion smart phones in the world.
3. 47% of the world now has mobile internet coverage.
4. There are 2 million industrial robots currently in use.

“Whoever said that the definition of insanity is doing the same thing over and over again and expecting different results has obviously never had to reboot a computer”

William Petersen

Xero Small Business Roadshow

During October and November, Xero are running events for small business owners to help them obtain maximum benefit from the software. There's a choice of daytime or evening sessions. Both are free, although you need to register for the evening sessions. For registration and more details, see the link below.



<https://www.xero.com/nz/events/roadshow-selection/business/>

Some of our staff are heading off to the Tauranga edition of “Xero 2019 Roadshow” for accountants. This is an all-day event at which Xero brings us up to date with software developments and provides the opportunity to attend workshops to improve our knowledge.

Use of Money Interest Rates

Inland Revenue's “Use of Money Interest” (UOMI) rates have changed from 29 August 2019. The rate for **underpayments** of tax has risen to **8.35%** (from 8.22%) but the rate for **overpayments** has dropped to **0.81%** (from 1.02%). It seems a bit unusual to us that the rates would move in opposite directions, but the underpayment rate is much higher than most banks would charge for a secured operating overdraft. So the message is “don't use Inland Revenue as your bank”!

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Things You Need to Know

No More Cheques for Inland Revenue

Inland Revenue have announced that from 1 March 2020 they will no longer accept cheques as payment for tax liabilities from customers who are able to use alternative payment options. They have stated that “cheques are part of a paper-based world and don’t mesh with the increasingly digital world we now operate in”.

**NO
CHEQUES
ACCEPTED**

They have not clarified how they will determine whether a taxpayer has an alternative payment option, but if you think you do not, you would be wise to contact them well before 1 March. If you have any concerns about this change, feel free to contact our office.

The Kilometre Rate Method

As an alternative to claiming vehicle expenses based on actual costs, businesses can elect to adopt the “kilometre rate method” that is based on a standard cost rate per kilometre for the business distance travelled.

Currently, a rate of **79 cents per km** applies (for all vehicles) to the business portion of the first 14,000km travelled in any year. Above that, a reduced rate of 30 cents per km applies (less for hybrid or electric vehicles).



Businesses are able to keep a log book for 90 consecutive days and use this as the basis for applying the kilometre rate method for three years, provided the use of the vehicle does not change over that time.

Bright-line for Business ?



Inland Revenue has confirmed that the 5-year “bright-line” test that taxes profits on the sale of residential land has an exclusion for land that is used as business premises, even if the land has a dwelling on it and would normally be considered as residential.

To qualify for this exclusion, the property only needs to be “predominantly” used for business purposes, which means that more than 50% of the land is used as business premises **and** the land has been used as business premises for more than 50% of the time the seller owned it.

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Ed's Thinkin' . . .



New director **Ed Wagstaff** has some advice for those who provide accommodation to others in the course of their business activities. In particular, he's keen to make sure that farmers understand that the new "healthy home" requirements applying to landlords also apply to farmers who provide homes to employees and sharemilkers.

Healthy Homes for All !!

From 2021, all landlords must ensure that residential rentals meet the new minimum standards for healthy homes. These include:

1. Insulation standards (from July 2019)
2. Heating (maintainable at 18°C)
3. Ventilation (windows and extractions fans)
4. Moisture & drainage (guttering and downpipes)
5. Draught stopping (including closing chimneys)

Sharemilkers and contract milkers who provide homes to employees are considered to be landlords, but the farm owner must provide a home that meets the minimum standards. Banks have indicated a willingness to providing additional lending for costs associated with complying with the new standards.

Sharemilkers and contract milkers can be fined if the homes they provide do not meet the required standards. Although they may be able to recover this from the farm owner, it is obviously far better if both parties can ensure that the home is compliant.

Did you hear about the two guys that broke into a house and stole a calendar?

They each got six months.

Just a reminder to farming clients that the GST of any cost associated with a farm dwelling cannot be claimed, regardless of whether the dwelling is occupied by an employee, a sharemilker or an independent tenant.

Care also needs to be taken to ensure the correct treatment of healthy home costs for income tax purposes. Insulation costs are generally not deductible in any way. Heat pumps, carpet and curtains are considered to be capital items and non-deductible, but can be depreciated over their useful life in accordance with specified Inland Revenue rates.

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Sharon Says

New director **Sharon Coombe** has decided to share some advice on the tax issues around property subdivisions. She's had some experience with these and has a few tips for those considering subdividing and selling land. It's important for clients to be aware of the rules, as the consequences of not properly dealing with the tax impact can be severe.



Taxable Subdivisions

This article is aimed at clients undertaking smaller scale subdivisions and not those that are in the business of developing, subdividing or dealing in land.

Lately we've seen a number of clients undertaking "small scale" subdivisions. These might involve subdividing their existing property into 2-3 titles and selling the additional titles as bare sections, or perhaps building on one of the titles and then selling the existing home.

Section CB12 of the Income Tax Act taxes any amount derived from the disposal of land in the circumstances outlined below.

1. There is an "undertaking or scheme" involving the development of land or the division of land into lots.
2. The development or division work is "not minor".
3. There subdivision is begun within 10 years of acquiring the property, regardless of the intention at the time of purchase.

An important part of assessing a client's position is understanding the meaning of "work of a minor nature". This requires an assessment of the time, effort and expense involved. The courts have traditionally taken four main factors into account.

1. The **importance** of the work in relation to the character and nature of the land.
2. The total **cost** of the work related to the cost of the land and the proposed sale price.
3. The nature of the **professional services** required to effect the subdivision.
4. The nature of the **physical work** required.

It's a challenging area for us, but we strongly recommend that any clients considering a subdivision activity contact us before commencing to discuss any potential tax issues that might arise.

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HR & Payroll News

Big Change to (Some) ACC Invoicing

ACC has announced a significant change to the timing of invoices issued to those clients under the default "Cover Plus" policy. From the 2020 (current) year and onwards, invoices will be issued after the year has finished and will be based on actual earnings.



Previously, ACC issued a "provisional" invoice at the start of the year based on actual earnings for the previous year, then a "final" invoice once the actual earnings were known.

This means that clients on Cover Plus policies who would normally receive a provisional invoice for the 2020 year about now, won't receive an invoice until after the 2020 income tax return is filed, which might not be for another year or so.

Please note that this change does **not** apply to Cover Plus Extra (CPX) policies. As these are based on an agreed value, invoices are still issued at the start of the year to which the cover applies.

**To whoever stole my copy of
Microsoft Office - I will find you.
You have my Word!**

It's Not That Super !!

Inland Revenue has recently sent letters to a number of clients receiving National Superannuation to advise that they have asked MSD to adjust the PAYE tax code applying to the NZ Super to "M".

In many cases these clients have substantial other income and had previously used a higher "secondary" tax code to ensure that the tax deducted from their NZ Super was enough to cover their final liability. Unfortunately, despite our requests on behalf of a number of clients to retain the secondary tax code, Inland Revenue have refused to do this, so we're stuck with it.



They have stated that, because the NZ Super is the client's primary "employment" income, it must have tax deducted at the basic "M" rate. This doesn't make sense to us, and will result in additional terminal tax being payable by our clients, but they won't budge. We're left wondering how they can be so good at some things, yet . . . ?

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Staff Happenings

It's (Almost) All Good at 65 !!

We're pleased to announce that **Keith Miller** made it safely to the tender age of 65 recently. We all turned out in the Te Aroha boardroom on the day to enjoy a lunch and celebrate the occasion.



It was a significant day for Keith as he pondered the idea of retirement being in his "not too distant" future. Later in the day, he headed down to the Grand Tavern with his supporters to reflect on some of the more "interesting" moments of his long and illustrious years at the Diprose Miller helm.

And, or course, here at the office we now have another expert on National Superannuation and proper use of the Gold Card!

**You know you're getting old when everything hurts.
And what doesn't hurt, doesn't work !!**

And Baby Makes 3 !

Congratulations to staff member **Melissa Slattery** and husband Justin, with the arrival of their third son Tim in the early hours of 17 September. Weighing in at a healthy 8lb 1 oz, mother and son are both well. Melissa's very pleased to have a load off her front, especially since the office staff were running a sweepstake to guess the arrival date, sex and birth weight!



Cruise-In Even Better

We've just had the annual Te Aroha "Cruise-In" event and, as usual, we like to get into the spirit of things with an entry in the window display competition for local businesses.



We're quite proud of the fact that we won (again) the prize for the best business window design for this years "Aroha Cruise-In" event. The trophy for the winner (pictured) is now back in its rightful place in our Te Aroha reception area.

"A quitter never wins and a winner never quits."

Napoleon Hill

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Some Bits & Pieces

The New Trust Act is Coming

After a long “birthing” process the new Trusts Act 2019 received the Royal Assent in July and comes into effect in **January 2021**, so it’s just over a year away. The new Act is much more specific about the way in which trustees must conduct their role and, in particular, how they must interact with the beneficiaries.

In particular, there are new rules around the mandatory provision of basic trust information to all beneficiaries and the retention of trust documents, including financial statements and transaction records.



The changes will likely prompt many settlors to revisit the administration of their trusts and, in some cases, decide that a trust is no longer the best option for holding assets moving forward. From an accounting perspective we’ll be reviewing our client trusts in the early part of 2020 talking to our clients about the practical impact of the new legislation. It will be an interesting time!

“Only trust someone who can see these three things in you: the sorrow behind your smile, the love behind your anger, and the reason behind your silence.”

PIRs Just Too Hard ?

Following on from new director Ed Wagstaff’s comments in the Winter edition, Inland Revenue has just sent over one million letters to taxpayers who have elected the incorrect PIR for their PIE investments. Obviously it’s a bit of a problem for them!

Most of these letters relate to individual taxpayers and their Kiwisaver accounts, but it’s a timely reminder that PIR rates need to be checked each year and amended if required. We’re trying to do this where we can, but clients and their families should also be checking. As the level of funds in Kiwisaver accounts grow, the tax cost of an incorrect PIR is also growing.



Clients can feel free to contact our office for assistance with determining their correct PIR.

Police have arrested the world tongue-twister champion. I imagine he’ll be given a tough sentence.

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Staff Happenings

Now That's Really "Up North" !

Staff member **Angela Young** and husband Craig have just returned from a trip to Alaska where they enjoyed an ocean cruise from Whittier to Vancouver. This was part of a "land & sea" package where they also spent seven days exploring Denali National Park. The photo shows them arriving at the Arctic Circle on the Dalton Highway, a popular tourist attraction.



It's Unaccountable !

Whoever said that accountants are boring should be running scared of a team of masked number-crunchers calling themselves "The Unaccountables". We're told they can be found lurking in the new Diprose Miller Morrinsville office during the day, but are out and about solving the world's problems at night.



This intrepid band of superheroes were spotted at the recent Power Farming Quiz Night event in Morrinsville. Supporting prostate cancer, the team were stronger than a healthy balance sheet, although their 4th place finish didn't do a great deal for their bottom line!

In the Treetops

Our Social Club Committee recently organised a trip to Rotorua to try out the Redwoods Treetop Walk.

We met up in the afternoon, did the walk in the daylight, then returned after dinner to do it again and enjoy the lighting displays on offer.

Dinner was at the Pig and Whistle pub, with wind and rain lashing around us, only to clear up when we started the night walk.



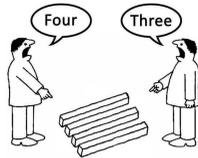
One Final Word...

Ring-Fencing of Rental Losses

A reminder to clients with rental properties that from the start of the 2019/20 year (hey, we're already there!) losses generated by these properties can no longer be used to offset other income. Any loss is carried forward to future years and can only be offset against income from that property.

However, landlords with multiple rental properties can choose to either apply the new rules across their entire portfolio or on a property by property basis. The new rules apply to companies, partnerships and trusts as well as individuals. Keeping track of all those unused deductions on an annual basis is going to be interesting work!

This is really confusing!!



The inventor of the throat lozenge has died. There will be no coffin at his funeral.



Staff Office Extensions

Angela Millward	816	Grant Glover	895	Melissa Slattery	821
Angela Young	866	Janece Thomson	807	Murray Whittaker	829
Anthony Gray	805	Joanne Scherer	849	Nakita McNab	812
Barbara Jenkins	862	Keri Allen	815	Nicole Robinson	811
Damien Waitai	865	Kylee Elgar	839	Rae Brus	700
Deborah Young	831	Linda Keeyes	814	Rebecca Fox	820
Diane Cooper	899	Lyn Miller	898	Robyn Stewart	827
Ellie O'Donoghue	868	Lynden Wagner	710	Sarena Kung	860
Erica Rigter	823	Megan Farac	800	Steven Eccles	835
Gail Brown	802	Megan Johns	819		