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DIPROSE MILLER
chartered accountants

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DOING MORE.

The Diprose Miller Newsletter | Autumn 2021.

EDITORIAL

Well, autumn has definitely arrived and it's pleasing to see our agricultural and horticultural clients continuing to do well. As I've said before, the rural sector fell out of favour over the last few years, but Covid-19 has brought it back with a vengeance. There seems to be a bit of a speed bump with the goat industry and beef prices could be better, but overall the rural sector is strong.

Part of the reason for improved rural profitability is declining interest rates. While that's good for borrowers, it's the opposite for lenders. Many of our investor clients will have little choice but to eat into capital while interest rates remain low. It's important not to panic. We've seen in the past that where higher interest rates are being offered there is a definite risk factor. It's a matter of each investor working out the level of risk that's acceptable to them and investing accordingly.

No doubt part of the reason for the increase in property values can be put down to investors exiting the banks and looking to property to keep their capital intact. That's not all good, as it puts pressure on our children trying to enter the property market. There's no easy answer. That's why economists and the Reserve Bank Governor make the big bucks – they know all the answers!

With 31st March upon us, we'll soon be looking at 2021 accounts for our business clients. They'll be interesting and will show the full impact of Covid-19. One would expect turnover and profitability to be down because of the lockdown, but by how much? Most tradies have been extremely busy, but I can't imagine they will claw back to pre-Covid-19 numbers.



In conclusion, with Easter early this year, I hope you all get a good break. I'm heading to the South Island for a couple of weeks. It seems a good opportunity to have a better look at my own country.

LANDLORDS BLINDSIDED BY TAX CHANGE

On 23 March 2021 the government announced the introduction of legislation removing the deductibility of interest on funds borrowed to purchase residential rental property. For existing rental properties and new builds,

the interest deduction will be phased out over the next few years and eventually disappear on 1 April 2025. For rental properties acquired on or after 27 March 2021 the deduction will cease on 1 October 2021. This significant change has

taken NZ tax advisors by surprise. We'll have more detailed comments in the next edition, but we're happy to discuss the impact of this change with clients at any time.

TELLING OUR STORY

As part of the process of renovating the reception areas in both our Te Aroha and Morrinsville offices we've added a Values Board to remind ourselves and our clients of our fundamental goal, which is 'Enabling Better Business'. This phrase is the cornerstone of what we hope

to achieve. It encompasses all aspects of our clients' businesses, including business structure, business planning, human resources and payroll, building business value, taxation management and succession planning.

Morrinsville board



Te Aroha board



THE FARMER IN THE DEL

As an enthusiastic member of the Dairy Environment Leaders (DEL) programme, Diprose Miller Associate Melissa Slattery is enjoying (and keeping very busy) taking an active role to raise awareness of environmentally sustainable dairy farming in NZ.

In the next newsletter we'll ask Melissa to comment on the key issues discussed at the forum and any initiatives underway as a result.

Melissa's one of around 40 farmers attending the Dairy Environment Leaders Forum in Wellington this month. The DEL programme has been set up "by farmers, for farmers" and is funded by DairyNZ.

Established in 2013, the DEL programme now comprises 300 farmers with a common goal to improve water quality, and reduce both climate change emissions and dairy's environmental footprint while maintaining a profitable farm business.



Melissa with DairyNZ Strategy and Investment Leader David Burger on her and husband Justin's Elstow dairy farm.

ED'S THINKIN'

Director Ed Wagstaff is often meeting with new clients who are starting off in business for the first time. This can be a challenging process for many newly self-employed people, with many questions and concerns needing to be addressed.

For many clients, the advice we give them when they first set up their business can be some of the most valuable advice we will ever provide. This often includes an assessment of the value of an existing business the client is planning to purchase.

For this reason, we've prepared a series of four articles designed to help new business owners navigate the minefield that is self-employment. We know that we can't cover everything, but we can point you in the right direction. If we can help, we're just a phone call away.

EPISODE 1: SETTING THE SCENE

When you're ready to go it alone and start your own business, whether it be farming, trades or providing services, there's uncertainty that comes with leaving the relative 'safety' of a regular tax paid salary and grappling with the challenge of being self-employed.

Starting your own business should give you:

- more time to spend doing what you love
- more control over your activities and daily life
- more money than could be earned as an employee.

Unfortunately, what often happens is that the new business:

- takes control of your life
- consumes all your time
- leaves you with no money.

Over the course of this year we'll discuss some of the common questions that need to be addressed to maximise the chances of success with your new business, including:

- what steps are necessary and in what order?
- what is the best choice of business structure (e.g. do I need a company or trust?)
- how do I deal with my tax obligations?
- how and where can I obtain funding?
- how do I manage my cash flow and ensure I don't go broke?

We address the first of these questions in our initial meeting with new clients with the help of our new business checklist. The checklist identifies the key actions to be taken and by whom. It includes factors such as choosing a legal structure, registering for GST and setting a plan for how we expect the business to perform.

A well-documented business plan is a critical component for success. Two key components of the business plan are:

1. A financial budget and cash forecast to ensure you do not personally withdraw more cash than the business can afford once its operating expenses, debt repayments and tax obligations are taken into account; and
2. A separate bank account specifically for business transactions and from which a regular fixed amount is taken by the owner to cover personal spending.

While it is often a step that can be overlooked, we know from experience that a robust budget and forecast is the simplest way to understand how your business should work. It provides a benchmark against which actual performance can be measured and allows us to help you react quickly when things are not going according to plan.

“Don't worry about failure, you only have to be right once.”

Drew Houston



TAX BITS & PIECES

HOW DOES 39% WORK FOR YOU?

A new 39% top income tax rate comes into effect on 1 April 2021 and applies to the income of individual taxpayers over \$180,000. Currently the top rate is 33%. There is no change to the income tax rates for companies and trusts.

Government statistics suggest that the 39% rate will apply to only 2% of taxpayers, so we won't have many clients that will experience the additional 6% charge.

However, we'll be talking with our clients that may be affected by this change, but in most cases it will be difficult to dodge the increase thanks to the broad range of anti-avoidance tax legislation currently in place.

INLAND REVENUE TO TARGET REAL ESTATE AGENTS

Inland Revenue have advised tax agents that they believe real estate agents are claiming a high level of expenses relative to their income. Where this is the case, they plan to ask for records to support the expenses claimed. We're thinking that a common example will be claims for motor vehicles where the log book requirements have not been properly followed.

If Inland Revenue contact you directly, please refer them to our office.

IMPORTANT VALUES IN PROPERTY SALE AGREEMENTS

If you're buying or selling property, please contact us to discuss incorporating specific values into the agreement for commercial buildings, dwellings and associated curtilage.

These values often have significant income tax and GST implications and it is important that both vendor and purchaser agree in writing on the specific values to be used.

Inland Revenue expects that both parties will use the same values for tax purposes and having the values stated in the agreement avoids any potential confusion.

FILING NIL GST RETURNS

Inland Revenue has indicated that they will be making contact with the agents of taxpayers who have filed NIL GST returns for more than six months to discuss whether the taxpayer should be deregistered. Deregistration can be an expensive process, especially where land and buildings are the major asset of the business.

If you are contacted by Inland Revenue, please let us know.

FIXED ASSET THRESHOLD CHANGES

On 17 March 2020, in response to the Covid-19 pandemic, Inland Revenue increased the fixed asset threshold value from \$500 to \$5,000. This means that fixed assets purchased over the last year with a cost of \$5,000 or less (excluding GST) can be written off for income tax purposes in the year of purchase rather than being capitalised and depreciated over time.

This change was implemented to encourage businesses to continue to invest in capital assets during the Covid-19 lockdown period and beyond.

The threshold has now dropped to \$1,000 for fixed assets purchased after 17 March 2021.

SALE OF LAND MIGHT BE TAXABLE

We all know that New Zealand does not have a comprehensive capital gains tax. However, what has been put in place over the last decade (or so) are a number of amendments to the Income Tax Act that effectively tax the gain on property sales in certain circumstances.

The most recent of these is the Brightline Test which taxes the gain on residential property, including sections, that has been owned for less than five years and has not been used as the primary residence of the owner. Sharon Coombe covers this in more detail in her "Sharon Says" column in this edition.

There are a number of other measures that can tax the gain on sale of not just residential property, but farm and commercial property, depending on the circumstances. In fact, it can be easy to assume that sale of property has no income tax or GST implications when that is not the case.

We recommend to clients that they contact us when contemplating the sale of property to check whether there is a potential income tax or GST issue. The legislation is varied and complex on this matter, but as Inland Revenue receives details of all property sold in New Zealand, it is better to be aware of any tax implications before the sale.

"Death, taxes and childbirth! There's never a convenient time for any of them."

Margaret Mitchell
(Gone with the Wind)

SHARON SAYS... "IT'S A BRIGHT LINE!"

Inland Revenue's been very active recently on non-compliance with the "bright-line" property test. So what is the bright-line test and how does it work?

The test taxes gains on the sale of "residential property" and applies to any taxpayer that sells a residential property:

- Within **two** years (if purchased between 1 October 2015 and 28 March 2018)
- Within **five** years (if purchased between 29 March 2018 and 26 March 2021)
- Within **ten** years (if purchased on or after 27 March 2021)

For all new builds, a concessionary **five**-year period applies.

Residential property includes any land:

- with a house on it, or
- a section on which the owner will (or may) build a house in the future

There are three exclusions where the bright-line test does not apply:

1. If the property is the main home of the owner. A taxpayer can only have one main home. Residential properties held in a trust can use the main home exclusion if the property is the main home of a beneficiary of the trust or the principal settlor of the trust
2. If the property has been inherited
3. If the taxpayer is the executor of a deceased estate.

You can only use the main home exclusion twice over any two-year period. The exclusions are only available for individuals and trusts.

For any property sold that is subject to the bright-line test we need to complete a 'Property Sale Information' form (IR833) as part of your income tax return, and will need information from you regarding the purchase and sale of the property and any improvements carried out while owning the property.

**"Don't wait to
buy real estate.
Buy real estate
and wait."**

Will Rogers

HR NEWS & ADVICE

ACC COVERPLUS EXTRA POLICY RENEWALS

Clients on Cover Plus Extra (CPX) ACC policies should have received their renewal notices from ACC for the year commencing 1 April 2021.

If you are happy with the level of cover indicated on the renewal notice, no action is required on your part and ACC will invoice you automatically for the renewal. **Please remember** that the premium must be paid, or a written payment arrangement set up, by the due date, otherwise ACC will cancel the CPX policy.

If this happens, the existing guaranteed level of cover no longer applies. To restore the CPX cover, the full application process must be repeated, and it may not be possible to reinstate the existing level of cover. Until the CPX policy is reinstated, the default Cover Plus policy conditions apply, under which there is no guaranteed level of cover and you will need to prove loss of earnings at the time of the accident.

If you have moved in the last year, you will need to advise ACC of your new address.

RECEIVE ACC INVOICES VIA EMAIL

You can elect to receive ACC invoices and other correspondence by email. For most clients, this will be a preferred option. To set this up, please contact our HR Manager **Angela Millward** on **Ext 816**.

MINIMUM WAGE HITS \$20

From 1 April 2021 the minimum adult wage rises from \$18.90 to **\$20.00 per hour**. This applies to employees aged 16 years and over.

The "Starting-Out" and "Training" minimum wage rates also increase from \$15.12 to **\$16.00 per hour**. For information on when these rates apply, go to www.employment.govt.nz/hours-and-wages



COMING EVENTS

ENJOY THE BENEFITS OF FARM BUDGETING

Our resident banking and farm finance expert Fraser Belgrave, together with Associate Melissa Slattery, will be hosting a presentation for interested clients on 11 May on important aspects of farm financial planning. Fraser is an ex-ASB Rural Manager and Melissa has significant experience with forecasting and financial planning in her own farming operation.

The presentation will focus on the benefits of using Xero in conjunction with Figured

to prepare budgets, forecasts and scenario comparisons that will help farmers see the way forward. It will also provide a valuable insight into what banks are looking for when assessing applications for term loan and seasonal finance.

A comprehensive forecast allows farmers to properly plan for capital expenditure, income tax payments, loan repayments and personal spending. It is clear from our experience that farmers who embrace the forecasting

concept are more likely to get the results they want and have control of the process along the way.



The presentation will be held in the Te Aroha Boardroom at 6pm. To register for this event, email Fraser at frb@diprosemiller.co.nz

LET'S GO PAPERLESS WITH HUBDOC!

Operating your business without printed records is now a reality for many clients. This process is made easier with the Hubdoc product now available to our Xero users.

Many businesses are now issuing invoices to our clients via email. Rather than printing these, Hubdoc provides an easy way to store these in a structured manner and import

the relevant information into the Xero accounting software. It will even automatically read invoices and input details such as supplier name, invoice number and invoice values.

To make things even easier, Hubdoc has a mobile app that allows clients to photograph printed invoices and receipts that are automatically uploaded into the Xero accounting software.

As with Xero itself, invoice information held in Hubdoc is stored in the cloud and available from any device.

To find out more about the Hubdoc option, contact your Client Account Manager.



STAFF NEWS

KAYAKING THE WAIHOU

Our busy Social Club organised a kayak trip down the Waihou River at the end of February. The enthusiastic paddlers were cast adrift at the Mace Road bridge and took their time to meander downstream with the current to Te Aroha.

Waiting at the finish line was a burger buffet dinner prepared by Diane Cooper, with Murray Whittaker manning the BBQ. A very pleasant evening, with on-water entertainment provided by Steven Eccles, who had an unplanned dip while attempting the Warrior III yoga manoeuvre on his paddleboard. This was followed by an unexpected, but amusing, eskimo roll by Deborah Young and husband David, who upset their double kayak by laughing so much at Steve's soaking. Who says you need television to have a good time?

NETBALL TEAM

Some of our staff put together a team for the Te Aroha Summer Netball League held over the last six weeks. Sharon Coombe, Steven Eccles, Fraser Belgrave, Nakita McNab, Jeanette Clubb and Anne Mohring put their

IT'S A LITTLE MR ED!

It's a big "Congratulations" from all of us to director Ed Wagstaff on the arrival of son Finn in early February. Both Finn and Mum Hayley are doing well. Finn is a brother for 4-year old Isla, so it's all good in the Wagstaff house.



NAKITA MAKES THE GRADE

Nakita McNab has passed the final exam required for "Accounting Technician" (AT) status with CAANZ, our governing professional body.

It's been a tough road for Nakita, juggling family and Diprose Miller obligations while completing her qualification. She fully deserves our congratulations.

She's thinking that she now has enough qualifications in the accounting field. She holds a Bachelor of Business degree from AUT that she completed back in 2012, so she's looking forward to spending more time discovering what life without study and exams has to offer.

THE NEW MRS ORR SIDESTEPS LOCKDOWN

From the good news file, we say "congratulations" and best wishes from all the team here at Diprose Miller to staff member Nicole Robinson who took the plunge and married long-time partner Stefan Orr in early March.

Fortunately Nicole and Stefan just missed the Covid-19 lockdown restrictions and were able to have the wedding exactly as planned at "The Hall" near Te Aroha. Workmates Anne Mohring, Jeanette Clubb, Nakita McNab and Rae Brus were on hand to witness the happy event. We'll try to get a photo of the newlyweds for the next edition.

skills to the test, along with a few "hangers-on". Lyn Miller was the team umpire.

It was a much-improved result from last year, with the team actually winning a couple of games and losing a few more by only small margins.



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