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DIPROSE MILLER
chartered accountants

.....

DOING MORE.

The Diprose Miller Newsletter | Winter 2021.

EDITORIAL

Well, it's that time of year again when the weather is a tad cooler and daylight hours are growing shorter. The bulk of our dairy farming clients have either dried off, or are about to, so it's a good time for them to take a break.

It's been a reasonable season for most in the dairy sector. While production has been steady and milk payout is strong, there are still some issues around bank funding. Even though interest rates are low, it's still difficult to make things work long term based on the banks' status quo position. The dairy goat industry is seeing a rare drop in payout which we hope will be short term.

In town, our tradespeople are insanely busy with no sign of slowing down. I guess because of limited opportunities to travel, Kiwis are spending their money

in NZ, either renovating or building houses, or upgrading vehicles. It's great to see the trades sector so solid, with the good operators performing exceptionally well.

We have started producing annual financial statements for 2021 and some of these are showing results as good as 2020 despite the Covid-19 lockdown period at the start of the financial year.

However, there are always winners and losers, and currently the losers are the safe-harbour investors. Many of our investor clients felt the impact of 20% (or higher) lending rates over the years as they built up their asset base, and now that they are relying on investment returns for retirement income, they are coping with term deposit returns of less than 1%. Many don't have any choice but to eat into their capital, reducing the pool of funds available to their ultimate beneficiaries.

A good number of clients are thinking very hard about the continued

relevance of their family trusts. New rules around disclosure of trust information to beneficiaries has led to many reviewing their original trust deeds and considering the best options for their trusts moving forward.

There was a time when the potential range of beneficiaries named in a trust deed was commonly very broad, but there is a definite move to limit the range of beneficiaries if the original deed provides for this to be done. Many clients are also choosing to wind up their trusts altogether.

This will likely be my last editorial for our newsletter. It's a good time for one of our younger directors (well, they're all younger than me) to take over. They're bound to have a different point of view on some issues and present their thoughts in a different way.

While I've enjoyed providing regular editorial comments and hope you have found them relevant and interesting, I'm looking forward to reading the newsletter from a different perspective in the future.

Take care over the winter and look after each other.



“Life is not a race, so take it slower, hear the music before the song is over.”

David L. Weatherford

ED'S THINKIN'

EPISODE 2 : WHAT'S THE BEST STRUCTURE FOR ME?

In the previous newsletter we identified four questions we are often asked when clients are starting out in business for the first time:

- What do I need to do first?
- Do I need a company or trust?
- What about tax?
- How can I obtain funding and ensure I don't go broke?

In this episode we outline the key differences in the most common business operating structures (sole trader or partnership, company and trust) and the factors you need to consider when selecting which is right for you.



SOLE TRADER OR PARTNERSHIP

We'll deal with these two options together, as the only difference is the number of people involved.

Legal status The business and its owner(s) are treated as the same legal "person".

Taxation Profits are taxed in the names of the owner(s) at their personal marginal tax rate.

Succession Complex.

Being the simplest of the common business structures it's often the best option, especially if initial profits are low and there are few business assets involved.

However, as the business and owner are legally treated as one and the same, this structure offers no protection for personal assets, which can be used to settle business debts. Thus, if you select this structure, it's important to hold appropriate business liability insurance.

This is also the default structure if a more formal structure (company or trust) is not created.

"To succeed in life, you need three things: a wishbone, a backbone and a funny bone."

Reba McEntire

COMPANY

Legal status The business and its shareholder owner(s) are treated as separate legal entities.

Taxation Companies are generally taxed at a flat rate of 28%, although a closely-owned company can elect to become a 'Look through' company for income tax purposes, where company profits are taxed in the same way as a partnership.

Succession This can be relatively straightforward, with changes in ownership dealt with via a transfer of shares between shareholders without needing to move the individual assets and liabilities.

Companies pay a flat tax rate of 28% on profits retained by the company. However, when tax-paid profits are distributed to the shareholders (or on the winding up of the company) any difference between the company rate and the shareholders personal marginal rate will need to be paid.

Companies are a separate legal entity from the shareholders, so the personal assets of shareholders cannot be used to settle company debt, unless the shareholder has specifically provided them as security for company borrowing. Companies are often the most flexible option when it comes to tax and succession planning.

TRUST

Legal status The business and its owner(s) are effectively treated as separate legal entities.

Taxation Business profits are taxed at the flat trust tax rate of 33%.

Succession Complex

Trusts are the least common option for a business structure and more commonly used for estate planning and asset protection. The most complex of the three structures we have discussed, the associated compliance and administration can be significant. If you're thinking about setting up a trust for your business we suggest you discuss this with your Diprose Miller advisor before taking any action.

FINAL THOUGHTS

When choosing a structure it's necessary to consider not just the tax and legal implications, but also the long term plans for the business and any eventual succession process. Will the business be passed to the next generation or sold off to a third party?

As a general comment, it's worth noting that no structure is irreversible and changes can be made throughout the life of the business depending on the needs of the owners. Any change in structure needs to be discussed carefully, as there can be significant legal and tax implications.

SHARON SAYS... “IT’S GOOD TO HAVE VALUES!”

Inland Revenue have recently introduced rules on specifying the sale values of individual assets that form part of a sale and purchase agreement.

From 1 July 2021, where two or more assets are sold together, both the buyer and seller must agree in writing on the sale value assigned to each asset. This must be based on market value and noted in the agreement. There are generally three classes of business assets:

- Revenue assets - such as trading stock and livestock
- Depreciable (fixed) assets - such as buildings, vehicles and machinery
- Non-taxable (capital) assets - such as land and goodwill.

The new rules will apply where the total purchase price is \$1m or more, or where

the only assets are residential land (including buildings and chattels) with a total purchase price of \$7.5m or more. The rules are summarised below:

- Where the buyer and seller agree in writing on the amounts allocated to each asset they must both use the agreed values for income tax purposes
- If values are not specified in the agreement, the **seller** is entitled to determine the allocation, and must notify the buyer and Inland Revenue of the values within three months of settlement
- If the seller does not take this opportunity, the **buyer** is entitled to determine the allocation, and must notify the seller and Inland Revenue
- The amount allocated for each asset cannot be less than market value.

If required, notification to Inland Revenue can be made through the myIR portal as a secure message, or in writing. This must include these details:

- Both parties’ names, IRD numbers and contact details
- Date of the agreement for sale and purchase
- Date of settlement
- Total sale value
- Value allocated to each asset sold.

The moral of the story is that parties to an agreement, particularly the seller, need to ensure that they agree on the sale values of individual assets in the agreement, and that these values are a fair representation of current market value. Inland Revenue are obviously determined to ensure that there is ‘symmetry’ between the buyer and the seller for tax purposes.

THE FARMER IN THE DEL

Associate Melissa Slattery attended the Dairy Environment Leaders (DEL) Forum in Wellington in March. We asked her to let us know about the key issues discussed at the forum.

“The forum was a hectic couple of days in which we heard from policy and trade negotiators, technology innovators and international and domestic industry leaders on topics of water, climate and trade. Dr Rod Carr spoke on the Climate Change Commission’s recommendations and explained that they affect all NZers, not just dairy farmers. While it is likely that overall livestock numbers will reduce, he busted the media myth that every farmer will need a 15% reduction in their stocking rate.

We all want low emissions, a strong economy and clean water, but we also need consistent targets and pragmatic timeframes.

NZ’s chief trade negotiator, Vangelis Vitalis, challenged farmers to keep doing their bit for the environment. Representing an OECD country that exports the majority of their produce, he is experiencing increased scrutiny of environment factors and sustainability, especially as trade barriers increase globally. The evening function in Parliament was a positive highlight and saw a



DEL Group photo

record turnout of ministers and officials staying to talk with farmers about the important issues.”

Melissa tells us that the goal is to increase the number of leaders in the DEL programme within each region. She’s promised to provide us with a further update in the next edition.

“Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it’s the only thing that ever has.”

Margaret Mead

SALE OF PROPERTY – LET’S GET IT RIGHT

We’re seeing a significant increase in Inland Revenue activity in the area of property sales. This is not surprising, given the impact of the ever-tightening ‘Bright-line’ test and the need for the government to collect as much revenue as it can in these difficult times.

Details of all property sale transactions are made available to Inland Revenue so they can review whether there is a potential income tax liability arising from the sale. They are definitely watching closely.

It’s very important that clients contact us prior to signing any agreement for the sale of property so that we can discuss any potential income tax issues and how these might be minimised or prevented.

In many cases there will be no opportunity for us to make a difference, but in others there may be options available that can save a significant amount of tax. This may involve reviewing effective dates, conditions of sale and values attributed to the various components of the sale.



GETTING IT SORTED WITH FIGURED

In late May our resident rural finance guru Fraser Belgrave presented a session to clients covering the use of the Figured farm financial planning software in conjunction with Xero to prepare and monitor comprehensive farm forecasting.

A group of around twenty enthusiastic clients attended. Some were already using Figured for their farm financial planning, others were interested in finding out what benefits were available and how to get started.

Even though the setting up of the Figured file and associated training requires some energy and commitment from the client, those who had taken the step and are making proper use of the software are enjoying significant benefits.

If you wish to know more about Figured, check out their website at www.figured.com or contact your Diprose Miller advisor.

GOING FOR A HIKE XERO SUBSCRIPTIONS

Xero has just advised us that their monthly subscriptions will be increasing in September. The Standard Plan (with invoicing) increases by \$2 per month and the Premium Plan (with multi-currency) by \$3 per month.

INLAND REVENUE TARGETING CONSTRUCTION INDUSTRY

In April, Inland Revenue contacted all tax professionals to advise that they are undertaking a "construction industry education campaign". The focus of this campaign is on reducing the activity in the "hidden economy", a term used to describe contractors being paid in cash and not declaring this income for income tax and GST purposes.

It's clear that the government feels there is more chance of the hidden economy prospering in times of economic uncertainty. They will be promoting compliance through the use of online ads and material displayed on building sites and hardware stores. Taxpayers who have not

declared cash income are encouraged to make a voluntary disclosure of their correct position, which significantly reduces the penalties and interest that would otherwise apply.

As we have previously mentioned, while the Inland Revenue material suggests that they will be focusing on education and awareness, we think it is unlikely that they will have much sympathy for those who choose not to play by the rules.

Inland Revenue is using the catch-phrase "declare it all" as the primary message of the campaign.

HR NEWS & ADVICE

SICK LEAVE TURNS 10

Employers need to be aware that legislation has been passed to increase statutory sick leave from five to ten days per year. The legislation is expected to come into force on 24 July 2021.

Employees receive the additional five days when they reach their next entitlement date – either after reaching six months employment or on their sick leave entitlement anniversary. We are happy to assist clients with any questions on how this change affects their payroll settings.

It is important to note that the maximum amount of unused sick leave that an employee can accumulate remains at 20 days.

FARM EMPLOYERS AS LANDLORDS

If a farmer provides an employee with accommodation, they legally become a landlord with a 'service tenancy', even if the accommodation is provided at no cost to the employee. This means that the healthy homes standards that became law in July 2019 apply to the farmer as a landlord.

The standards introduce specific and minimum standards for heating, insulation, ventilation, moisture ingress/drainage and draught stopping in rental properties. All rental arrangements (including service tenancies) must comply within 90 days of any new or renewed tenancy after 1 July 2021.

All rentals must comply in full from 1 July 2024. The key standards are:

- There must be one or more fixed heaters that directly heat the main living area
- Ceiling and underfloor insulation has been compulsory since July 2019, but existing insulation may need to be brought up to standard
- Homes must have openable windows in the living room, dining room, kitchen and bedroom. Kitchens and bathrooms must have extractor fans
- Homes must have efficient drainage for the removal of storm water, surface water and ground water. Homes with an enclosed sub-floor space must have a ground moisture barrier
- Homes cannot have unreasonable gaps or holes in walls, ceiling, windows, skylights, floors and doors which cause noticeable draughts. All unused open fireplaces must be closed off or their chimneys must be blocked to prevent draughts.

Full details can be found at tenancy.govt.nz

"It's just a job. Grass grows, birds fly, waves pound the sand. I beat people up."

Muhammad Ali

STAFF NEWS

EUAN CHARGES BACK

Ex-staff member Euan Lock has re-joined the Diprose Miller family and will be based in our Morrinsville office. His role will be similar to that of Fraser Belgrave in the Te Aroha office, supporting our rural clients with farm planning and financial management initiatives.

After starting with Diprose Miller in 2009, Euan left us in 2017 to pursue a farming support role with DairyNZ, but after four years in the wilderness he's back with us.

Euan will also be taking the role of Client Account Manager with Jeanette's team. He's got quite a bit of technical accounting and tax changes to grapple with that have occurred over the last few years.



A NIGHT FOR THE GIRLS

It was big night for staff members Megan Farac, Jo Scherer and Nakita McNab when they attended the annual CAANZ function to be presented with their Accounting Technician (AT) certificates.

To make the occasion even more special, fellow staff member Barbara Jenkins was presented with her Chartered Accountant (CA) certificate, marking the end of an even longer professional journey.

The 'fabulous four' ladies were joined for the evening by directors Darren Diprose and Sharon Coombe.



Nakita, Darren, Megan, Jo, Barbara & Sharon enjoy the big occasion

It's great to see our staff receiving the recognition they deserve for the long hours they have put in over a number of years to gain their qualifications.

JEANETTE HITS THE TRAIL

Director Jeanette Clubb took advantage of a less hectic April and headed off to conquer the Otago Central Rail Trail. The trip marked husband Trevor's 50th birthday and their trusty group of five cycled from Alexandra to Middlemarch over 4 days on their e-bikes.

Things got off to a slightly shaky start when they didn't get picked up from the airport, but improved over the next few days as they enjoyed the autumn colours and stunning landscape on offer (and perhaps the occasional glass of wine?).



Hey Jeanette, where's your bike?

BIG DAY OUT

In mid-April our entire team had a day out for a field trip to the J Swap Contractors quarry and workshop sites in Taotaoroa and Matamata respectively. Our host for the day was David Young, a sales consultant for the J Swap Stockfoods division. David is also the husband of Morrinsville staff member Deborah Young, so he was well-known to all the staff.

It's fair to say we were all impressed by the sheer scale and diversity of the company's operations and the facilities. The new head office was fabulous and many of the staff suggested a similar setup for the Diprose Miller headquarters in Te Aroha!

It's a big thanks from all the staff to David for sharing his insight and knowledge of the company's operations with us throughout the day.

After the field trip, we visited the Walton golf course for a late BBQ lunch and some practice shots on one of the holes. A very picturesque spot, especially on what was a beautiful day.

To close things off later in the afternoon, we returned to our Te Aroha office for a presentation



Swap's Matamata workshop



Keith's taking a step back

to Keith Miller to recognise his many years as a director of the business. With retirement looming, Keith will be starting to scale back his time in this office over the next couple of years as he gradually steps back from his full-time commitment.



Steven Eccles found his dream company car

SOCIAL CLUB CAR RALLY

The world-famous Diprose Miller Social Club car rally, organised as always by Murray Whittaker, took place on a hot Sunday morning at the end of March. This year's trail of clues took participants in a loop from Te Aroha through Morrinsville and Walton, ending up at Firth Tower in Matamata, where another series of clues took everyone around the many buildings and displays on offer, before a lunch on the site.

Joint winners of the trophy were Rae's Devils (Rae Brus, Erica Rigter and Erica's husband Jeff) and Nakita's Angels (Nakita McNab, her three children and Deborah Young). The award for best costume was easily won by the Thelma and Louise trio of Janeece Thompson, Robyn Stewart and Barb Jenkins.



The rally crew at Firth Tower



Thelma & Louise (and a stowaway)

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