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DIPROSE MILLER
chartered accountants

.....

DOING MORE.

The Diprose Miller Newsletter | Winter 2022.

EDITORIAL



Well, we're already halfway through the year and I'm not really sure where the last few months have gone. As a firm we have a lot of work on our plates, so it's all hands to the pump. Our staff will be in touch

with you if we require further information to complete your annual financial statements. We're currently undergoing a significant change in our office from a workflow perspective, with a move to the Xero work paper software for preparing and storing documents to support the content of clients' financial statements. This means that the printed documentation we previously kept in our famous red folders is now held "in the cloud". As with any major change, we've seen some minor teething problems, but we're getting a fairly good handle on the situation and in a few months' time using the new software will feel very familiar.

In our part of the country it has been good to see some decent rain over the last few weeks. From a farming perspective it's been one of the toughest seasons we have had in recent times, thanks to an extended

dry period. This meant early drying off for many farmers and a strong demand for late bought-in feed which became hard to find. The good news is that when the rain came the weather stayed relatively warm, which has resulted in good grass growth during the early winter period. The recent change to colder temperatures has no doubt slowed the growth somewhat.

The construction industry, including builders, plumbers and electricians all seem to be busy, but they are still experiencing delays and material shortages at times. This seems to be improving, but it may take some time to catch up. The shortage of plaster-board has been highlighted as having a major impact on the length of time construction jobs are taking to complete and putting pressure on associated businesses, with a number of building companies being wound up.

As accountants and business advisors it has been interesting to view the financial results coming through for our clients for the 2022 year. While the results have generally been pretty good, one thing we have noticed is a general increase in costs

"Dance like nobody is watching, because they are not, they are all checking their phones."

Anonymous

and this has been highlighted in the media. It seems like a perfect storm, where all expenses have increased. The major ones we are noticing are wages, fuel, insurance, interest and, from a farming perspective, the cost of bought-in feed.

It appears that the Covid-19 subsidies and resurgence payments have achieved their intended purpose and kept business incomes on a par with previous years. In some industries the application of this assistance has allowed profits to exceed the previous year as businesses move back towards their pre-Covid operating activity. There are positive signs for the future, with the dairy industry expecting another exceptional milk pay-out for the 2022-23 season, although much of this will be applied to increasing farm operating and financing costs.

"If you're going through hell, keep going."

Winston Churchill

As a final note, the recent increases in interest rates will have an effect across the entire country for both businesses and home-owners. It will definitely make it more difficult for many families to service their mortgages. Families also need to cope with a well-publicised increase in the cost of living. It will be interesting to see whether this has a direct impact on house prices. We've seen recent comments on the housing market slowing down, but have yet to see prices directly affected, at least in our part of the country. We're also watching with interest to see how the banks react to these changes. Their attitudes to lending have been difficult to predict over the last year or two.

By the time you read this we will have celebrated our first Matariki holiday and the shortest day will be behind us as we begin the transition to spring and look forward to the days stretching out a little.

Stay safe and stay warm

Darren Diprose



“The days of trustees paying lip-service to their duties are now behind us.”

ED'S THINKIN'

INLAND REVENUE HUNTING TRUST INFORMATION

Compliance costs for trusts are set to increase as accountants grapple with additional disclosure and administration requirements, particularly where the accountant is also the independent trustee.

These additional obligations arise from two sources:

1. Firstly, from the mandatory duties of a professional trustee now clearly set out in the Trusts Act 2019. These include mandatory beneficiary disclosure requirements and clarity around dealing with beneficiaries;
2. Secondly, the introduction of additional specific information in the 2022 income tax returns on the identity of both settlors and beneficiaries, together with information on distributions that have been made to beneficiaries during the year. We've provided some further comment on this in our 'Tax Bits & Pieces' page.

Inland Revenue is also asking for information on the identity of 'deemed settlors'. These are individuals who have provided financial support to the trust during its lifetime, either as a gift or as an interest-free (or low-interest) loan. Even a beneficiary can be a deemed settlor if interest has not been paid on their beneficiary loan account.

It is likely that almost all trusts will need to prepare some form of financial statements that can be made available to Inland Revenue if requested. This will apply to all trusts that have an obligation to file an income tax return, even if the trust's financial position is very straightforward.

THE NEW WORLD OF TRUST MANAGEMENT

We act as the independent professional trustee for many of our client trusts. The new legislation and income tax return requirements pave the way for a new era in trustee performance and reporting. The days of trustees paying lip-service to their duties are now behind us.

As a result, we at Diprose Miller are developing a new model for operating as a professional trustee. Our new procedures will ensure that we and our fellow trustees (clients) can demonstrate a robust and well-documented approach to providing trustee services.

The new service will incorporate a formal annual review of important aspects of the trust, including those listed below. This will take the form of a trustees meeting where discussions and decisions will be documented for future reference.

1. A review of the assets and liabilities of the trust, based on the most recent financial statements.
2. Confirmation of balances owed by (or to) related parties (beneficiaries, trustees & settlors).
3. Discussion on the current and future investment strategy for the trust.
4. A review of the terms of the trust deed and whether any changes are required.
5. Whether the trust is still relevant.

We'll be making contact with clients individually over the next few months to outline how the new service will operate, the fees that will apply and the actions required by ourselves and clients to implement the changes.

It may mean that some clients decide that their current trust structure is no longer appropriate, or requires a significant revision. Most importantly, the new service will provide the evidence to show that trustees (including ourselves as a professional trustee) are properly carrying out their duties in accordance with both the terms of the trust deed and the new legislation, while documenting a more proactive approach to the management of the trust assets.

BREAKING NEWS

UP WE GO!

Our Morrinsville office has become a tight squeeze for everyone, with new staff and activities stretching the capacity of our existing ground floor premises. So, we've taken the initiative and secured additional space upstairs.

It's taking some time to get the new space sorted with working areas, phones, computer set-up, furniture and décor, but we're getting there.

The new space will include a larger room for meeting with clients and conducting presentations, so we'll be well-placed to adapt to future requirements.

THE BIG 2022 OFFICE JUGGLING ACT

Over the last couple of months, we have replaced all the carpet in the Te Aroha office. Sounds easy, right?

Unfortunately, this was something of a mission for a few weeks as we needed to move every piece of furniture and equipment, then put it all back. The 'putting it all back' part didn't always go according to plan, but we finally got there.

To make things easier, many of our staff worked from home while their office workplace was out of action, so we had a skeleton crew on deck at times.

An unexpected bonus with the whole exercise was that we were forced to decide which furniture and equipment was still useful. As a result, we're now waiting for a couple of skip bins to arrive to clean out the discarded items.

SHARON SAYS...



WATCH THOSE LAND TRANSACTIONS – IT'S A BRIGHT LINE!

It's no surprise that the booming property market over recent years has created significant gains for property investors.

Traditionally, this hasn't been of concern for investors, as capital gains from the sale of property have been non-taxable. But the situation is rapidly changing, thanks to the introduction of the 'bright-line' rules that can result in capital gains from the sale of residential property becoming taxable to the vendor.

Inland Revenue is also considering pre-populating taxpayers income tax returns with the proceeds of property sales, then putting the onus back on taxpayers to prove that the sale is not caught by the bright-line rules.

A taxpayer's personal home is generally exempt from the bright-line rules, but rental properties and holiday homes are definitely fair game for Inland Revenue.

The bright-line rules are complicated - and becoming more so. We strongly encourage clients to contact us before selling any residential property to check whether there is any possibility of the sale proceeds being subject to income tax.

As the application of the bright-line rules is significantly time-dependent, careful planning of a sale can make a difference to whether the proceeds are taxable. Don't take the risk!

RENTALS CAN BE TAXING

We're starting to see the tax impact of two recent changes to the taxation of residential rental properties:

1. Firstly, the introduction of new 'ring-fencing' provisions means that losses generated by residential rental activities cannot be offset against other taxable income. These losses must be carried forward and offset against future residential income. Some losses will never be claimed.
2. Secondly, the removal of the deductibility of interest paid on loans to fund the purchase of residential rental properties is making a difference for the first time in the 2022 tax year.

The rules around both these changes can be complicated, and the calculations can be cumbersome, particularly if there is a significant rental portfolio held.

We're told that the changes were introduced to make residential rental property less attractive to investors, thus freeing up the property market for first home buyers and others. Unfortunately, our experiences with clients to date suggest that the more likely outcomes are increased rents, with very few clients considering selling their rental properties.

We're thinking that a fundamental supply-demand problem still exists with housing in this country, and that these changes simply make life more complicated for investors and their accountants.

HR & PAYROLL NEWS

PAYROLL – AN EASIER OPTION

Are you fed up with the hassle of processing payroll? Have you thought of outsourcing it to us?

Diprose Miller currently manages the payroll function for a large number of clients across a broad range of sectors, including commercial, retail and farming.

Our dedicated payroll team has a wealth of experience in assisting clients to become fully compliant with their statutory obligations. Some specific benefits flowing from compliance are listed below:

1. Full and accurate tracking of employee leave balances and entitlements
2. Preparation of pay reports (including pay slips) that provide the necessary statutory information
3. Avoiding penalties and/or fines for late filing of Inland Revenue returns
4. Less confrontation with employees with a third-party involvement
5. Dealing with complicated leave and pay calculation scenarios.

We can also assist with the challenging task of preparing effective, robust employment agreements that will help protect you as an employer.

For more information about these options, please contact Angela Millward (ext. 816) or Denice Taukiri (ext. 828).

If you prefer to manage your own business payroll and are looking at software options to make life easier (and safer) we recommend the products listed below.

For commercial (non-farming) businesses – Xero Payroll www.xero.com/nz/accounting-software/payroll

For farming businesses – PaySauce www.paysauce.com

TAX-FREE ALLOWANCES

Many clients pay their employees allowances on a tax-free basis. This is acceptable, but it is the responsibility of the employer to be able to prove that the allowances are effectively a reimbursement of 'out-of-pocket' expenses incurred by the employee in the course of carrying out their employment duties.

Common examples are allowances for telecommunications (including internet services), furniture and computer equipment. This is especially so in recent years, with a growing number of people working from home.

Care must be taken to ensure that the level of allowances is appropriate, given that many of these expenses have both a personal and business component. Inland Revenue provides some useful guidelines, but we're happy to talk with clients and provide guidance on specific circumstances.

APPRENTICESHIP BOOST EXTENDED

The Apprenticeship Boost initiative has been extended for a further 17 months and will be now available until the end of December 2023.

Apprenticeship Boost helps employers take on and retain apprentices. It is paid directly to employers and is available for eligible apprentices during their first two years of training. From 5 August 2022 the amount of Apprenticeship Boost for first-year apprentices will decrease to \$500 per month (plus GST). This now matches the second-year apprentice rate, which remains unchanged.

Employers can receive the Apprenticeship Boost subsidy if their apprentices are enrolled in a course approved and funded by the Tertiary Education Commission. These cover a wide range of industries from trades to agriculture.

For further information, check out the link below.

<https://www.workandincome.govt.nz/employers/subsidies-training-and-other-help/apprenticeship-boost>

WHAT'S WITH THE 'TACA TEAM'?

AN INTRODUCTION TO OUR TRUST AND COMPANY ADMINISTRATION TEAM, AKA TACA

The importance of creating and maintaining comprehensive non-accounting records for companies and trusts is increasing as new legislation, and an increasing focus on statutory compliance, further complicate our lives. We have a large number of client trusts and companies for which we provide administration services and this role is evolving over time, as the obligations of trustees and directors are enhanced and better-defined. We've listed below the activities that our TACA team carry out on a regular basis on behalf of our clients.

Key tasks for companies

1. Incorporation of new companies (including setting up Inland Revenue tax accounts)
2. Maintenance of statutory records required by legislation
3. Filing of annual returns with the Companies Office
4. Preparation of resolutions to confirm decisions of directors and shareholders
5. Winding up of companies in accordance with the specified procedure

Key tasks for trusts

1. Maintenance of basic trust details
2. Holding key trust documents (e.g., deed of trust, variations, trustee & beneficiary changes, etc.)
3. Record changes to the assets and liabilities of the trust
4. Record details of gifts made to the trust
5. Maintenance of updated records of loans to and from related parties
6. Preparation of trustee resolutions to support decisions made regarding the management of the trust.

PAPERLESS RECORDKEEPING

We're now storing all new trust and company documents in the cloud. It's been a long process, but very worthwhile.

This change has resulted in easier access to documents, easier transfer of documents to third parties if required, and much less clutter around the office. We've still got some historical documents to be uploaded, but we're getting there.

**"If it's not written,
it never happened.
If it is written, it doesn't
matter what happened."**

Sercan Leylek

TAX BITS & PIECES

A NEW LEVEL FOR TRUST INCOME TAX RETURNS

From the 2022 year, Inland Revenue is requiring additional non-financial information relating to the settlors and beneficiaries of trusts.

A new return form, the IR6S, has been developed to collect information about not just the identity of settlors, but the nature and value of financial assistance they have provided to the trust for that year.

On top of that, the IR6 trust income tax return has been expanded to collect additional information on the identity of beneficiaries and distributions made to them during the year, even if these are capital in nature and not taxable.

It's a whole new level of compliance that is clearly designed to provide Inland Revenue with comprehensive details of persons associated with the trust. We may need to ask clients for further personal details before their trust returns can be filed.

AIRBNB NOT ALWAYS THAT SIMPLE

If you have plans to establish an Airbnb operation in an existing or new property, please make sure you discuss the structure of this business with us before going ahead.

There are rules governing the tax consequences of Airbnb operations, especially from a GST perspective. A careful discussion around the choice of ownership and operating structure can significantly reduce the changes of an embarrassing and expensive tax liability arising on the sale of the property, or when the Airbnb operation ceases.

USE-OF-MONEY INTEREST RATE CHANGE

Effective from 9 May 2022, the Use-of-Money (UOMI) rates on underpayments and overpayments of tax have changed.

1. The rate charged by Inland Revenue for underpayments has risen to 7.28% from 7.00%.
2. The rate paid by Inland Revenue for overpayments is unchanged at 0.0%.

That's not much of an investment return if you overpay your tax, especially in these times of rising inflation!

SBCS LOAN REPAYMENTS

Business owners who borrowed money from Inland Revenue under the Small Business Cashflow Scheme (SBCS) are about to have interest charged on their loan at the standard rate of 3%.

Interest applies from the start of the third year after the initial loan drawdown, with repayments of both interest and principal required from that date. Inland Revenue will contact clients to advise the level of repayments required. The maximum loan period is five years.

STAFF HAPPENINGS

FAREWELL TO 2021

Just before the Easter break our directors and staff enjoyed a day out together to celebrate the end of the financial year, including the preparation of our clients' 2021 financial statements and income tax returns.

The last twelve months have presented some challenges, the most obviously being the impact of the Covid-19 pandemic. The direct impact on us as a business has been minimal, except for the last few months as the Omicron variant hit the community and we grappled with staff being unavailable at short notice.

Our day out was held in Hamilton, with lunch at The Lookout Bar & Kitchen. We all enjoyed sitting on the deck in the autumn sunshine and looking forward to the Easter break. Lunch was followed by a session of ten-pin bowling, with Steven Eccles pipping Darren Diprose at the post for the highest score of the day.

It was a great chance for us all to relax and consider the changes coming up for the 2022 year.

MORRINSVILLE ADDS MARIA



It's a warm welcome to Maria Lock, the new client account manager in our Morrinsville office. She's already known to us as the long-suffering wife of our associate Euan Lock.

Maria has a wealth of previous office and administration experience and is looking forward to adding accounting skills to her portfolio. Her previous work experience also includes dairy farming, the funeral industry and a stint as an AI technician.

Maria and Euan enjoy travelling around all areas of New Zealand, catching up with family and friends and are busy developing a native planting on their rural block outside Morrinsville.

We're not sure how Maria and Euan might handle being together in the office environment all day, so we've shipped him upstairs to our newly acquired office space and we're putting Maria on the ground floor with the 'real workers'.

UP THE HILL WE GO



Associate Euan Lock recently put together a Social Club walk to the summit of Mount Te Aroha. He didn't have too many takers on the day, but Steven Eccles, Jeanette Clubb and Sharon Coombe with daughter Talia turned out to test their fitness.

They were lucky with the weather on the day, although the chilly wind dampened the impact of the clear blue sky. Euan tells us that the autumn sunshine made the view down the Kaimai ranges look amazingly crisp and clear, in contrast to the hazy views that were available during the never-ending summer.



XERO TIPS & TRICKS

BANK FEEDS FOR NEW BANK ACCOUNTS

This one's not so much a tip as a request for our clients. If you set up a new bank account, please provide us with the bank account number so we can establish an automatic bank feed in the Xero accounting file.

The bank feed allows for transactions to be imported daily into the Xero file, removing the need for us (or you) to manually import the transactions.

Bank feeds can also be set up for business credit cards, loans and supplier accounts, including RD1 and Farmlands.

IS MY XERO BANK BALANCE CORRECT?

Technically yes, it should be, if there is an automatic bank feed in operation.

However, every once in a while, we find that bank transactions have not been correctly 'fed' into the Xero file. We'd seen examples where transactions for some days have been duplicated, or other transactions that are missing.

If this happens, the Xero reconciliation report will look fine, but it will not show the same balance as the bank.

We strongly recommend that our Xero clients regularly check to make sure that the bank balances showing in the Xero reconciliation match your physical bank statements or online banking balances.

If you can't balance your Xero file with the bank figures, contact us for assistance to resolve this issue.

ON THE RURAL SIDE OF THINGS...

FARM HOUSES & THE BRIGHT-LINE

Farming clients should be aware that farm dwellings can be subject to the bright-line property tax rules if they are not used as an integral part of the farm operation. This means that houses occupied by farm workers and contractors are exempt from the rules, but if the house is rented to a third party not related to the farm operation, the bright-line rules may apply.

“The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways.”

John F. Kennedy

LIFESTYLE BLOCKS UNDER THE MICROSCOPE

Inland Revenue are now taking a more restrictive approach to the deductions available to lifestyle block operators. Generally, deductions for property-related expenses must be more closely aligned to the income generated from the property.

This means that claims for expenses such as rates, insurance, maintenance, electricity and telephone will be very limited going forward. In addition, there are no 'rule-of-thumb' guidelines that can be applied. Each expense must be considered separately.

This creates more work for us, but we'll be discussing these changes with lifestyle block clients as we prepare the 2022 financial statements.

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