NEWSLETTER
Xmas 2017

Urlich Lander
Chartered Accountants

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Wishing you a safe and happy Christmas and a wonderful new year ahead!

Our office will close at 2pm, on 22 December and reopen in the New Year on 15 January at 8.30am Thank you for all your support this year. To dampen your enthusiasm for the festive break however, we need to remind you that GST and Provisional Tax are both due on 15 January. If you need our assistance to estimate or reduce provisonal tax, please make sure you contact us before December 22.

New Government

Facts & Fiction:

We have the youngest ever NZ Prime Minister; Jacinda Ardern at 37.
With Deputy Prime Minister Winston Peters at 72!
Minister of Revenue is Hon Stuart Nash.

Issues that may affect your business:

Immigration
Tax simplification using digital solutions at IRD
NZ Trust Law to be overhauled

The Business of Immigration

New Zealand's immigration system is currently undergoing a significant overhaul, which is sure to impact many local businesses. Following the changes to Investor Category visas announced in December 2016, further changes are also proposed to the Skilled Migrant Category (SMC) visa, for implementation in August. The proposed amendments are set to ensure better outcomes for both New Zealand citizens and those who are seeking to immigrate here.

Investor visas were first introduced in 2009, resulting in over $2.9 billion invested into NZ. Generally, investors may be granted resident status if they make qualifying investments in NZ for 3 or 4 years. There are two categories – Investor 1 applicants must invest at least $10m and Investor 2 applicants must invest at least $1.5m (plus have other funds available to live on).

Currently, around two thirds of these investments are in bonds. The proposed changes, effective from May 2017, seek to change this by encouraging investment in 'growth-oriented' industries. The 'growth-oriented' list includes industries associated with equities, commercial property, new residential builds or managed funds, with the potential for others to be added in the future, decided by Government need.

If Investor 1 applicants invest upwards of 25% in New Zealand growth-oriented investments they will have more flexibility on how they can meet the minimum 'days in NZ' requirement for this visa type. Furthermore, Investor 2 applicants will receive a reduction in the total amount they need to invest if they are willing to invest in growth investments – a $0.5m discount to be exact. To attain this discount, investors will be required to allocate more than 50% of their total investment to growth-oriented business. They will also enjoy less restriction on how they spend their required days in New Zealand over the four year period of application, much like the Investor 1 category. The additional funding is expected to provide a boost to the economy, providing an alternative funding option for businesses that may have been restricted by lack of investment into growth-oriented ventures.

Alongside this, changes to the SMC visas are also making a splash in the business environment. Residence can be granted for skilled workers under a 'points' system, with points granted for various criteria including qualifications and job offers. From August, the points system is supplemented by the introduction of remuneration thresholds: jobs will need a minimum salary of $41,538 to be considered 'mid-skilled' – being 85% of NZ's medium income. More points will also be available for skilled work experience and for some post-graduate qualifications. It is hoped that this will help limit the net inflow of immigrants, whilst targeting this visa type to individuals that are skilled in their industries, allowing businesses to bring in the people and skills that are beneficial to NZ as a whole.

The Government is seeking to balance the economic growth that immigration brings along with the additional strain it places on public services and current infrastructure. Getting the right balance is a challenge, but solace can be taken from the fact that it is a sign of a strong economy. It is important that the Government continually reviews immigration policies to ensure they are attaining the correct outcomes for a prosperous New Zealand.

Residential Property – Be careful what you write!

The sale and purchase of residential property is an area of focus for IRD Investigators as a result of the ongoing investment in the Property Compliance Programme. A Taxation Review Authority ('TRA') case heard in May 2017, serves as a timely reminder for all property owners to remain aware of the tax implications that can arise from residential property sales. The case involved the purchase and eventual sale of a family home by a son who had previously been involved with other property investments.

A key criterion for determining the tax status of a property transaction rests on whether the property was purchased with the purpose or intention of resale. The intention of the taxpayer is determined subjectively at the date the property is acquired.

There are instances where taxpayers have tried to satisfy this subjective test by embellishing their future intentions to support a more desirable tax outcome. Hence, it is common to place some weight on any documentation that might also refer to a taxpayer's future plans for a property.

In this particular case, a substantial amount of weight was placed on a diary note recorded by the taxpayer's bank officer, accompanying the loan approval request for the property. The note recorded that the taxpayer had committed to the purchase of the property because his parents were no longer financially able to complete renovations themselves, and that he would sell the property once the renovations were completed, in order to release funds needed for his other property developments.

Due to the diary note and the taxpayer's history of buying and selling property, the IRD sought to tax the sale of the property. But the taxpayer argued that the file note was not a true account of his intentions. He told the TRA that the bank officer was a close friend of his, a friendship that had been built over years of loan applications and property investments. This had resulted in the bank officer recording a note not of a conversation, but of a mistaken assumption about the taxpayer's intention to resell his parent's home.

The taxpayer asserted his true intention was to assist his parents while they were experiencing a period of financial difficulty, safeguarding the family home for the long term. This alternate set of facts was further aided by the form of the bank officer's note – it did not refer to a specific conversation, but was written as part of the loan approval request, containing information determined relevant by the bank officer.

The moral of this story is that clients need to contact us early on in negotiations for purchase or sale of residential property, so that appropriate minutes can be prepared, in addition to receiving professional advice.

PAYE changes and tax simplification

Inland Revenue (IRD) have recently released a new Taxation Bill and published the eighth discussion document in the Making Tax Simpler series, both of which aim to reduce the cost of tax compliance and administration for NZ businesses and individuals.

Under the current PAYE system, it can be difficult for IRD to collect the correct amount of tax from individuals over the course of a tax year. The nature of the system means that mistakes can be made when selecting PAYE codes, or if a person's income changes unexpectedly the amount of tax withheld over the course of a year is not likely to be accurate. This usually leads to tax refunds or liabilities at the end of the year.

IRD propose increasing the frequency that employers provide information to IRD from monthly to every payday, which could be weekly or bi-monthly for some employees. This will be facilitated by the integration of accounting software with the IRD system, so that employee income and deduction information can be sent to IRD with a simple 'push of a button'. PAYE information will be sent as pay checks are processed, so payroll reporting will become an integral part of the tax process rather than a separate and additional function for employers. This will reduce the tax administration involved with employing staff and ease the compliance burden for businesses.

The draft Bill also proposes that more detailed information will be collected more regularly on individuals' investment income, such as interest, dividends, portfolio investment entity (PIE) income, taxable Māori authority distributions and royalties.

In summary, the proposals aim to use digital solutions to simplify the tax administration process. Both the PAYE changes and introduction of detailed reporting for investment income will give IRD more real-time information and ultimately give the Government greater insight into a taxpayer's financial position. This will open up opportunities to redesign social policies and improve the future administration of other systems such as child support, Kiwi Saver, Working for Families and student loans. We, at Urlich Lander, will be using our "inside man" to ensure the needs of both tax payers and tax agents are considered in the changes.

Improve your online Presence

Your online presence is important to build a brand for yourself and your business as it can help with spreading brand awareness, which should lead to new customers.

But where do you start when building your online presence? For starters, it's important to remember that building your identity online is an ongoing process and it isn't something that will happen overnight. It definitely isn't something that once you've established you can forget about and move on to the next thing. Here are just *some tips:*

Blog Your Way to Influence

Blogging can have huge benefits on building your authority online. Blogging can also establish you as a thought leader in your industry too, if it makes sense for your brand. For example, if you have current news, start a blog on your website. This will help draw new visitors to your website and keep people coming back for more, as well as announcing that your business (or you) has something valuable to share. Remember, if you're going to build a blog, you need to be consistent with posting. Make a content/posting calendar and stick to it! You should at least be blogging once a week.

Be a Social Butterfly

Social media is meant to be social. Surprise! If you have social media accounts for your business, make sure you build a strategy and are consistently using these channels. Also, don't forget to follow people and join in on conversations in your space. For example, if you're a restaurant located in Wellington, interact with foodies or food bloggers in the city through Twitter or Instagram; this can help you gain exposure through other people's networks.

Optimize Your Search

SEO or search engine optimization doesn't need to be that gibberish language that web developers' talk and most people don't understand. Publishing relevant content on your website (aka blogging regularly) is one thing that can help keep content in the public's eye.

Your online presence is critical .This is how your customers will not only find you but also build an impression of you and your business. Make sure you're building one that you're proud of!

Snippets

Urlich Lander's Inside Man with IRD

Many of you will be aware that IRD is undergoing a huge Business Transformation project at the moment. They are essentially fully upgrading their computer systems, which will take about 5 years all up, and cost nearly $2 billion dollars.

The first part of the new system to be released was for GST, which was rolled out in February 2017. It is fair to say that the rollout was a debacle! IRD had not given anyone any info on how the new system was to work, nor had they considered at all how accountants use the system. There were a few conceptual changes brought in which were not explained at all which caused a lot of confusion. Many of you would have encountered issues with GST this year – from missing payments to receiving letters when you shouldn't.

After the GST release IRD decided to engage with accountants more, and as a result Craig Savage from Urlich Lander, along with a few other accountants, have been working with IRD to give feedback on how things operate in the real world, with the aim of firstly helping make improvements to the GST system, and help with future improvements.

With such massive changes being made it is great for Urlich Lander to have someone involved!

FBT – No longer Necessary

From 1 April 2017 small companies are no longer required to pay FBT on motor vehicles <u>purchased</u> after this date, which are available for private and business use. They can instead apportion business/personal use, based on a reasonable estimate (such as a log book for three months). So if you wanted to trade up, but found the cost of FBT prohibitive, now would be a good time. For those on Xero, a rule can be set up to account for the % business use, so that coding is automatic.

Audit Shield

Remember to choose Audit Shield, if you do not want extra costs related to an IRD Audit or Review. An account would have been sent to you in August, but cover does not start until payment is received. Please contact us if you would like to discuss this further.

YouTube Receipts

IRD have recently provided guidance regarding taxable nature of income from YouTube, based on ordinary tax concepts. If you receive YouTube income therefore, you may need to include this in your tax return, whether or not you intend to make a profit. Our staff can assist with advice on this – contact your client manager if you need assistance.