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## MAXIMISING your property investment

**W**ith higher deposits now required and the potential for a slower property market, yields are equally as important. With recent interventions from the RBNZ on loan to value ratios and the potential future change in loan to income ratios it's more important than ever to maximise the return from your investment on a day by day basis. The key is selecting the right tenants. This not only means them paying the rent on time but also looking after the property and reducing void periods. Here are seven invaluable tips to maximise your returns:

### 1 Reference Check

Always ask prospective tenants for references and always call the referees. Many private landlords rely on their assessment of prospective tenants rather than asking them to provide references, but this approach can leave you open to problems down the track.

### 2 Credit Check

Referees may be reluctant to make negative comments about a colleague or friend, so it's vital that you perform a credit check on prospective tenants. One-off credit checks can be made by most debt collecting agencies, but you need the tenant's permission first.

### 3 Take photos of the property

You can make huge savings on wear and tear, reduce redecoration downtime (and therefore maximise rental income) and minimise the time spent involved in disputes, by extensively photographically recording your properties condition before tenants move in. Remember to give the tenant copies of the photos and ask them in writing to contact you if they believe the photos aren't accurate. If you don't do this, the photos will be worthless. Your property will be better looked after and the bond can be used to pay for any redecoration that may be needed because of greater than normal wear and tear. If disputes go to tribunal, good photos showing the condition of the property prior to occupancy can help you win the case.

### 4 Clearly outline your expectations in the tenancy agreement

The tenancy agreement is the place to outline what you expect from your tenant. The agreement must state clearly if there are to be no pets, parties or smoking, the maximum number of occupants etc. Failure to make specific conditions clear can lead to disputes and if the matter goes

to the Tenancy Tribunal, an unclear agreement puts you in a precarious position. Also be aware that neither party can sign away their rights under the Residential Tenancies Act. Even if both parties agree to a clause at the time of signing a tenancy agreement, this clause may not be upheld if a dispute is taken to the Tenancy Tribunal.

### 5 Opt for a fixed term tenancy over a periodic tenancy

You may have a good tenant who is going to pay the rent and look after your property, but if you sign them onto a periodic tenancy instead of a fixed term tenancy they could leave giving just 21 day's notice. This gives you very little time to find a new tenant and creates an unnecessarily long vacancy, costing you in lost rent. A fixed term tenancy, on the other hand, enables you to protect against the property becoming vacant at a time of the year when tenancing is difficult, such as November/December or in mid-winter.

### 6 Take the maximum bond possible

After meeting prospective tenants and being impressed by their appearance, many private landlords feel no bond, or only two weeks bond is necessary. But it's very easy for a property to be damaged, potentially leaving the owner out of pocket by thousands of dollars. Given the tenants are being given the right to live in an asset worth hundreds of thousands of dollars you should always insist on taking the maximum bond possible of four weeks.

### 7 Lodge the bond with the department of building and housing

Always lodge the bond. Not lodging the bond with the department of Building and Housing is illegal, and means you could be fined up to \$1,000 if a tenant takes you to the Tenancy Tribunal. The actual amount is at the discretion of the adjudicator, but you could also lose many hours dealing with the tenants and attending the hearing.

Also remember to minimise your tax expense by claiming the right deductions. These can include losses being offset against employment income, ensure you claim for allowable expenses like interest, property management fees, maintenance and other incidentals such as gardening services and quarterly inspections.

Source: Deanne Peach, Quinovic Property Management

**"The difference between winning and losing is most often not quitting."**  
– Walt Disney



# Directors' key responsibilities

**T**he Companies Act 1993 imposes a number of obligations on companies and their directors. How a company operates is also determined by its constitution (if it has one). A constitution sets out the rights, powers and duties of the company, the board, each director and each shareholder.

A director of a company must not act, or agree to the company acting, in a manner that contravenes the Act or the constitution of the company.

Directors are responsible for managing the company's day-to-day business. In doing so, directors owe duties to the company, to its shareholders, and to others dealing with the company.

Directors must act honestly, in what they believe to be the best interests of the company, and with such care as may reasonably be expected of them in all the circumstances.

Directors must not carry on the business in a manner likely to create a substantial risk of serious loss to the company's creditors ("reckless trading").

Exactly what this involves will vary from company to company. Below are some of the general responsibilities directors have under the Companies Act 1993. Note that this information is general in content and we recommend you seek professional advice, as appropriate.

## Duty to act in good faith and in best interests of company

*Section 131 Companies Act 1993*

A director must act in good faith and in what they believe to be the best interests of the company.

## Powers to be exercised for proper purpose

*Section 133 Companies Act 1993*

A director must exercise a power for a proper purpose.

## Reckless trading

*Section 135 Companies Act 1993*

A director of a company must not:

- agree to the business of the company being carried on in a manner likely to create a substantial risk of serious loss to the company's creditors; or
- cause or allow the business of the company to be

carried on in a manner likely to create a substantial risk of serious loss to the company's creditors.

## Director's duty of care

*Section 137 Companies Act 1993*

A director of a company, when exercising powers or performing duties as a director, must exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances taking into account, but without limitation –

- the nature of the company; and
- the nature of the decision; and
- the position of the director and the nature of the responsibilities undertaken by him or her.

## The solvency test

*Section 4 Companies Act 1993*

The Act requires directors to abide by a two-step solvency test at all times:

The company must be able to pay all its debts as they fall due in the normal course of business

The company must own more assets than liabilities.

## Meetings

The board of directors is responsible for calling meetings of shareholders as required by the Act and the company's own constitution. This includes calling an annual meeting of shareholders

## Filing obligations with the Companies Office

There are certain documents that must be prepared and filed with the Companies Office. In general directors are responsible for ensuring the various filing requirements are met.

## Company and accounting records

*Sections 189-191 and 194-195 Companies Act 1993*

The Act requires a company to keep company records at its registered office although there are exceptions to this.

Directors must ensure that accounting records are kept although it is not necessary for the records to be kept in New Zealand.

**"Someone is sitting in the shade today because someone planted a tree a long time ago."**

– Warren Buffett

## Motor vehicle expenditure of close companies

Under current legislation all companies who provide a motor vehicle for the private use of shareholder employees are required to register and pay FBT on the value of the benefit provided. This means that total vehicle expenses can be claimed, however FBT needs to be paid on the total value of the fringe benefit. Any vehicles purchased for shareholders in a close company from the 1 April 2016 can instead elect to use the motor vehicle expenditure rules. This allows the company to keep a logbook and claim only the business use of the vehicle, thus avoiding the FBT regime and any unnecessary compliance costs.

If a work related vehicle is used by an employee for private use partially, then only the days available for private use need to be used for FBT purposes. To comply with this exemption a copy of a written notice needs to be kept explaining that a vehicle is only partially available for private use. The written notice must state the actual days the motor vehicle is available, e.g. Saturdays and Sundays. These days must be specific to the vehicle. For example, they can't be "any two days per week", as this would mean the motor vehicle is available on any day during the week, and full FBT would apply.

Please talk to your accounting team for more information.

## Retrospective adjustment to salaries

ED0190 is a draft standard practice for considering a retrospective change to salaries resulting from an error in the company's accounts. Previously, the Commissioner would only consider applying section 113 to reductions in salaries. In the future, increases will also be considered. The Commissioner goes back to company minutes. If a commitment had previously been made to distributing salaries according to a formula, the Commissioner may agree to vary the shareholder salaries. If the company and shareholders can otherwise produce evidence that had they been aware of the correct level of company profit they would have declared a different salary, this can also be considered.

## Minimum wage will rise 50c to \$15.75 on April 1

**T**he minimum wage will increase by 50 cents to \$15.75 an hour on April 1, Workplace Relations and Safety Minister Michael Woodhouse says.

The starting-out and training hourly minimum wage rates will increase from \$12.20 to \$12.60 per hour, remaining at 80 per cent of the adult minimum wage.

"An increase to \$15.75 will benefit approximately 119,500

workers and will increase wages throughout the economy by \$65 million per year"

"At a time when annual inflation is 0.4 per cent, a 3.3 per cent increase to the minimum wage will give our lowest paid workers more money in their pockets, without hindering job growth or imposing undue pressure on businesses."



## Tax calendar

### April 7 2017

- 2016 Terminal Tax (March balance date)

### May 8 2017

- 3rd instalment of 2017 Provisional Tax (March balance date)
- GST for March 2017

### May 29 2017

- 1st Instalment 2018 Provisional Tax (December balance date)
- GST for April 2017

### May 31 2017

- Deadline for Fringe Benefits Tax returns



# Beware the debt collector

Inland Revenue now has the power to disclose tax debts to debt collectors.

If the debt is more than 12 months old and greater than 30% of the taxpayer's gross income, the tax department can release the information.

These disclosures are going to be very dangerous. They will damage the credit rating of those who offend. If you are in this situation, be sure to make an arrangement with the Inland Revenue to catch up and make sure you stick to it.

Don't agree to anything you are not going to be able



to sustain. Obviously, if you are in tax trouble, it might be wise to talk to us first.

## Nowhere to hide

Meanwhile, tax departments around the world are clubbing together to swap information about assets and income owned and derived by taxpayers in countries other than their home country. IRD calls this AEOL, an acronym for Automatic Exchange of Information. Soon there'll be nowhere to hide.

## Overseas student loan interest exemption

Those who are studying full-time overseas or doing an internship and receiving a government funded scholarship are to be entitled to exemption from interest.

## Foreign income - reminder

Where a foreign country has a different year end date from ours, there is no need to split the income from it to get the right amount in each of our financial years. So long as it is not from personal services and the total amount does not exceed \$NZ100,000, it can all go into one tax return.

Australian income for their tax year 1 July 2015 to 30 June 2016 can all be put in to our 2017 tax return. Election occurs automatically by putting the income in the tax return.

Similarly, for the USA, the 31 December 2015 income can all go into the 2016 tax return.

## Shareholders' and partners' agreements

If you're in business with other people, including friends and relatives, you should have an agreement to cover what will happen if someone wants to get out.

If you're confident you could handle that amicably, consider what happens if a partner dies. Are you

equally confident you could handle the situation with that person's spouse?

Often people take out life insurance to provide a sum of money to buy out the other person in the event of death.

*"Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning."*  
- Albert Einstein

## Deducting tax from payments to a contractor

Generally, if someone working for you appears to be an employee, they probably are for tax purposes.

There are a whole lot of tests you can apply but if you supply the equipment, premises, agree on hours of work etc you have probably got an employee.

Ideally, if the person is a contractor you should have a "contract for service" prepared by an employment law specialist that reflects the actual arrangements. It is important to get this right because if

you get it wrong not only would you be liable for the PAYE and penalties etc you could have a claim for holiday pay and/or personal grievance!

Some clients also have problems determining whether they should deduct schedular tax. In this case the rule is simple. If the occupation is listed as being subject to schedular payments, you deduct tax. If it is not listed you don't deduct tax. You can find the list at: <http://www.ird.govt.nz/payroll-employers/make-deductions/withholding-tax/emp-deductions-salaries-wt-activities.html>

If you are reading this and you are a contractor, don't forget if your income exceeds \$60,000 you have to register for GST. Inland Revenue is discovering lots of cases where this is being overlooked.



## Cross border finance

If you have a client with overseas companies as part of the group, and there is intragroup lending, be sure to document the loans appropriately. In August 2016 Inland Revenue set out the terms it suggests should be included in a loan agreement.

e.g. Cross-border finance

Terms to include in an intragroup loan

**1 Purpose or Intention:** should be unambiguous, eg working capital, term finance, etc.

**2 Parties:** all lenders and borrowers named in full.

**3 Amount and Currency:** this includes the total amount available to be borrowed under a loan facility. Not just the initial sum advanced.

**4 Interest rate:** an absolute rate or an external benchmark rate plus a margin. Whether the interest rate is fixed or floating and how it was determined as being reasonable.

**5 Interest payment dates:** specific dates or periodic, eg every 3 months

**6 Term and Repayment:** start date and maturity or a specific period, eg on demand, 5 years, etc.

**7 Fees:** specify any and all fees, eg guarantee fee, facility commitment fee, etc.

**8 Security:** whether repayment obligations are secured or unsecured. If secured, the form of the security, eg the borrower's assets.

**9 Guarantee:** whether repayment obligations are guaranteed or indemnified. If so, the relevant names of the party or parties.

**10 Amendment:** note any changes to the above that arise over the loan's life.



## Big changes to PAYE on the way

On 3 November 2016, Inland Revenue announced changes to PAYE effective from 1 April 2019.

Monthly schedules are to be abolished.

PAYE information is to be filed on a payday basis.

Dates for payment of PAYE are to remain the same with the option of paying on a payday basis.

All information is to be filed electronically unless total PAYE deductions are less than \$50,000.

Payroll subsidy is to cease from 1 April 2018.

## Save data even with cloud accounting

Although a third party provider may be used to store business records, taxpayers remain responsible for their tax obligations including retaining business records for the retention period (usually seven years) required under the Tax Administration Act. If you stop subscribing to a cloud accounting software package, will the supplier give you access to your records should you require this in the future? If the answer is no, be sure to save all your data on to your own computer each year.

# Several factors determine the worth of a business

HOW MUCH is your business worth? The short answer is what someone will pay for it.

There are several things to consider when buying or selling a business.

The first step when valuing a business is to find other sales within the same industry. The price others have paid is a good guide. Often, however, there is very limited opportunity to do this. The more unique a business is, the more unrealistic it is to compare it with others.

Several factors affect the price of a business. Here are a few:

- A business anyone could operate will attract more buyers than one requiring specialist knowledge. The price is therefore higher because demand for the business is greater.
- More people can find \$100,000 than \$1 million. The smaller business would therefore be proportionately more expensive than the bigger one.
- Economic conditions can have a big impact. People with redundancy money eager to buy a job in the form of a small business are more abundant when there is a recession.
- A business with growth potential is worth more than one nearing the end of its life cycle.
- Someone buying a business which has unhappy staff might be buying problems.
- Dependence on a few customers or suppliers could be disastrous.
- Some businesses, such as supermarkets and pharmacies, have an industry rule of thumb for calculating a price, which can be a good guide.



## Adjusting the profit

One way to view a business is to see it as a machine which makes money.

Start with the profit plus wages paid to the owners. How much is this?

- Deduct the wages you would have to pay someone else to do the job done by the owners. This might be more than the owners are paying themselves.

• Adjust for any expenses you see as artificial. A charge for the use of your home might be one of these. This is a cost the owner would incur even if they had no business.

• Adjust for abnormal expenses or income, such as a major one-off advertising campaign.

• Adjust for income which would not go to the new owner, such as interest on investments.

• Adjust the profit for any extra interest you would incur if you borrowed to buy the business.

When you have arrived at your adjusted profit, it's time to get advice.

Our ideas above will get you started, but don't rely on them completely, as they are not comprehensive or determinative. There is much more to valuing a business. For example, the figures supplied to a buyer might be suspect. Instead, use this article only as a first step for thinking about what a business might be worth.

Contact your accounting team, they have experience in this area.



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## Changes in Particulars

Please remember to let us know of any changes in:

- Physical address • E-mail address • Phone and/or fax numbers
- Shareholdings • Directorships • Trustees

Or anything else that may be relevant.

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# Valuing trading stock

It is important to correctly measure trading stock to show the correct financial position of the entity at the end of each income year. There are two main factors to be considered when valuing trading stock; are you; a high turnover trader or a low turnover trader. You are considered to be a low turnover trader if your turnover does not exceed \$3 million in an income year. Both have the same four methods of valuing available; Cost, Replacement Cost, Discounted Selling Price & Market Selling Price. Different rules apply for

each valuing technique depending on whether you are a high turnover or low turnover trader.

Cost is the main valuing technique used for its ease of calculation and lower compliance costs. Low turnover traders who manufacture the stock must include, direct and indirect materials & labour, utilities, repairs and maintenance of plant and rent & depreciation of plant. Non-manufacturers must include both the purchase price & costs associated in getting the trading stock to its present location and condition.