

## Welcome...

WELCOME to the summer edition of our newsletter.

With the end of another year fast approaching I would like to take this opportunity to thank you for your business over the last 12 months.



On behalf of the team here at Simmonds Ball Engert Ltd, I wish you all a great Christmas and a relaxing New Year break before you take on the challenges of 2015.

### Holiday Dates

Our office will close at 5pm on Monday, December 22, and re-open at 8am on Monday, January 12, 2015.

We are intending to complete all GST returns – due on Thursday, January 15 – prior to Christmas, so we'd appreciate your assistance in forwarding your details.

For some clients, provisional tax payments fall on January 15 also. We will issue tax notices prior to the break to remind you to make these payments.

Normal arrangements have been made to ensure that clients' wages and salaries will be paid over the Christmas/New Year period.

As always, if our services are required urgently during the break, I can be contacted on 027 4788 906.

**Ross Engert**  
**Simmonds Ball Engert**

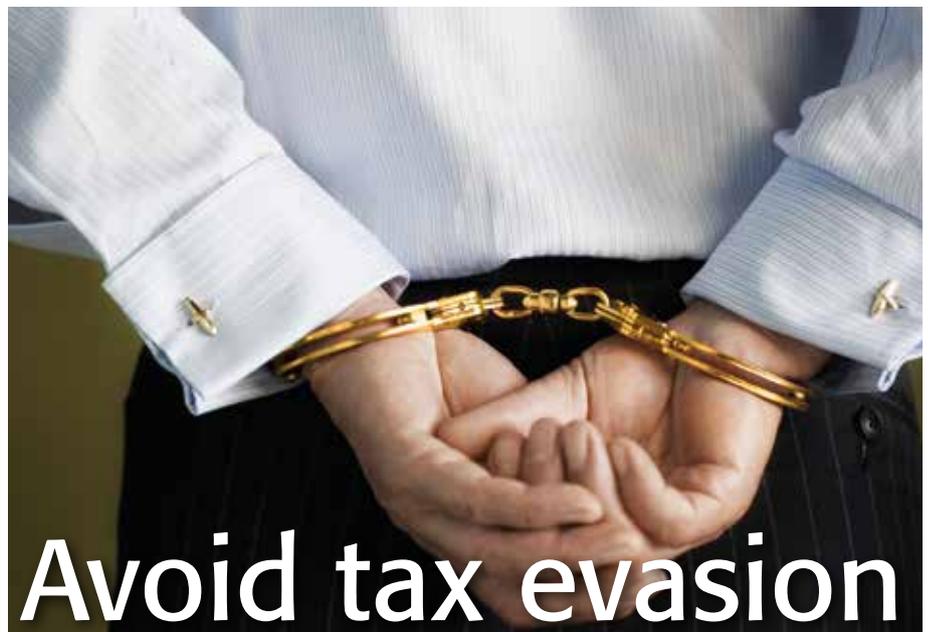


# Simmonds Ball Engert

ACCOUNTANTS

ISSUE 62 • Summer 2015

# newsletter



## Avoid tax evasion

TAX AVOIDANCE and tax evasion are technical terms, but it helps to know the difference.

Tax evasion is hiding income or creating artificial expenditure or similar acts, which are dishonest and therefore illegal. Get caught and you could go to gaol.

Tax avoidance is working out a scheme which reduces the tax you pay. Some schemes are acceptable and others aren't. The IRD uses a test: "Was the scheme something which would have been contemplated by Parliament when it made the law?"

The department issues statements from time to time as a guide and the results of court cases also help.

A couple of examples: Some people, when moving home, want to keep their old home as a rental. If they borrow money to buy the new house, the interest on the borrowed money is not tax deductible. You can get around this by selling the old home to an LTC (Look-Through Company), borrowing as much as the value of the house will stand and then using the money left over, after

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## New property tax rules

NEW LEGISLATION affects property sales made from 1 October onwards. The changes hit in a variety of ways.

### Bright-line test and residential land

New tax rules now apply to residential property sales made from 1 October. A new 'bright-line test' will apply where a person who has purchased a residential property on or after 1 October 2015 then sells it within two years. The sale will be taxed

unless the property is the seller's main home, inherited from a deceased estate or sold as part of a relationship property settlement. The bright-line test does not apply to business premises or farmland.

How the start and end date of the bright-line test is counted varies with the type of sale and purchase. For instance, where it's a standard purchase, the start date will be the date a person obtains registered title for the

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## Avoid tax evasion

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you have paid off your existing mortgage, to buy your new home.

All the interest on the mortgage over your old home becomes tax deductible. If the company makes a loss, you can claim this in your tax return.

What you can't do is get an LTC to buy the home you're going to live in, pay the company a fair rent and claim the loss. If you try it and get found out, you'll not only have to pay back the tax but also you'll face harsh penalties.

Both schemes, however, can be described as 'avoidance' and both are legal because nothing is being hidden from the IRD. But the second scheme is an example of avoidance which can be overturned by the Commissioner.

What happens if we don't know if a scheme is avoidance and therefore can't advise you?

We can help you weigh up the risks and then you can choose whether you're willing to take them and face the consequences if you're caught. Normally, as long as what you're doing is not evasion, the IRD has between four and five years to challenge you, depending on when you put in your tax return.

As each year goes over this time limit, it becomes what is termed 'statute barred'. The IRD has to accept your tax return as being correct.



## Debtors and cashflow

BUSINESS IS good. Customers love your products. You provide a superb service. So why is your cashflow trickling not gushing? You have analysed the numbers. Your overheads are reasonable and there's no wastage. But what about your debtors?

If your business isn't strictly 'cash over the counter' you probably already understand the work – and the pain – of chasing money from overdue payments.

Good debtor management can make a real difference to cashflow in your business. Poor debtor management can be a major roadblock. You can have a lot of money tied up in debtors that you could use better elsewhere to keep driving the business forward.

Think about it this way: the money you have tied up in debtors is your (reluctant) investment in your customers' business. Wouldn't you rather invest in your own business?

A cloud of negativity sits over debtors. People don't like to deal with it and so it usually just gets worse. It sucks up time as you try to unravel the paper trail in invoices, statements and call logs. It can be a nightmare to figure out with not much to show for it.

The key to managing debtors is not to let it get away from you. Call us if you want to talk through your debtor numbers and put together a better system to manage debtors in your business.

## New property tax rules

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property and the end date will be the date of entry into agreement for sale. However, start and end dates will be calculated differently where the registration date may not take place immediately or be the definitive point of transfer – sales off the plan, sales of subdivided land, mortgagee sales or where property is gifted to a trust.

### Selling the main home

The seller's main home is exempt from the bright-line test. Where the seller has more than one home, their 'main home' is the property with which they have the greatest connection. Just to prove that the tax system has a sense of humour, a person will not be able to use the main home exception if they have already used it twice in the previous two years.

It may get tricky for family trusts where

family assets are distributed between individual owners and the trust. If a trust owns the property being sold, the main home exception will apply when it's the main home of a beneficiary of the trust. However, if the principal settlor of the trust has a main home that the trust doesn't own, the main home exception cannot apply to any property owned by the trust.

### Claiming tax deductions

There are provisions for allowable deductions when a property subject to the bright-line test is sold. However, where losses arise as a result of the bright-line test they have been ring-fenced so they may only be offset against taxable gains arising on other land sales. It is not possible to claim a loss arising from a transfer of property to an associated person.

### Companies and trusts

Inland Revenue will keep a close eye on situations where land-rich companies and trusts try to get around the bright-line test. They may view a transaction as subject to the bright-line test where:

- 50% or more of the shares within a 12-month period are sold;
- There is a change in the trust deed;
- A decision-maker under the trust deed changes.

This applies where at least 50% of the value of the company or trust is attributable to residential land either directly or indirectly.

Please contact us if you are considering buying or selling residential property; your company is thinking about a large scale share transfer; or there are any changes to the family trust's trust deed or trustees.

You might also like to have a catch up with us on whether the changes affect your tax profile or investment strategy.



## Do you have backup?

'TIS THE SEASON to ... do some network housekeeping. What would you do if the unexpected happens while you're on the beach enjoying some Christmas cheer? There's a blackout, your laptop is stolen from your car, or downloading someone's dancing turkey video has infected one or more computers on the network with a virus? A backup plan takes the situation from what could be an utter disaster to somewhere on the inconvenience scale.

Even if you don't have a rolling contract

with an IT provider, it might be worthwhile for peace of mind to have them audit your system and review your IT plan. It should cover backup for all data and files and protection for viruses and malware. It can also be good to have clear protocols for all users so they don't put the business at risk by failing to backup key files or unwittingly attracting a virus.

Start the holidays with peace of mind and come back in the New Year with all systems go.

## • In Brief

### Download your bank statements

If you no longer get paper bank statements, what would you do if Inland Revenue asked you to supply them?

The department is entitled to call for your bank statements, including your personal ones. If the department doesn't believe your tax return, you have to prove your innocence. We suggest, if you don't receive paper copies, download your bank statements regularly on to your computer. If IRD wanted them and you couldn't supply, they'd get them from the bank and guess who would pay.

### First day is last day

We've been told by a bank that a bank month runs from the last day of the month to the second to last day of the next month. So if you have an investment, the interest for April 2015 runs from 31 March (the first day of the bank month) to 29 April (the last day of the bank month). The first day of the new month is 30 April. If you have savings accounts, these dates can be critical for getting (or losing) bonus interest payments. If this affects you, check with your bank to see if it operates like this.

### Feedback responses

If you ask for feedback, make sure you do something about each response you get. A supplier sent out a standard form to a new customer asking for feedback. The customer was frank about the service. He liked it and the only problem he had was that the firm was 10% more expensive than its competitors. Very soon a cheque arrived in the mail for the 10% difference. Was the customer impressed? Absolutely, and what's more he's telling others.

## Tax on living expenses

**DID YOU KNOW**, you're never taxed on the money you take out of your business for living expenses?

This applies even if your business is operated through a company. Therefore, it doesn't matter how much or how little you take out; it won't affect the tax you have to pay.

Some clients think if they haven't got much money left in the bank and have taken very little out for living costs, they won't have much tax to pay.

**They often overlook substantial**

payments for equipment, which are not fully tax deductible costs. When you buy equipment you're allowed to claim only a proportion of the cost each year, because the benefit the equipment bestows on your business is spread over several years.

If you keep an eye on your profit, you can get an idea from the IRD website of how much tax you'll have to pay.

**Tax penalties are extremely high. Plan your finances well ahead to cater for your tax payments.**

## It's your mistakes that count

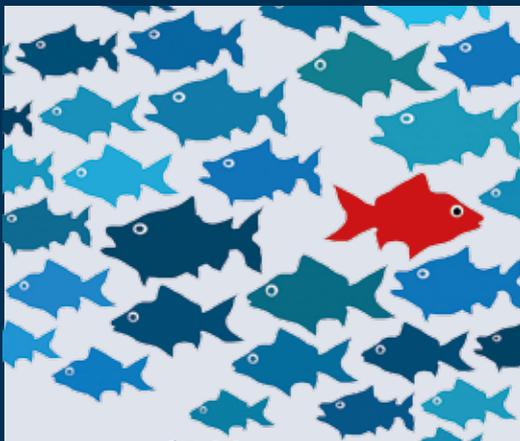
IF YOU GIVE your customers exemplary service they will love you for it. But make a few mistakes and they will remember these most of all.

That's why staff training is so important. If a member of your team has the wrong

attitude to your clients or customers, he/she will harm your business. As Alan Martin, of L.V. Martin, used to say in the company's TV advertisements: "It's the putting right that counts."

How you handle a mistake is all important.

Make sure the customer is delighted with the outcome, even if it hurts you. Delighted customers tell their friends of their great experience. Handling your mistake in the right way could easily lead to getting a new customer.



## Be different to get noticed

SOON AFTER Donald Trump started his campaign to become the Republican candidate for the White House, he went straight to the top of the polls. Why? Because he was different.

He planned to build a wall to stop Mexicans getting into the United States. He announced he was going to stop big American corporations from transferring their profits to tax havens. He responded with a sexist comment to a reporter which went viral.

Whether or not he's successful, he provides us with a good example of the importance of being different. See if you can think of a way to be noticed and therefore remembered.

Incidentally, Mr Trump made his fortune by supplying something people wanted (NOT needed). He catered for those who wanted to be in classy buildings. He says you should start by getting your product right.

Can you find something special in your line of business?

## TAX CALENDAR

### January 15, 2016:

- 2nd instalment of 2016 Provisional Tax (March balance date except for those who pay provisional tax twice a year)
- Pay GST for period ended 30 November 2015

### April 7, 2016:

- Terminal Tax for 2015 (March April, May and June balance dates)



Singapore Airlines Flight 4415  
Delayed (16 mins) - arrives in 39 mins

AKL ← → WLG

Departed Auckland, Sunday, 18 October			Arrives Wellington, Sunday, 18 October		
Scheduled 2:00 PM	Terminal	Gate	Scheduled 3:05 PM	Terminal	Gate
2:17 PM	D	32	3:21 PM	-	11

## Google that flight

TIME IS MONEY, and if you're spending too much time at the airport waiting for a delayed flight, you might not be as productive as you should be.

Fortunately, Google has come to the rescue. In one simple step on your computer or smartphone, simply type a flight number into Google and it will tell you when the flight is due to leave or arrive.

For flights in, it saves time either phoning the airport or airline, or looking it up on their website. If you've left someone at the airport to board a flight out and find the flight is delayed, you

might want to return and have that coffee you promised but thought you didn't have time for.

The example shown above is for a Singapore Airlines flight, SQ4415, coming in to Wellington from Auckland. It clearly shows in graphical form how much of the total journey it has covered, and tells you it's delayed by 16 minutes and arriving in 39 minutes. It even shows the gate number.

It works for both domestic and international flights. It's so simple. Give it a try!



## Specialise for success

BEING A SPECIALIST gives you an edge. You'll be offering things few other people do.

You don't have to be a doctor to become a specialist. A cleaning contractor could specialise in getting rid of asbestos. A painter could specialise in textured coatings.

If you want to break out of the rat race, look for a specialty and make sure there's a demand. Look especially for something others

don't want to do. Generally, the harder, nastier or more dangerous a job is, the fewer people will do it.

If you're an expert, the job might not be hard for you, and you can charge a premium for your expertise.

Look for specialisation in your industry and your income will go up. You might need to study to become specialised, but it's usually worth it.

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