UHY Haines Norton
Chartered Accountants

UHY HAINES NORTON NEWSLETTER

August / September 2016

I hope you managed to find time to marvel at the wonderful human capabilities displayed by the 2016 Olympians. We can't all be Olympians in the sporting arena but we can all certainly apply the discipline of goal setting and commitment to achieving better results. Our free seminar on Business Valuations, Succession Planning and Planning For Your Retirement on 8th September will discuss the importance of having end goals for your business, and when and how to put plans in place to achieve them.

We hope you enjoy our August/September 2016 newsletter which contains articles on:

- Record Keeping Advice for SMEs
- Tips for Managing Your Debtors
- New Zealand GST Net To Widen
- Taxing Matters: Summary of the Latest Tax Changes
- Five Mortgage Mistakes To Avoid
- Top Five Tips for Managing Foreign Exchange Risk
- Upcoming Event: Business Valuations, Succession Planning and Planning For Your Retirement Seminar
- UHY International Study: New Zealand Levies One of the World's Lowest Property Purchase Taxes on Prime Real Estate
- Staff News: August/September 2016
- On a Lighter Note: Accounting Humour

As always, we welcome the chance to discuss the information in our newsletter with you so please do not hesitate to contact us if there is anything we can help you with.

Best regards

Grant Brownlee
Managing Director
T: 09 839 0297
M: 021 988 433
E: grantb@uhyhn.co.nz

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Record Keeping Advice for SMEs

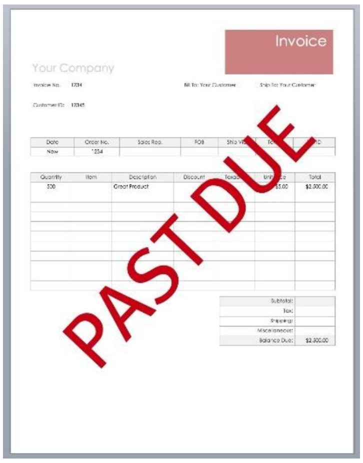
If you are in business you are legally required to keep and be able to show your financial records.

- It is essential to keep accurate records, such as in a cashbook or an accounting software programme.
- You must keep records for a minimum of seven years. This includes invoices, receipts, wage books, petty cash books, banking records, vehicle logbooks, asset registers and depreciation schedules.
- Remember to regularly back up any electronic records.
- Keep receipts for all transactions – there is no minimum amount. Be aware that EFTPOS receipts are prone to fading. We recommend stapling small receipts to A4 sheets to reduce the risk of losing them.
- All records must be in English unless you have express permission from the IRD to use an alternative language.
- If you use cloud computing to store your records you must still be able to retrieve your records for the IRD, either in hard copies or electronic form.
- If you're registered for GST your records must be clear enough to work out your GST liability.
- You also need to keep additional records depending on the type of organisation you have, i.e. a partnership agreement, certificate of incorporation, trust deed etc.

Good record keeping can help your business to run smoothly. It can allow you to track your business performance throughout the year by monitoring cash flow, budgets and profit. Good record keeping makes it quicker and easier to complete regular GST and tax returns. Accurate records also make it easier to apply for finance, and for others to assess your entity as an investment opportunity. It can help reduce your accounting costs for year-end financial statements, and in the worse-case scenario of a tax audit can help that process to be quicker, easier and cheaper.

Please contact us if you have questions regarding record keeping relating to your business.

Tips For Managing Your Debtors



Healthy cash flow is the life blood of every business. For small businesses in particular, delays in receiving payments can result in perpetual debt problems and seriously impact on their ability to remain operational. Earlier this year accounting software firm Xero released figures stating that only about one in nine invoices issued by small businesses were being paid on time. Improving your debtor management begins with looking at your systems and putting procedures in place to reduce your age of debtors and protect your cash flow.

1. Take a critical look at your number of credit accounts to see if these can be reduced. If you do offer credit, have a rigorous credit application process to identify those customers with reliable payment histories. If your business is new, don't be over-eager to offer credit terms in order to gain customers – you may come to regret it.
2. Do you accept credit card payments? These are a useful way of providing credit to customers while leaving the risk with the bank.
3. Send out invoices promptly after the sale has been made – there is no need to wait until the end of the month. Emailed invoices and statements are cheaper and much more efficient than using traditional postage.
4. What are your payment terms? Changing from the traditional "20th of the month following invoice date" to "payment within 7 days" can make a huge positive impact on your cash flow. For existing customers this may need to be phased in with appropriate advanced warning.
5. Always follow up unpaid invoices promptly. If you delay in chasing up unpaid invoices it makes it easier for the customer to forget or ignore them. Have a process, such as sending an email reminder two business days after the invoice is due, followed by a phone call if there is no response within one week.
6. If customers admit to having difficulty paying due to their own financial situation, consider letting them pay in instalments.
7. Have terms and conditions of trade in place. If you supply goods you can grant a security over those goods to ensure the title/ownership of the goods doesn't pass until you have been paid.
8. If no payment is forthcoming your options then become taking legal action through the District Court (which can be expensive and time-consuming), or employing the services of a debt collection agency.
9. Promptly stop supplying goods and services until all outstanding debts are paid in full.
10. Do you know what your age of debtors is right now? You should monitor this regularly to ensure it falls/remains within your target, and take action to reduce it when necessary.

*UHY Haines Norton's Practice Manager **Yvonne Wood** has many years' experience providing credit management services and advising SMEs on the importance of good credit management procedures.*

New Zealand GST Net To Widen

The Inland Revenue Department advises that effective from 1st October 2016, non-resident businesses that supply remote services (including online services) to customers resident in New Zealand will be required to register for NZ GST and charge GST on those services.

Remote services can include:

- Digital content such as e-books, movies, TV shows, music and online newspaper subscriptions;
- Games, apps, software and software maintenance;
- Online gambling services;
- Website design or web publishing services; and
- Legal, accounting, insurance or consultancy services.

The IRD say GST-registered New Zealand businesses won't be charged GST on remote services they purchase from non-resident suppliers if the supply is part of their GST-registered business activities, and before or at the time of purchase they tell the supplier they are GST–registered and give the supplier their New Zealand GST registration number or business number.

Click here for further information supplied on the IRD website.

Please contact us if you have any questions regarding your GST obligations or other tax issues.

Taxing Matters: Summary of the Latest Tax Changes

A summary of the latest tax changes relating to individuals and businesses.

Legislation

The Taxation (Residential Land Withholding Tax, GST on Online Services, and Student Loans) Act 2016, enacted on 13 May 2016 makes changes to the previous Acts:

- Introducing a new withholding tax on sales of residential property by offshore persons who sell the property within two years of acquisition.
- Certain information about New Zealand student loan borrowers living in Australia can be shared between Inland Revenue and the Australian Taxation Office.
- The Taxation (Use of Money Interest Rates) Amendment Regulations 2016 decreased from 9.21% to 8.27% interest on underpayments of tax and decreased from 2.63% to 1.62% on overpayments of tax.

Pending Legislation

The Taxation (Transformation: First Phase Simplification and Other Measures) Bill proposed changes to simplify the tax administration system. Some of the proposed measures include:

- Allowing earlier tax refunds based on personal tax summaries that meet the automatic refund threshold.
- Increasing the threshold for automatic refunds to $600 (up from $200).
- Allowing minors incorrectly enrolled into KiwiSaver to opt out before their 19th birthday.
- Excluding some social security beneficiaries from the compulsory requirement to apply for child support.
- Simplifying current tax rules for employee share schemes.

The Taxation (Annual Rates for 2016-17, Closely Held Companies, and Remedial Matters) Bill amends past and present Acts including the Goods and Services Tax Act 1985, to propose the following changes:

- Enable businesses to recover GST incurred on goods/services used to raise capital, to the extent that the capital funds their taxable activity.
- Allow large, partially exempt businesses (e.g. retirement villages) and industry associations to agree on an alternative method of apportionment within the rules.
- Provide for more consistent treatment of accounting for GST on supplies of goods/services where total consideration is not known at the time of supply.
- Impose a more objective test to allow certain taxpayers to file six-monthly GST returns and to introduce a one-off exception to enable a person to continue to file six-monthly if the threshold is exceeded.

New Developments

The Government paper "Making Tax Simpler – Better Business Tax" released in April this year proposes an SME-friendly tax package to reduce compliance costs and simplify tax. Its key proposals include:

- Increasing the current $50,000 RIT limit for UOMI to $60,000 and extending it to non-individuals.
- Introducing two new provisional tax payment methods – the accounting income method (AIM) and paying provisional tax on behalf of related parties.
- The ongoing 1% monthly late payment penalty will be removed.

- Inland Revenue will be permitted to disclose information about taxpayers who have significant tax debts and/or may have committed serious offenses against the Companies Act 1993.

Please contact us if you have any questions regarding any of these tax areas.

Five Mortgage Mistakes To Avoid

New Zealand Home Loans shares their top five mistakes to avoid when it comes to paying off your mortgage.

1. **Fixing your entire mortgage.** While there are some very tempting fixed rates at the moment, if you choose to fix your entire loan you are also locking in how fast (or slow in most cases) you can pay down your loan payments. The payments will be locked into a payment regime with interest making up to 90% of the total payment. You should always have a small part of your loan floating that you can pay down faster.
2. **Not utilising your income.** Offsetting interest with your income should be a no-brainer. It's simply using your income to reduce your loan balance until you need to spend it. You will have a mortgage for decades and this simple act will save you thousands of dollars in interest.
3. **Having other debt.** You want to be focused with your debt, only having mortgage debt will help minimise interest costs and be easier to manage. By consolidating debt you will free up money which, if put into your mortgage, will give you the ability to pay it down quicker.
4. **Only making the minimum monthly repayments**. This is never in your benefit as it means you will be trapped in a 25-30 year loan term which will come at a very high cost. Even increasing your repayment by $5 a week could save you $20,000 over the life of your mortgage.
5. **Blindly trusting your lender**. Be realistic – it is highly profitable for your lender to allow you to have a mortgage as long as possible, your default set up is likely to err towards this. Understanding this allows you to look for better options than the standard 'default' mortgage you will likely end up with.

If you are doing one or more of the above I highly recommend reviewing your mortgage, as you will certainly be costing yourself money.

*As a Registered Financial Advisor with New Zealand Home Loans, **Kerry Augustine** has helped many New Zealanders reduce and pay off their mortgages. Kerry can be contacted on mobile 0274-546-077 or email kerry.augustine@nzhomeloans.co.nz.*

Top 5 Tips For Managing Foreign Exchange Risk

Simon Kelly from HiFX shares his top tips for protecting your business from the risk of foreign exchange volatility.

FX volatility is one of the biggest risks faced by New Zealand businesses involved in cross border trade. Even in an average year the NZD moves as much as 15% up or down against the USD and in a volatile year it has been as much as 25%. Regardless of the nature of your exposure, FX risk can quickly wipe out your profit margins. So what can you do to protect your business against this volatility and smooth out the impact of unfavourable currency movements? While there are widely used products like FX forward contracts, effective foreign exchange risk management is more than just taking out forward cover.

1. Understand How Material FX Risk is to Your Business

Regardless of your exposure if you transact in a foreign currency you should understand the potential impact of currency volatility and plan for the impact during your budgeting process. The moment you realise you have an FX requirement you are exposed to currency risk which is why budgeting and accounting for FX risk is so important. The longer the timeframe between realising you have an exposure and the actual cash flow the bigger the risk. Foreign exchange specialists can help you understand the risk by considering recent volatility and modelling against your specific exposure as well as looking at the various options and costs of hedging.

2. Have a Plan

Even if your approach is to do nothing and simply use the spot rate on the day you should have a policy. Not all businesses need a detailed FX Policy but everyone should have a guideline. This can be as simple as a 1-2 page document which outlines a framework for managing your currency requirements. FX specialists will be able to help you with this and formulate an approach but you should include the following:

- Who makes the FX hedging decisions
- How far forward to hedge
- If no hedging is permitted when is an invoice or receipt converted
- What hedging instruments to use - FX forwards, Vanilla Options, Structured Options etc.
- How much to hedge at any given time
- Who to use - banks and /or FX specialists

3. Don't Rely on Forecasts

A recent Reuters FX Poll from 40 economists had a range of 0.55-0.73 for the NZD/USD over the next 12 months. The bottom line is no one knows where the FX market will be in the future and if you did you wouldn't be bothered importing or exporting when you could be making millions of dollars speculating in the FX market! Hedging foreign exchange risk isn't about making a profit it's about giving you more certainty and smoothing out the impact of unfavourable FX volatility.

4. Only Dealing With One Provider

As businesses strive to grow and remain competitive managing all costs in your business is imperative but very few businesses receive competitive FX rates. While all FX rates are ultimately driven by the underlying wholesale market, the rates given to customers include spreads or margins of between 0.1-

5%. This means the cost to transfer money internationally on a $100k can vary by as $100- $5,000. Clearly you don't want to be the business being charged 5%. While most people have a fair idea where the spot rate is on any given day (websites like XE.com publish the real time wholesale mid rates), FX forward points are much harder to come by and can include huge spreads. If you have an active hedging program you should always have at least 2 providers to ensure you have sufficient liquidity to cover when required. Banks and FX specialists will have a set amount of credit appetite for any given customer which can restrict your ability to take out additional contracts.

5. We've Always Done It This Way

Just because an approach to managing foreign exchange worked a few years ago doesn't mean it's relevant today. FX rates and the competitive environment are constantly changing. If you aren't reviewing your policy on a regular basis you are at risk of using an outdated approach.

Simon Kelly is Affiliates and Partnerships Manager at HiFX. As part of leading global payments provider Euronet Worldwide Inc, HiFX is one of the largest foreign exchange and international payment specialists in the world. If you would like more information on setting up a foreign exchange account please contact Simon on 0800-39-44-39 or email simon.kelly@hifx.co.nz.

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Upcoming Event

Free Seminar: Business Valuations, Succession Planning and Planning For Your Retirement

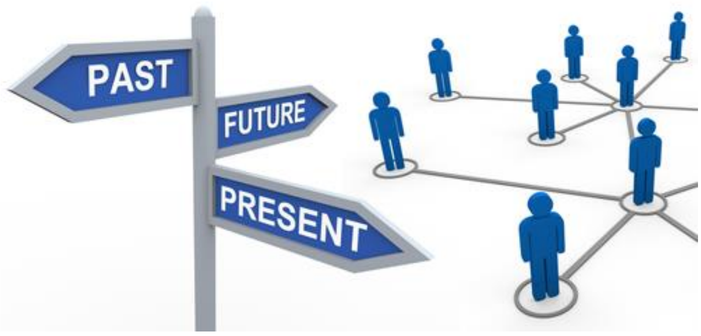
Join us for a free seminar where our experts will share their knowledge, experience, tips and strategies to help you transition in business. Planning for the future is critical in business. While you may not be expecting to make a major change, none of us know what is around the corner and long term planning will put your business in the best possible position for anything that may occur.

We will explain why you need to plan now for the future, regardless of what shape or form that may eventually take. We'll provide examples of what you need to consider and you'll have the chance to question our experts on issues relevant to your situation.

Topics Will Include:

Business Valuations

- Different valuation methods
- Assessing a business for purchase and what you need to consider
- How to prepare a business for sale, and why you should start early
- How to position your business for maximum value



Succession Planning

- Why you need a succession/exit plan now, even if you're not planning to exit for some time
- Deciding on your end goal and how to get there
- How to transition your business to family members
- Tips for addressing the emotional factors

Planning For Your Retirement

- When should you start planning for your retirement?
- What will the journey look like?
- How much is enough?
- Tips and traps for different kinds of investments
- Risk profiling and your investment philosophy

Event Details

Date: Thursday 8th September 2016
Venue: UHY Haines Norton, 22 Catherine Street, Henderson
Time: 6:00pm – 7:30pm
Cost: Free, includes refreshments

To reserve your space please email Debbie Robson at drobson@uhyhn.co.nz or phone (09) 839-2204. All welcome. Proudly presented by UHY Haines Norton and Hassan & Associates.

UHY International Study:

NZ Levies One of the World's Lowest Property Purchase Taxes on Prime Real Estate

- *Encourages labour market mobility of senior executives and High-Net-Worth investment from overseas*
- *Western European economies' property taxes among the highest*

New Zealand levies one of the lowest property purchase taxes in the world on prime real estate, charging no tax (0%) on a property purchase of USD$1 million, reveals a new study by UHY, a leading international accounting and consultancy network.

This is far lower than the global average of 3.3% (USD$33,038) for properties worth USD$1 million.

UHY says that by keeping taxes in this price bracket low, governments can encourage labour market mobility of senior executives and valuable overseas investment from High Net Worth individuals, although they also risk losing out on an attractive source of revenue.

UHY says that major European economies including France, Germany and Spain levy among the highest property purchase taxes in the world (see table below).

UHY's findings show that Belgium has the highest average property taxes for real estate worth USD$1 million of any country in the study at 11.3%* - a charge of USD$113,131. Other western European economies at the top of the table include France and Germany, charging USD$50,901 and USD$50,000 respectively.

New Zealand and Russia have the lowest taxes in the table, effectively charging 0% on prime property purchases.

New Zealand has no central or local government transaction taxes on real estate and residential property deals between home owners, as they are exempt from the government's Goods and Services Tax when the transaction is between two persons who are both unregistered for GST.

Similarly Russia imposes no transfer taxes on the buyer, who only pays a minor fixed amount of State Duty of around USD$30.

UHY says that while the G7 economies charge on average 3% (USD$29,720) - broadly in line with the global average - tax charges in the BRIC economies are around a third lower at 2.3% (USD$22,720).

UHY tax professionals studied tax data for individuals purchasing a house worth USD$1 million in 26 countries across its international network, including all members of the G7, as well as key emerging economies.

Comments Tim Livingstone, Director of UHY Haines Norton (Auckland) Ltd, a member of UHY: "Many economies risk over-exploiting property purchase taxes as a way to bolster finances, so it's encouraging to see New Zealand exercising restraint."

"Higher property purchase taxes can put a strain on domestic buyers, who may not actually be particularly wealthy, given house price inflation in some locations over the last decade or two."

"Similar to New Zealand, the United States has one of the lowest tax rates in our study. The low level of tax enables home owners to move more freely from city to city. Now, the US is seen as having enviable labour market mobility."

"Levying significant taxes on the cost of a new property can also constrain labour market mobility. If businesses have to offer much greater incentives for senior executives to relocate, this could have a serious impact on job creation and business investment, and ultimately on the wider economy."

Tim Livingstone adds "Prime properties, especially in capital cities, are particularly desirable for wealthy investors from overseas, but where there are excessively high taxes, these markets could become less attractive. Capitals such as Paris or Berlin could lose out to locations such as Auckland and Wellington."

"These wealthy overseas investors contribute to the local economy in many other ways, through discretionary spending while they are staying in the property, as well as maintenance costs, for instance by refurbishing extensively or employing staff."

Rank	Country	Rate**	USD Amount
1	Belgium*	11.3%	$113,131.00
2	Spain	8.0%	$80,000.00
3	Pakistan	6.0%	$60,000.00
4	France	5.1%	$50,900.60
5	India	5.0%	$50,262.60
6=	Croatia	5.0%	$50,000.00
6=	Germany	5.0%	$50,000.00
6=	Malta	5.0%	$50,000.00
9	Australia****	4.8%	$48,155.50
10	Uruguay***	4.0%	$40,000.00
-	Europe Average	3.8%	$38,355.94
11	UK	3.5%	$35,382.68
-	World Average	3.3%	$33,037.99
12	Japan	3.0%	$30,135.00
-	G7 Average	3.0%	$29,719.71
13	Israel	2.7%	$27,368.30
-	BRIC Average	2.3%	$22,719.71
14	Denmark	2.1%	$21,000.00
15	China	2.1%	$20,585.80
16	Poland	2.0%	$20,019.40
17=	Brazil	2.0%	$20,000.00
17=	Mexico	2.0%	$20,000.00
17=	Netherlands	2.0%	$20,000.00
20	Canada****	1.8%	$17,833.33
21	Italy***	1.7%	$16,713.00
22	Rep of Ireland	1.0%	$10,000.00
23	USA****	0.6%	$5,970.00
24	Romania	0.2%	$1,500.00
25	Russia	0.0%	$30.45
26	New Zealand	0.0%	$0.00

** This figure represents an average of the rates in Brussels, Flanders, and Wallonia which can vary from 9.8% to as high as 12.5%.*
*** Rates rounded to nearest tenth*
**** Rate paid on cadastral value of property, not market price; for Italy (based on 2015 data), it includes the law with the provision that the rate applies on the cadastral value of the property, which is largely lower than the market price*
***** Average of local variations*

Staff News August/September 2016

It is with great sadness that we share with you that **Carlene Dearling** has passed away. A much valued member of our Accounting team, Carlene had the ability to put anyone at ease and developed great working relationships with her clients. She was a fun, vibrant staff member with an irrepressible sense of humour and unwavering positivity. She will be greatly missed by us all.

We have a new staff member in our Helensville team. **Emily Liu** had over four years' experience in Business Advisory Services and three years in the commercial world before she joined a city fringe Chartered Accountancy firm. She loves animals and volunteers at the SPCA on weekends. She also loves the outdoors, especially mountain biking and kayaking.

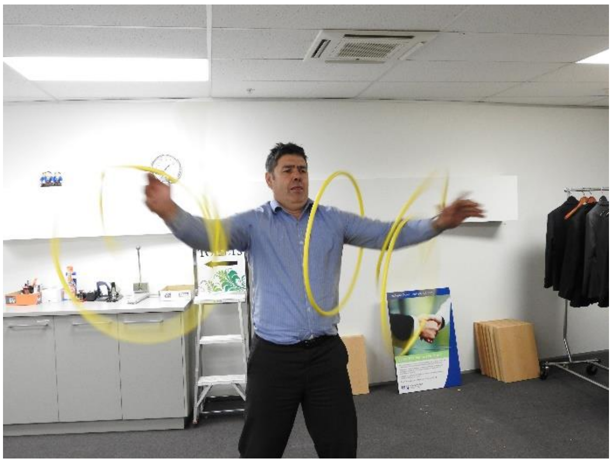
We also have a new Accountant in our Henderson office, **Samuel Hong**. Originally growing up in Christchurch, Samuel has five years' experience with Chartered Accountancy firms based in central Auckland. Outside of work he keeps very busy with three young children, and also enjoys keeping fit at the gym and playing basketball and baseball.

We were sorry to say goodbye to **Lynne Carruthers**, receptionist and administrative expert at our Kumeu office, who has left to begin a new adventure in the South Island. Lynne has relocated to Fairlie and we wish her the best of luck for this new chapter in her life.

Congratulations to Accountant **Christa Louis** who has passed the Capstone module of her Chartered Accountant qualification.

The UHY Staff Olympics

For those of you following us on Facebook, you will have seen a number of pictures and a video of a very special staff lunch we held in honour of the Olympics. The UHY offices were transformed into number of arenas for various events, such as hockey, shot put, gymnastics, rowing and the relay. Teams competed (some more fiercely than others) to win points and ultimately secure a medal. Despite the dangers of hula hoops flinging around the office and office chairs crashing into walls, a great time and many laughs were had by all. Congratulations to the gold medal winning team of Stoven, Pushpa, Kahu, Martin, Lorraine, Shanshan and Michael. Big thanks to the Social Club for putting a huge effort into organising this fun afternoon and making it such a great success.

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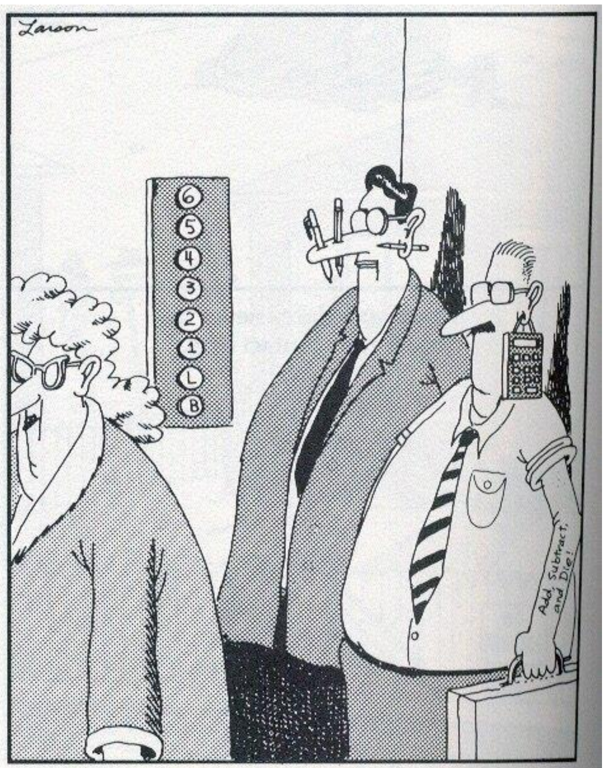
EXIT

On a Lighter Note: Accounting Humour

- An accountant is someone who solves a problem you didn't know you had in a way you don't understand.
- Why are accountants always so calm, composed and methodical? *They have strong internal controls.*
- How does Santa's accountant value his sleigh? *Net Present Value.*
- Be audit you can be.
- What's the difference between tax avoidance and tax evasion? *Jail*
- Conversation between two accountants at a cocktail party: "….and ninthly…"
- The accountant enjoyed the job, figuratively speaking.
- Who makes the best detective: Sherlock Holmes or a tax accountant? *The tax accountant – she's made more deductions.*



Punk accountants