UHY Haines Norton
Chartered Accountants

UHY HAINES NORTON NEWSLETTER

JUNE / JULY 2018

The Beginner's Guide to Understanding Your Balance Sheet

Assets = Liabilities + Owner's Equity

	2016 $	***2015 $***
CURRENT ASSETS		
XYZ Bank	60,000	55,000
Accounts Receivable	100,000	110,000
Stock	50,000	60,000
Work in Progress	5,000	2,000
Total Current Assets	**215,000**	**227,000**
NON-CURRENT ASSETS		
Fixed Assets		
Building and Equipment	100,000	90,000
Intangible Assets		
Goodwill	10,000	10,000

... How to use your balance sheet to understand the financial position of your business

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The Beginner's Guide To Understanding Your Balance Sheet

Your year-end accounts shouldn't be just an annual exercise that you and your accountant go through to placate the IRD. They do, in fact, offer essential insights into how your business is performing and provide an opportunity to make changes to improve future performance. Balance sheets provide a snapshot of a business' assets, liabilities and shareholders' equity at your balance date. They tell you how much a business owns, owes, and what it is worth compared to the previous year.

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CURRENT ASSETS		
XYZ Bank	60,000	55,000
Accounts Receivable	100,000	110,000
Stock	50,000	60,000
Work in Progress	5,000	2,000
Total Current Assets	**215,000**	**227,000**
NON-CURRENT ASSETS		
Fixed Assets		
Building and Equipment	100,000	90,000
Intangible Assets		
Goodwill	10,000	10,000
TOTAL ASSETS	**325,000**	**327,000**
CURRENT LIABILITIES		
Accounts Payable	85,000	95,000
GST Due	30,000	35,000
Total Current Liabilities	**115,000**	**130,000**
NON-CURRENT LIABILITIES		
XYZ Term Loan	25,000	35,000
Loan – ABC Finance	15,000	18,000
Total Non-current Liabilities	**40,000**	**53,000**
TOTAL LIABILITIES	**155,000**	**183,000**
NET ASSETS REPRESENTING OWNER'S EQUITY	**170,000**	**144,000**

Assets

Assets are things a business owns that have value.

Current assets are those items that can be readily turned into cash (generally within a year), such as stock, accounts receivable and cash in the bank.

Non-current or fixed assets are long-term assets often used to operate the business but not available for sale, such as buildings, equipment, vehicles, land and office equipment.

Intangible assets are a third category sometimes included in the balance sheet, such as trademarks, patents and goodwill.

Liabilities
Liabilities are what a business owes to others.
Current liabilities are those items you are expected to repay within one year, such as accounts payable, bank overdrafts, and any taxes due (GST, provisional or terminal tax).
Non-current or long term liabilities are items the business owes but fall due in more than one year, such as long term loans and long term hire purchase agreements.

Owner's Equity
Owner's equity, or shareholder's equity, is the balance that would be left if a business sold all of its assets and paid all of its liabilities, and includes owner(s) investment and any accumulated profits left in the business as retained earnings.

Using the Balance Sheet

Now we take a look at some of the ratios you can calculate to gain valuable insights into the financial position of your business.

Solvency
Solvency, or liquidity, is a business' ability to repay its debts. There are simple ratios you can calculate to identify the level of solvency.

1. *Current ratio:* divide current assets by current liabilities. Aiming for a minimum ratio of 2 to 1 (or $2 in assets for every $1 in liabilities), shows that a business is able to meet its short-term commitments without risking cash shortages or seeking additional funding.
2. *Quick ratio:* divide current assets minus stock by current liabilities. This is a tougher measure of solvency as it omits stock with the theory that it is difficult to convert it quickly into cash. For businesses with a lot of stock on hand, aiming for a minimum ratio of 1 to 1 is recommended.

Financial Position
A balance sheet can show whether a business' financial position is strengthening or weakening by calculating the *equity to assets (or ownership) ratio*. Dividing owner's equity by total assets (less any intangible assets) shows how much of the business the owner actually owns. Aiming for a minimum ownership ratio of 40% can help avoid being undercapitalised and lower the risk of having too much debt.

Reliance On Debt
Calculating the *debt to equity ratio* by dividing total liabilities by total equity will show the extent to which a business relies on debt to finance its growth. In very general terms, a high debt to equity ratio may indicate that a business has aggressively financed its growth with debt. On the other hand, a low debt to equity ratio may be a symptom of a business not taking advantage of increased profits for financial leverage.

Although the balance sheet shows a static view of assets and liabilities, the movements around these are also reflected in income and expenses on the profit and loss statement. Financial statements are all related and work together to give a rounded view of a business' financial health.

Ring-fencing: Promise Punishes Landlords

*UHY Haines Norton's Managing Director **Grant Brownlee** explains how the proposed ring-fencing of residential rental losses will impact residential property investors.*

The recently proposed ring-fencing of rental losses rule change is the result of a politically expedient election promise that blamed residential investors and speculators for house price inflation. The Government should be transparent about the true cause of house price inflation. Asset price increases were caused by financial conditions created by the world's central banks who made enormous amounts of cheap money available to stimulate the global economy after the 2008 financial crisis.

However, the Government appears determined to push ahead with their promise to prevent residential landlords from offsetting their rental losses against other income.

Inland Revenue and Treasury published an Issues Paper on 'Ring-fencing Rental Losses' in March 2018 and the Government reinforced the message in the Finance Minister's budget speech in May. The Issues Paper is not a firm set of rules now but it proposes that they will take effect from 1 April 2019. The proposed changes are targeted at residential property investors only.

The following example shows how the proposed ring-fencing of residential rental losses will operate.

Residential Company Ltd is a 'Look Through Company' that owns a residential rental investment property (property A) that was purchased for $1,000,000 and is rented out at $750 per week. The property was 100% financed using the rental property and other family property as security for the bank. It makes a loss as follows:

Rental Income		$39,000
Less Expenses		
	Rates	$2,536
	Insurance	$1,820
	Property Management	$3,500
	Interest ($1,000,000 @ 4.3%)	$43,000
	Other	$2,000
	Total Expenses	$52,856
Loss		($13,856)

Under current rules, the $13,856 loss can be offset against the shareholder's other income. If the shareholder had a job earning a salary of $90,000 then by offsetting the loss they would effectively pay tax on $76,144, generating a tax refund of $4,572. From 1 April 2019 under the proposed rules the shareholder will not get a tax refund. Instead, the loss of $13,856 will be carried forward to future years to be offset against future residential rental profits.

However, the situation isn't all doom and gloom for an investor with multiple residential properties. The Issues Paper recommends that the ring-fencing rules should apply on a portfolio basis, i.e. ring-fenced loss from one residential property can be offset against profit from another residential property. For example, if Residential Company Limited has another rental property (property B) which made a profit of $11,000 for the year then the loss of $13,856 from property A can be offset against the profit of $11,000 from property B. The net loss of $2,856 would be then ring-fenced and offset against future property income.

The ability of residential landlords to offset their losses against other income has been described by political spinners as a tax loophole. On the contrary, it is a tax mechanism available across the board to investors regardless of what type of business activity they are investing in.

For example, if a trader in the share market makes a loss then that loss can generally be offset against that person's other income. Similarly, if an investor invests in commercial property, a business, bonds, property trading, construction or whatever, provided the investment is structured in a tax efficient manner, the loss can be offset against that person's other income. It is incorrect to describe this ability as a tax loophole when it is available to virtually everyone.

The Issues Paper contemplates and closes the door on clever structuring by those hoping to get around the rules. For example, under the current rules, borrowing money to purchase shares in a company that invests in residential property would give rise to an interest deduction to the shareholder which can be offset against the shareholder's other income. Under the proposed rules any interest costs incurred by a person investing in an entity that is 'residential property land rich' will be treated as rental property loan interest. A residential land rich entity is an entity that holds over 50% of its assets in residential properties. The effect of the proposed rules is to ring-fence rental property loan interest against future residential rental income.

In short, the proposed ring-fencing rules punish investors for choosing residential property over other forms of investment.

If you are a residential property investor the Ring-fencing Rental Losses Issues Paper is worth reading, and given the likely timing of the proposed new rules you may want to get your deferred repairs and maintenance done before 31 March 2019. The paper can be found at http://taxpolicy.ird.govt.nz/publications/2018-ip-ring-fencing-losses/overview.

Grant Brownlee *is Managing Director at UHY Haines Norton. For advice on all aspects of Property Accounting including property investment, structuring and tax, email Grant at grantb@uhyhn.co.nz or phone 09 839 0087.*

Holiday And Statutory Pay Calculations: The Devil Is In The Detail

Tim Livingstone looks at the challenge employers are facing to calculate the correct holiday and statutory pay for their employees.

To date there has been minimal media coverage over large corporates, local bodies and government departments being subjected to payroll audits on calculating both statutory and annual holiday pay. Incorrect holiday and statutory pay calculations have been found in a number of these payroll audits, resulting in millions of dollars of under-payments being made to current and past employees.

The cause of the incorrect holiday and statutory pay calculations is due to the difficulty of interpreting the Holidays Act 2003, which allows at least two ways to calculate leave either on the basis of ordinary weekly pay or an employee's average weekly earnings over the last 12 months. To compound the problem, many of the payroll software packages were also deficient in the way they calculated leave entitlements.

Entities who have employees with fluctuations in hours worked such as shift workers, or who pay staff a retainer and commission, are most at risk.

Often the amounts owed to individual employees are relatively small but the calculations go back six years and the accumulative amounts can put a dent in cash flow. From our observations, a significant cost is the resourcing cost associated with making the calculations.

From The Soap Box …

No politician in Wellington should be proud of the Holidays Act 2003. This legislation is not fit for purpose in a fast-moving and flexible employment market. The Labour government have undertaken to review the Holidays Act 2003. In the meantime, let's hope the Labour Inspectorate employed by MBIE do not turn their attention to small- and medium-sized businesses where I suspect compliance with the legislation could be problematic.

If you are concerned about the accuracy of your leave calculations, there are organisations that can cost-effectively review and assist with holiday and statutory leave calculations. Please contact me at UHY Haines Norton on (09) 839-0087 if you are interested in learning more.

Tim Livingstone is a Consultant at UHY Haines Norton.

How To Structure Loans For Maximum Deductions And Minimum Cost

When approaching a bank or other intermediary for the purpose of borrowing funds, they may advise a structure that is easy for them and meets their internal requirements. This is not necessarily, and often times is exactly the opposite of, the structure we would advise in order to maximise tax deductions and minimise compliance costs. You may be saving a few hundred dollars in bank fees now, but what could it cost you over the term of the loan?

In order to maximise tax deductions, lending should generally sit in the same entity as the asset that produces income. For example, a loan taken out to purchase a rental property should sit in the entity that purchases the property. While you may get a small deduction for your home mortgage interest through a home office claim, you will get a full deduction of mortgage interest on a mortgage used to purchase a rental property. (Please note that there are special calculations required where the rental is a mixed-use asset, i.e. rented for parts of the year and used by family during other times of the year). The structure is especially important if you are purchasing a new home and keeping your old home as a rental. Getting the ownership and lending structures correct at the start can help to keep legal and accounting costs to a minimum going forward.

If you have existing lending against an income-earning asset, i.e. a rental property, and wish to drawdown additional funds for private use, instead of topping up the rental loan it is advisable to drawdown a separate loan which you can pay off faster than the rental mortgage. Having separate lending for separate items allows repayments on each loan to be structured differently in order to pay down the private loan faster than the tax deductible loan. For example, you could choose to make the personal loan non-table and the deductible loan interest only, in order to minimise personal interest while maximising your tax deductions. If you top up a deductible loan then for the remaining lifetime of that loan your accountant will need to calculate the percentage which is deductible vs the percentage which is private. This extra accounting can add cost unnecessarily.

Clients often get confused about how security for a mortgage influences interest deductions. It is not the property that a loan is secured on that determines an interest deduction. It is the use of the money borrowed that determines whether the interest will be deductible.

If you are looking to borrow money to purchase a new rental property or to expand your business, please contact us first so that we can advise a structure that will work best for you.

UHY Haines Norton are Chartered Accounting and Business Advisory experts. For all of your accounting and tax needs, please contact the team on 839-0087 or go to www.uhyhn.co.nz.

Is Income Protection Insurance Tax Deductible?

The short answer is **yes**, provided the benefit from the insurance policy is taxable.

The real question to ask is: **is your income protection insurance taxable?**

Indemnity or Loss of Earnings Insurance

A claim made against an Indemnity or Loss of Earnings policy relates directly to the loss of income and the pay-out is based on a percentage of prior earnings. As the claim relates directly to the loss of income, the pay-out is taxable as it is deemed to be a replacement of income. Therefore you are able to claim a tax deduction for the premiums paid. Your insurance provider should send you a year-end summary of the tax deductible premiums you can claim.

Agreed Value

In the event that the value of any cover is agreed prior to a claim being made, the claim does not directly relate to the loss of income but instead relates to an inability to work. Therefore, the claim is not tax assessable because it is not a replacement of income – it is cover for the inability to work.

However, if you take a tax deduction for the insurance premium paid, then the proceeds on a claim become tax assessable.

If you have been advised on a level of Agreed Cover based on your current income and/or outgoings, this level of cover may not take into account any tax due to be paid out of the claim if you are claiming a tax deduction on the policy payments.

Please contact us if you have any queries regarding your income protection insurance tax deductions.

***Erin Gibson** is a Senior Accountant at UHY Haines Norton.*

What Is Fringe Benefit Tax (FBT)?

Fringe Benefit Tax (FBT) affects many SME owners and yet can be difficult to understand and calculate correctly. In this article we explain exactly what FBT is and how it works.

What Is A Fringe Benefit And Why The Tax?

A fringe benefit arises when an employer provides a non-cash benefit to an employee, including a shareholder-employee, or their associates. With the exception of a wage/salary or residential accommodation, most benefits provided to employees (arising as a result of the employment) are classed as fringe benefits. Cash benefits (i.e. wage/salary/residential accommodation) given to employees are taxable to the employee and employers must deduct tax in the form of PAYE. On non-cash benefits that are classed as fringe benefits, the employer is liable for tax in the form of FBT.

Main Groups Of Taxable Fringe Benefits

1. Motor vehicle made available for an employee's private use. This is the most common instance of FBT and we explain it in more detail further below.
2. Goods or services provided to employees either free or subsidised/discounted, including subsidised transport.
3. Low-interest loans advanced to employees.
4. Employer contributions made to sickness/accident/death benefit funds, superannuation schemes and specified insurance policies. This does not include KiwiSaver.

FBT Return Types And Frequency

- FBT quarterly returns - all employers liable for FBT are required to file returns quarterly unless they have elected to file yearly returns (certain criteria apply for yearly returns).
- FBT income year returns - these apply to companies that have shareholder-employees. To qualify for this option, the following criteria apply:
  - The company is a close company (five or less natural person or trustee shareholders whose voting interest is greater than 50%), and the annual gross PAYE and ESCT deductions for the previous year do not exceed $1,000,000; or
  - The only fringe benefit is motor vehicles provided to shareholder-employees for their private use and that benefit is limited to two vehicles; or
  - The company was not an employer in the previous year.
- FBT annual returns - these apply to companies that have elected to file annual returns and the option is only available if the annual gross PAYE and ESCT deductions for the previous year do not exceed $1,000,000 <u>or</u> the company was not an employer in the previous year.

FBT Rates

- Quarterly return filers have the option to use either a single rate of 49.25% or alternate rate of 43% for FBT in quarters 1 to 3, and for quarter 4 the alternate rate calculation process may be required.
- Annual or income year FBT return filers have the option to adopt a flat rate of 49.25% or the alternate rate calculation process.

Motor Vehicles And FBT

Where a vehicle is made available for the private use of employees (including shareholder-employees), FBT is payable, regardless of whether the vehicle is actually used privately or not.

Work-related Vehicles Exemptions

"Work-related vehicles" provided to employees are exempt from FBT. The following four conditions must be met to qualify:

1. The vehicle must be a motor vehicle, i.e. a vehicle including a trailer drawn by mechanical power and excluding vehicles with a gross laden weight in excess of 3,500 kg.
2. Business identification of the employer (or of the owner if the vehicle is leased) is required to be displayed on the vehicle. The display must be permanent and prominent.
3. The vehicle must be designed mainly for carrying goods or goods and passengers equally. Examples are utes, light pick-up trucks and other vehicles like vans which are permanently without rear seats.
4. Employees must be advised in writing that the vehicle is not available for private use, other than being allowed to take the vehicle home for safekeeping which must be a condition of their employment. Compliance with this must be checked periodically by the employer on a quarterly basis.

Employee Contributions

The employee may make a payment to the employer in return for the fringe benefit. This payment is deducted when calculating the taxable value of the benefit. For a shareholder-employee, the contribution can be made by way of an adjustment to the current account.

New Rules For 2018 Financial Year

For the income year ended 31 March 2018 onwards, a company can make an election to apply private use rules for motor vehicle expenditure rather than FBT, if the following conditions are met:

1. The company is a close company; and
2. The company has only one or two vehicles made available for the private use of shareholder-employees; and
3. The company provides no other fringe benefits to any employees.

This will be beneficial for companies where actual private use is limited. The election to opt out of the FBT rules is required with the income tax return for the period. Once an election is made, the company cannot revert to using the FBT rules unless the vehicle is disposed of or the company stops using that vehicle for the business.

***Bhuvana Narayanan** is a Manager at UHY Haines Norton.*

As always, please contact us if you have any questions regarding fringe benefit tax and how it applies to your business.

What Is The Common Reporting Standard And Who Does It Affect?

In recent years globalisation has had a profound impact on the tax revenue collection of many economies around the world as it has eroded their tax bases. In order to combat the tax evasion opportunities created by globalisation, the Organisation for Economic Co-operation and Development (OECD) has developed the single global standard called Common Reporting Standard (CRS). New Zealand is one of the many jurisdictions which committed to be part of this global initiative from 1st July 2017.

Common Reporting Standard

CRS is a global framework for the collection, reporting and exchange of financial account information about people and entities investing outside of their tax residence jurisdiction, i.e. foreign tax residents. IRD will collect and exchange this identity and financial account information with the participating foreign tax authorities of those foreign tax residents. In return, IRD will receive identity and financial information on New Zealand residents from other tax jurisdictions (for example ATO and HM Revenue and Customs). The CRS will be governed and enforced in New Zealand by IRD under the Tax Administration Act 1994.

How Does CRS Affect You?

It is important to note that only Reporting New Zealand Financial Institutions (Reporting NZFIs) will have CRS due diligence and reporting obligations to IRD. Some family trusts will be caught by these CRS rules.

Trusts

Trusts have been particularly targeted at the very outset in the CRS guidelines published by IRD as they are most commonly used by foreign tax residents to shield their assets and income. If the trust is identified as a Reporting NZFI, the trust/trustees will be responsible for:

- Carrying out due diligence on the account holders such as trustees, beneficiaries, settlors or any other controlling persons.
- If foreign tax residents are identified during the due diligence process then the Reporting NZFI (i.e. the trust) will have to report the information to IRD.

Is The Trust A Reporting NZFI? A Three-Step Approach

The due diligence and reporting obligations are only applicable if the trust qualifies as a Reporting NZFI and there are three steps in determining this. These steps need to be worked through carefully. It is important to note that a trust with a corporate trustee can come under these rules.

Step 1: Is The Trust A Financial Institution?

The trust is a financial institution if:

1. It is carrying on a business as one or more of a custodial institution, depository institution, investment entity or specified insurance company; or
2. It is a "managed investment entity", i.e. the trust derives 50% or more of its income from financial assets over a specified period of time (three years) and is managed by a financial institution, for example the trust's investment portfolio is managed by an investment management company.

Step 2: Is The Trust A New Zealand Financial Institution (NZFI)?

A financial institution trust will generally be resident in New Zealand for CRS purposes, and therefore a NZFI, if it has one or more trustees who are tax-resident in New Zealand.

Step 3: Is The Trust A Reporting NZFI?

A NZFI trust will be a Reporting NZFI (by default), unless it is a Non-Reporting NZFI. If the trust is not a Reporting NZFI it will either be a Passive Non-Financial Entity or an Active Non-Financial Entity which means it does not have reporting obligations under CRS.

Companies/Unit Trusts

Generally, a company/unit trust is likely to be an active non-financial entity as it would be operating as a business which derives 50% or more of its total gross income from active sources (providing goods and services). However, the company/unit trust can also be a Reporting NZFI if it meets the same criteria as specified above for trusts.

Partnerships

Partnerships include general partnerships, limited partnerships and similar legal arrangements like joint ventures. If identified as a Reporting NZFI, the partnership will have to carry out the due diligence and reporting to IRD. The criteria for identifying a Reporting NZFI partnership is the same as specified above for trusts.

Individuals/Sole Traders

For the purpose of CRS rules, an individual or sole trader is not an entity and therefore cannot be a financial institution. This means they are not required to carry out the due diligence on themselves and report the information to IRD. However, in almost all cases, an individual/sole trader will have a bank account with a bank that has CRS reporting obligations. If you opened a new bank account on or after 1 July 2017 your bank should have sent you a self-certification form which must be completed and submitted to the bank. Failure to do so could result in your account being frozen by the relevant bank.

The above list is not exhaustive. The definition of "entity" is very broad under the CRS rules to cover both legal persons like incorporated companies and legal arrangements like trusts and partnerships.

As discussed above, if the entity is identified as a Reporting NZFI it will be required to carry out the due diligence on its account holders but the reporting obligation would only arise if the entity's account holders are foreign tax residents. For example, a Reporting NZFI trust with only New Zealand tax residents as account holders would not be required to report any information to IRD. The only requirement will be to keep the record of due diligence process carried out by the trust for seven years from the end of the relevant reporting period.

Reporting Deadlines

A. Pre-existing accounts maintained as at 30 June 2017:
- High value individual account with a balance which exceeds NZD$1,000,000 as of 30 June 2017 needs to be reported by **30 June 2018**.
- Low value individual accounts (balance/value of less than NZD$1,000,000) and entity accounts as of 30 June 2017 need to be reported by **30 June 2019.**

B. New accounts opened on or after 1 July 2017:
- New individual and entity accounts as at or after 1 July 2017 need to be reported by the following **30 June.** For example, new accounts opened between 1 July 2017 and 31 March 2018 must be reported by 30 June 2018.

Summary

The CRS rules are very complex and detailed, and this information is a brief overview of how they can affect various entities. It is important to seek professional tax advice on the implications of CRS rules.

UHY will be working very closely with clients who are identified as Reporting NZFIs under the CRS to help ensure full compliance with the CRS rules and reporting obligations.

Taxing Matters

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

- On 1st July 2018, paid parental leave increased from 18 weeks to 22 weeks. For full details on paid parental leave visit the IRD website http://www.ird.govt.nz/yoursituation-ind/parents/parents-paid-parental-leave.html.
- On 1st July 2018 the government introduced the Best Start payment of $60 per week per child for babies born on or after 1st July 2018 until their first birthday. Households with a combined annual income of less than $79,000 will continue to receive $60 per week until the child's third birthday. For full details visit http://www.ird.govt.nz/wff-tax-credits/understanding/all-about/bstc/
- If you are considering getting into the export market, New Zealand Trade and Enterprise have launched an 'Export Essentials' programme. A series of workshops and guides are available for New Zealand businesses to help them plan and enter export markets. For more information visit https://www.business.govt.nz/news/nzte-export-essentials-workshops/.
- On 1st July 2018 the Winter Energy Payment became available. Eligible people receiving New Zealand superannuation or a main benefit will automatically receive the Winter Energy Payment until 29th September 2018. For more details visit https://www.workandincome.govt.nz/products/a-z-benefits/winter-energy-payment.html#null
- ONECheck is a useful online tool that New Zealand business owners can use to search company names, domain names and trademarks quickly and easily. It helps businesses to get their ideas and branding right at the initial business planning stage.
- IRD has released the "National Average Market Values of Specified Livestock Determination 2018". It applies to any specified livestock on hand at the end of the 2017/18 income year.
- If your company conducts research and development and is making a tax loss you may be eligible to apply for a R&D loss tax credit. For more information visit http://www.ird.govt.nz/research-development/research-development-index.html
- The Financial Markets Authority has developed the KiwiSaver Health Checker, an easy-to-use online tool that helps you to check if you are in the right KiwiSaver fund, if you could be saving more and if you are paying the correct amount of tax and fees.

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

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Audit Shield: Protection Against IRD Audits

UHY Haines Norton is proud to offer our clients the opportunity to be protected from any unplanned professional fees resulting from audit activity with Audit Shield. The Audit Shield Master Policy provides for the payment of professional fees incurred in the event that you are selected for an audit, enquiry, investigation or review (audit activity) instigated by the Inland Revenue Department (IRD).

Two years ago we reported that the IRD has increased its focus on auditing small- to medium-sized businesses (SMEs), and unfortunately this shows no sign of abating. Property developers and the hospitality industry in particular seem to be at the top of IRD's current hit list. Audit activity can check that a business and tax payer are fully compliant with tax and legislation requirements. No one is immune – even individuals and businesses with perfect accounting records are being subjected to audit activity. PAYE, GST, Income Tax, FBT and employer returns are just some of the areas that can fall under scrutiny. Even a cursory review of your lodged returns by IRD can incur significant costs. For example, as part of the IRD's Property Compliance Programme, a Waikato-based property developer was recently selected for an audit of 10 different entities, over 25 different property-related transactions to ensure compliance with Income Tax and GST - the resulting fees amounted to almost $20,000.

If you choose to participate in our Audit Shield Master Policy you/your business will receive protection from any unplanned professional fees resulting from audit activity. It covers relevant professional fees up to a prescribed limit if you are required to respond to audit activity. The cover is retrospective, so all previously lodged returns are included. Different levels of cover are available for different thresholds of wage earners and businesses, and the cost of the policy is tax deductible if you are in business or self-employed. Income Tax, Computer Tax Audits, Dividend Withholding Tax, Employer Returns, Fringe Benefits Tax, GST, PAYE, Record Keeping, Imputation Credit Account and Resident Withholding Tax are just some of the items included in the extensive Audit Shield Master Policy coverage.

Please contact us if you are interested in learning more about Audit Shield and how it can protect you and your business.

Tips For Improving Inventory Management

If your business carries stock of any kind, good inventory management is important to prevent over-ordering, out-of-stocks and wastage. The key to having enough stock on hand to efficiently service orders lies in actively managing your inventory.

We recommend taking a critical look at the amount of cash you have tied up in stock. Taking steps to reduce this can significantly improve your business' cash flow.

- Consider investing in inventory management software. Following the processes within the software will help you to easily identify and manage both fast-moving and slow-moving items. It will also allow you to promptly implement price increases necessary to maintain your profit margin in the face of rising costs.
- Cash up old or obsolete stock.
- Consider not stocking certain products that are available on short lead times.
- Discontinue slow-selling, under-performing lines – these will only be hindering your cash flow.
- Plan well ahead for busy periods. Inventory management software will allow you to forecast more accurately for seasonal demand.
- Physical stocktaking is essential for ensuring that recorded stock levels are accurate. A good alternative to undertaking a full, annual stocktake is to do rolling stocktakes, whereby you count smaller portions/sections of your goods on a regular basis. For example, segmented stock by supplier or product type could be counted quarterly.

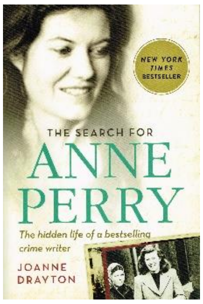
Assess the security of your stock, and if necessary implement measures to reduce chances of theft. These may include:

- Using automated inventory management systems, which in turn also help to improve forecasting and reduce the chances of over-stocking.
- Having more than one person receipting goods and approving invoices.
- Increasing employee training and skills regarding inventory management.
- On-site security measures such as installing cameras.

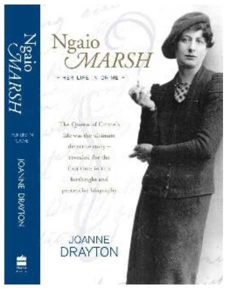
*UHY Haines Norton's Business Improvement Manager **Michael Jamieson** advises all types of businesses on inventory management systems and is an expert at helping businesses to improve their profitability and cash flow. For more information please contact Michael on 027-663-6062 or email mjamieson@uhyhn.co.nz.*

Client News: Best-selling Author Joanne Drayton

Accomplished literary biographer and art historian Joanne Drayton is about to publish her seventh book, a double biography of celebrity cooks Peter Hudson and David Halls.



Joanne is best known for her book “The Search for Anne Perry”, a biography of the best-selling crime writer Anne Perry who is also the teenage murderer Juliet Hulme made notorious in Peter Jackson’s 1994 film “Heavenly Creatures”. Joanne conducted meticulous research - including interviews with relatives, colleagues, friends and Anne herself. Her book is an extraordinary insight into Anne’s life, the experiences that shaped her and her crime novels. In 2015 the biography reached number three on the New York Times Bestseller List for ‘Crime and Punishment’ and number nine for ‘Nonfiction’. “The Search for Anne Perry” has been optioned for a feature film.



As one of New Zealand’s most acclaimed literary biographers, Joanne has written biographies on Dame Ngaio Marsh, Frances Hodgkins, Rhona Haszard and Edith Collier. She is an award-winning art historian and has curated exhibitions of Hodgkins, Haszard and Collier. Her book “Rhona Haszard: An Experimental Expatriate New Zealand Artist” has a signed film option.

In 2017 Joanne was the recipient of the prestigious Logan Nonfiction Fellowship at the Carey Institute for Global Good in New York, where she had the wonderful opportunity of working with a variety of literary experts.

During her time at the Carey Institute, Joanne worked on her latest book, the double biography “Hudson and Halls: The Food of Love”. Peter Hudson and David Halls were hugely popular on New Zealand television during the 1970s and 1980s, bringing humour and larger-than-life personalities to the TV cooking genre. Their popularity reigned for sixteen years of successful television, including producing their show in the UK. It came to an end when Peter died of cancer in 1992, and David, reportedly grief-stricken, took his own life the following year. “Hudson and Halls: The Food of Love” is due to be released on 18th October 2018.

A self-described over-achiever, Joanne’s passion for writing continues to go from strength to strength. She is in the process of completing her own autobiography, which will hopefully be published in 2019.

New Zealand Outperforms On Tourist Spending

A new study by UHY International finds that New Zealand's tourist expenditure is four times higher than the global average, and more developed economies are struggling to expand their tourist infrastructure as quickly as emerging market rivals.

Tourist spending represents 5% of New Zealand's economy, four times higher than the global average of 1.2%, shows research by UHY, the international consultancy network.

The rate of growth in tourist spending in New Zealand over the last year was 3% up to USD$9.4 billion in the last year, from USD$9.1 billion in the previous year.*

New Zealand was ranked 5th in the study. UHY studied 34 countries around the world, looking at spending by tourists (including travel to the country) in the past two years as a percentage of that country's Gross Domestic Product (GDP).

The New Zealand Government has recently strengthened efforts to attract tourists to the country. It has committed NZ$649 million to protecting the country's natural resources as maintaining a clean environment.

The study found that European economies, on average, have a higher level of tourist spending in their countries as a percentage of GDP (2.1%) compared to emerging markets (0.7%).

However, the UHY study reveals that emerging markets are outstripping European economies in the rate of growth in tourist spending in the countries. On average, emerging markets saw tourist spending increase twice as fast as European economies over the past two years (2.2% compared to just 1.1% growth for Europe).

Grant Brownlee, Managing Director of UHY Haines Norton (Auckland) Ltd, comments: "Tourism helps economies such as New Zealand's support job creation and business growth, but it needs constant investment."

"Tourism is a major battleground in the global economy – both in terms of generating hard currency and soft power."

"The recent Government budgetary promises represent a real commitment to international tourism in New Zealand, as ensuring the natural beauty of the country remains is critical to ensuring the 'NZ 100% pure' brand remains authentic."

"As globalisation continues and more people get the opportunity to travel more widely, tourism is likely to become an even more important source of jobs and a catalyst for business creation and growth. Governments need to recognise the opportunities it brings."

"Many higher growth economies are looking to rapidly expand the infrastructure capacity needed to support large numbers of tourists arriving. Additionally, many emerging tourist hotspots are constantly investing in new attractions to keep visitors longer and to spend more."

Tourist Spending Represents 5% Of New Zealand's Economy – 4 Times Higher Than Global Average

Rank	Country	2016 GDP *USD$ billion*	2016 Tourist Expenditure *USD$ billion*	Tourist Expenditure as a % of GDP
-	**Europe**	**$14,494.03**	**$298.26**	**2.1%**
-	**World**	**$61,107.02**	**$745.93**	**1.2%**
-	**G7**	**$35,580.00**	**$416.88**	**1.2%**
-	**Emerging Markets**	**$19,650.02**	**$144.45**	**0.7%**
-	**BRICs**	**$16,560.00**	**$80.67**	**0.5%**
1	Croatia	$51.35	$9.63	18.8%
2	Malta	$11.28	$1.45	12.9%
3	Portugal	$205.27	$14.05	6.8%
4	Malaysia	$296.54	$18.08	6.1%
5	New Zealand	$185.38	$9.42	5.1%
6	Spain	$1,240.00	$60.61	4.9%
7	Vietnam	$201.31	$8.25	4.1%
8	Uruguay	$52.42	$1.83	3.5%
9	Zambia	$20.94	$0.68	3.3%
10	Australia	$1,260.00	$32.44	2.6%
11	Belgium	$468.15	$11.61	2.5%
12	Poland	$471.22	$10.98	2.3%
13	Denmark	$306.90	$7.05	2.3%
14	Guatemala	$68.76	$1.56	2.3%
15	Italy	$1,860.00	$40.37	2.2%
16	Mexico	$1,080.00	$19.65	1.8%
17	Netherlands	$777.55	$14.05	1.8%
18	Israel	$317.75	$5.72	1.8%
19	Peru	$195.43	$3.50	1.8%
20	France	$2,470.00	$42.64	1.7%
21	Rep. of Ireland	$304.50	$5.20	1.7%
22	Philippines	$304.91	$5.15	1.7%
23	United Kingdom	$2,660.00	$41.45	1.6%
24	Canada	$1,540.00	$18.28	1.2%
25	United States	$18,620.00	$205.94	1.1%
26	Germany	$3,480.00	$37.45	1.1%
27	India	$2,270.00	$22.43	1.0%
28	Romania	$187.81	$1.73	0.9%
29	Argentina	$554.11	$4.69	0.8%
30	Japan	$4,950.00	$30.75	0.6%
31	Russia	$1,280.00	$7.79	0.6%
32	China	$11,220.00	$44.43	0.4%
33	Brazil	$1,790.00	$6.02	0.3%
34	Nigeria	$405.44	$1.07	0.3%

UHY Haines Norton
Chartered Accountants

New Zealand Sees Tourist Spending Increase By 3% In Past Year

Rank	Country	2015 Tourist Expenditure *USD$ billion*	2016 Tourist Expenditure *USD$ billion*	Change in Tourist Expenditure *USD$ billion*	% Change in Tourist Expenditure
-	**BRIC**	**$80.24**	**$80.67**	**$0.43**	**0.5%**
-	**Emerging Markets**	**$141.34**	**$144.45**	**$3.11**	**2.2%**
-	**Europe**	**$294.89**	**$298.26**	**$3.37**	**1.1%**
-	**G7**	**$413.60**	**$416.88**	**$3.29**	**0.8%**
-	**World**	**$726.58**	**$745.93**	**$19.35**	**2.7%**
1	Nigeria	$0.41	$1.07	$0.66	159.0%
2	Japan	$24.97	$30.75	$5.78	23.2%
3	Australia	$28.89	$32.44	$3.55	12.3%
4	Vietnam	$7.35	$8.25	$0.90	12.2%
5	Mexico	$17.73	$19.65	$1.92	10.8%
6	Portugal	$12.69	$14.05	$1.36	10.7%
7	Canada	$16.54	$18.28	$1.73	10.5%
8	Croatia	$8.83	$9.63	$0.80	9.1%
9	Rep. of Ireland	$4.79	$5.20	$0.41	8.6%
10	Spain	$56.53	$60.61	$4.07	7.2%
11	India	$21.01	$22.43	$1.41	6.7%
12	Netherlands	$13.17	$14.05	$0.87	6.6%
13	Peru	$3.31	$3.50	$0.19	5.8%
14	Denmark	$6.69	$7.05	$0.36	5.4%
15	Malta	$1.38	$1.45	$0.07	5.1%
16	Poland	$10.47	$10.98	$0.50	4.8%
17	Zambia	$0.66	$0.68	$0.02	3.5%
18	Brazil	$5.84	$6.02	$0.18	3.1%
19	New Zealand	$9.14	$9.42	$0.28	3.0%
20	Uruguay	$1.78	$1.83	$0.05	2.7%
21	Italy	$39.42	$40.37	$0.95	2.4%
22	Malaysia	$17.67	$18.08	$0.42	2.4%
23	Germany	$36.88	$37.45	$0.56	1.5%
24	Romania	$1.71	$1.73	$0.02	1.1%
25	United States	$205.42	$205.94	$0.52	0.3%
26	China	$44.97	$44.43	-$0.54	-1.2%
27	Israel	$5.79	$5.72	-$0.07	-1.2%
28	Guatemala	$1.58	$1.56	-$0.03	-1.9%
29	Philippines	$5.27	$5.15	-$0.12	-2.3%
30	Belgium	$11.96	$11.61	-$0.35	-3.0%
31	France	$44.83	$42.64	-$2.19	-4.9%
32	Argentina	$4.93	$4.69	-$0.24	-4.9%
33	Russia	$8.42	$7.79	-$0.63	-7.5%
34	United Kingdom	$45.53	$41.45	-$4.08	-9.0%

Source: IMF and UNWTO (UN World Tourism Organisation). The numbers have been rounded.

**In 2016, latest data available* ***Source: UN World Tourism Authority*

**** National Statistics Institute (INE), July 2017*

People you know, advice you can trust

Staff News: June/July 2018

Congratulations to Accountant **Natasha Fernandes** in our Henderson office who has passed the Taxation module of the Chartered Accountant qualification.

Congratulations to Auditor **Mohamed Irshad** who has passed the final exam for his CPA qualification. He has now passed all six papers and is a fully qualified CPA member.

Congratulations to **Jasmine Kunju** who has been promoted to Senior Accountant in our Henderson office.

Check out the amazing job the UHY Haines Norton Social Club have done decorating the Henderson office lunchroom for the 2018 FIFA World Cup!