



LYNCH & PARTNERS
CHARTERED ACCOUNTANTS
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THE Client Link

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NEWSLETTER 

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MISTAKES COUNT

It's the putting right that counts. How you handle a mistake is all important.

AVOID TAX EVASION

Tax avoidance and tax evasion are technical terms, but it helps to know the difference.

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 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. But the second scheme is an example of avoidance which can be overturned by the Commissioner. They are avoidance because nothing is being hidden from the IRD. 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.

What happens if we don't know if a scheme is avoidance and 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.

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.



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 the 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. Remember Suzanne Paul? She sold her share in her business for \$7 million! She was successful because she was 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? (See also 'Specialise for success' below.)

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 up will go your income. You might need to study to become specialised, but it's usually worth it.

VISITOR'S BOOK WORTH SHOUTING ABOUT

Do you have a visitor's book for your business? Many home-stays ask guests to fill in the visitor's book. The home-stay operators are usually happy with the comments, but that's usually where it ends. Why leave great comments for only future guests to see? Visitor book comments are often useful testimonials, so worth shouting about.

Firstly, acknowledge the kind comments by sending an email to record your thanks. Taking the time to send a thank-you note to customers helps give you the "Wow" factor. Then ask if you can use the comments on your website or Facebook page, or in your newsletter. Most people are happy to oblige.

Don't be timid – negotiate with the bank

Here's a story about a home owner in a small provincial town who's on a modest salary. He was paying interest on his mortgage at 6.2% and noticed he could borrow from the same bank at 4.9%. As he had enough equity in his home, he went to the bank and asked if he could get another mortgage at 4.9% so he could repay some of his 6.2% mortgage.

He negotiated the following:

- No bank charges and interest at 4.69% instead of 4.9%
- Repayment of 5% of the *original loan*, rather than 5% of the *existing loan*

He did very well but he could have done even better. When he negotiated the original mortgage he might have been able to get an agreement to be able to repay a bigger lump sum, say 10%. He'll do that next time.

AVOID MISCOMMUNICATIONS

There are many ways in which you can communicate your thoughts to another person. Talking is only part of it. Some means of communication are more effective than others in certain circumstances. For example, never try to use the phone if you need to negotiate. The phone is no match

for meeting a person face-to-face.

Recently, we heard of a distraught 11-year-old girl who was talking to her mother. "My two best friends are having a terrible fight on Facebook," she said. The two friends had been sending texts to each other. Due to misunderstanding each other's comments, they had fallen out. Why? Because they were each

getting only half of the picture.

When you are face-to-face, you communicate with your body as well as your voice. Your smile, your hand movements and your eyes all add emphasis. They can also communicate integrity and honesty – and lying. The girl's mother said sagely: "Leave it until Monday and when they meet, no doubt they will sort out their misunderstanding."

*IMPORTANT: This is not advice. Clients should not act solely on the basis of the material contained in **The Client Link**. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. **The Client Link** is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.*



TAX CALENDAR

Nov 30 2015

1st instalment of 2016 Provisional tax if you pay three times a year (June balance dates)

January 15 2016

2nd instalment 2016 Provisional tax (March balance date except 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)

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.

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 "bingo", 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's delayed, you might want to return

and have that coffee you promised but thought you didn't have time.

The example shown bottom left 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!

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

BRIEFLY

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.

Legal Discrimination

You can discriminate against someone and break the law about 13 basic ways. For the rest, you're free to discriminate at your will. For example, if someone comes into your shop smelling of BO, you're entitled to insist they leave. It would take too much space in this newsletter for us to list the prohibited grounds for discrimination, but the list is readily available on Google "Discrimination in New Zealand." We suggest you refer to it when you need it.

BEWARE A SUDDEN SPLURGE OF INCOME FROM CURRENCY FLUCTUATIONS

The sudden drop in the New Zealand dollar will increase the value of money held in overseas bank accounts or overseas fixed interest investments. Most investors are what is termed a "cash basis person". This is someone (including a company or trust) who, roughly speaking, doesn't have more than a million dollars of money owing to them and by them, in total. You add the two together. There are other conditions but we are leaving them out to make this article readable. A cash basis person pays tax on their income received. It takes in currency gains only when the investment matures or is repaid. Larger investors have to also include income earned but not received by balance date (31 March for most of us) and currency gains made each year regardless of whether the investment has been repaid.

For example, you are **not** a cash basis person. You lent a bank \$A100,000 on 1 June 2015 at 5% for one year. You have earned income at 31 March 2016 of 10/12 of 5% of

\$A100,000 = \$A4,167, but you won't get it until 1 June 2016. This is income earned but not received. Also if you purchased the \$A100,000 for \$NZ103,000 and it is worth \$NZ108,000 at balance date, you would include the extra \$NZ5,000 as income.

A currency surge affects income and if it is big, like \$US, the impact on income can also be big. This can have a significant effect on the amount of provisional tax you should be paying. If your personal year-end tax bill, which is calculated on all your income, and called Residual Income Tax (RIT), climbs over \$50,000, you'll be socked for backdated interest at 9.21%. RIT is what's left after deducting tax taken off at source. It's worse for companies and trusts. The interest kicks in if the RIT goes over \$2,500. Therefore, if you think you may exceed either of these RIT thresholds, you should pay some more provisional tax, now.

There's another rule to catch you. Look at the sum of money owing to you and by you, again, in total. Calculate income calculated as a non cash basis person and deduct income calculated as a cash basis person. Call this total A. Now take expenditure (like interest expense and bank fees relating to a

mortgage) calculated as a cash basis person and deduct expenditure calculated as a non cash basis person. Call this total B. Add A and B together and if the figure exceeds \$40,000 you are now a non cash basis person. You have to include in your tax return your income earned but not received and the value of currency gains on your investments. You don't get taxed twice, but you could be paying tax on some of your income a year earlier than expected. If the amount is big enough you could exceed those RIT figures mentioned above and get caught for interest. What about shares in foreign countries? This has nothing to do with being a cash basis person or otherwise. A different formula is used to calculate income from foreign shareholdings (except most Australian shares) and this may not be affected by currency fluctuations to the same extent as fixed interest investments. The dividends from most Australian shares, when converted to \$NZ may be higher than last year to the extent our exchange rate has fallen relative to the \$A.

Monitor your investments right through to the end of the year in case the \$NZ slips further.



IT'S YOUR MISTAKES THAT COUNT

A couple of months ago Tony Abbott lost his job as Prime Minister of Australia. As we all know he made a number of mistakes and it cost him his job. The rule about mistakes is universal. It applies not only to politics and sport but also business. That is, 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. Your mistake could easily lead to getting a new customer.