

WINTER 2016



**LYNCH & PARTNERS**  
CHARTERED ACCOUNTANTS  
YOUR BUSINESS PARTNER

# THE Client Link

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NEWSLETTER 

## MANAGING THE MONEY LAUNDERING ACT

Opening a new bank account, particularly for a family trust can be time consuming. Get some tips to make this a little easier.

## PAY YOUR PAYE ...OR GO TO JAIL

A warning not to use the Inland Revenue Department as a bank.

## THE DOMINION POST REPORTS.....

It is becoming increasingly dangerous to be a director of a company. Why it might be better to have just one director.

## TERM INVESTMENTS

How to understand term investments and the benefits of using a PIE.

## NEW TAX RULES COMING

*From 1 April 2017 there are going to be a number of significant tax changes. Proposals include the following:*

### Use of Money Interest (UOMI)

- UOMI is a charge on higher incomes for short paid tax.
- Currently, if the tax on your personal income for the year is less than \$50,000, after deducting all other taxes paid as you go, you are not liable for UOMI. This threshold is to be increased to \$60,000, which is equivalent to getting \$209,333, assuming no tax has been deducted from the income.
- Companies and trusts are caught for UOMI if their tax liability is more than \$2,500 tax. This threshold is to be lifted to \$60,000. Companies will then be able to earn \$214,285 before UOMI will apply and trusts \$181,815, assuming no tax deductions at source.
- UOMI will no longer be charged on the first and second instalments of provisional tax, so long as the tax is paid based on the standard calculation method.
- UOMI will still apply to the third provisional tax payment.

### PAYE for the self-employed - AIM

Businesses having sales of less than \$5m are to be allowed to use their accounting software to calculate their approximate income (and hence tax) when they prepare their GST returns. IRD calls this the Accounting Income Method (AIM). 1 and 2 monthly GST payers will be permitted to pay their income tax with their GST. The accounting software will automatically generate the reports needed for both income tax and GST. 6 monthly GST payers, using AIM, will have to pay tax 2-monthly. Returns will be filed electronically. This change is scheduled to start from 1 April 2018.

### Withholding tax

- The withholding tax rates are often too high. It is proposed, subject to certain rules, to allow people to select their own withholding tax rate.
- The income of contractors hired out through labour hire firms, like those in the IT industry, will be subject to withholding tax deductions from their income.

### Tax penalties

The present system for penalising late tax payments is too tough. The present system is to charge 1% for a day late, then 4% after four more working days and thereafter 1% per month. The 1% per month is to go.

### Private use of motor vehicles

- The system of adjusting for private use of motor vehicles is to be overhauled for "close" (roughly this means family) companies.
- The 5000km limit for using mileage rates is to be increased, using a lower rate for mileage in excess of 5000km. IRD will set the rates, annually.

## Pay Your PAYE.... or Go to Jail

If you've got a business which involves paying staff and you are getting into financial difficulty, pay your PAYE immediately it is due.

Recently a taxpayer was initially sentenced to 14 months in jail because he used \$120,000 of PAYE to fund his business instead of paying it to IRD. Although the businessman admitted he was at fault and had attempted to come to an arrangement with IRD, the High Court, reducing the penalty, still made him do 300 hours community service and four months of home detention.

## The Three Elements of a Gift

Inland Revenue says there are three elements to a gift:

1. It has been made voluntarily.
2. It is by way of benefaction – the receiver gets some benefit out of the gift.
3. The donor doesn't get a significant benefit in return.

One of IRD's concerns is school donations. Donations made to a general school fund are real donations so long as they are not a substitution for fees. Similarly, a donation for a school trip is not seen as a donation because the student gets the benefit of the trip.



## MANAGING THE MONEY LAUNDERING ACT

Most investors like to spread their risks. This means seeking out new institutions for investing. However, it also means compliance with the Money Laundering Act. This can be onerous and is often made worse by staff at banks and other institutions who don't understand the Act. One bank asked for a 7-year-old beneficiary of a family trust to front up in person. What if a beneficiary were a home for cats, asked an exasperated customer.

The problem is frontline staff at the banks play safe and make unrealistic demands as a consequence. Here's an example. Ernie is sole trustee for his family trust. He wanted a new account in his own name, but he was told he would need to jump through all the hoops as though he were a new customer. He refused and wrote to the bank.

*"I'm the trustee for X trust – Me 1," he wrote. "I'm applying for an account in my own name – Me 2. Me 1 and Me 2 are the same person."*

He demanded to know where in the Act it said the bank couldn't cross reference from Me 1 to Me 2. Read the Act. It's clearly written and not long. If you understand the Act it will help if you have any problems. Compliance with the Act will be required if you go to a new finance company or bank. It pays to keep every piece of documentation so it's ready the next time you need it.

## KEEP CUSTOMERS INFORMED

Have you ever stood in front of your microwave and told it to hurry up heating your meal? It's the same for customers. They don't like waiting, so respond quickly to their enquiries and keep them in the picture. Consider this letter:

*Dear xxx,*

*Thank you for your recent order of Pleated Blind products. Your Order Reference No. is: AAA. We really appreciate your business and we are pleased to provide the following update on your order.*

*Your order has been received and processed by our Christchurch factory and is now awaiting production. Once your order has been manufactured and ready for despatch to our branch, we will send you a further update. As soon as the branch has received your order they will contact you to arrange a suitable installation time.*

*If you have any further questions, please call customer services on BBB. Thank you again.*

*Kind regards,  
Customer Services*

It is the little extras which help to build your reputation. They are part of the quality of your products.



## TAX CALENDAR

**30 May 2016**

1st instalment of 2016 Provisional Tax  
(December balance date)

**31 May 2016**

Last day to put in final FBT return for 2016

**30 June 2016**

Last day to apply for annual FBT returns for those who qualify

**28 July 2016**

3rd instalment 2016 Provisional Tax  
(June balance date)

**29 August 2016**

1st instalment 2017 Provisional Tax  
(March balance date)

## KEEP IN TOUCH

It's staggering how few people keep in touch with their former customers.

John needed some scaffolding and found a really obliging firm. He said to the business owner when he came to take the scaffolding away: "I'm going to need scaffolding again in a couple of years to paint my house. Please keep in touch." Pete, the scaffolder, replied: "You've got my card."

In a couple of years is John going to remember the name of the firm or even remember he's got a business card somewhere? Taking into account the money involved in the next sale, how difficult is it for Pete to find a way to keep in touch?

A note in the diary (physical or digital) would help. Emailed newsletters would have worked perfectly.

## MAKE A WILL TO AVOID HEARTACHE FOR YOUR SPOUSE

Make a will when you get married. If you don't, your spouse will probably live to regret your inaction. When marrying for a second time, your first will automatically becomes void. You must make another.

### Why all the fuss about making a will?

According to the website of [communitylaw.org.nz](http://communitylaw.org.nz) if you don't make a will an administrator will need to be appointed. The order of priority for distributions is the spouse or partner (usually of 3 years or more), takes all the personal chattels and gets \$155,000 plus a third of the rest of the estate. The remaining two thirds is shared between the children. We won't go into details of what happens if there is a separation, no children, etc.



## BRIEFLY



### Time Saving Tips

- Some urgent work is not important, such as calls about a committee you are on. Give important work priority.
- Keep your phone calls as short as possible. Minimise social chatter.
- Delegate everything you can. If someone else could do it, you shouldn't. Get a part-timer if need be, to take over these jobs. Just make sure they know how to get it right.
- Encourage communications by email. You've got a trail of what has been said. It usually saves time because it limits niceties and there's no need to ring back and press all those phone buttons as you hold.



### House Pricing Tip

When you want an indication of how much you might ask for your house, you could get three or more agents to give you a presentation. Take the average of their high and low prices and average that.



### The Dominion Post reports.....

New health and safety legislation has forced Sir Peter Jackson to resign as a director of Weta Workshop, *The Dominion Post* has reported. The article says directors can be personally responsible for the health and safety of their staff. This can be an untenable situation.

Look carefully at your directorships and assess the risks. Many small companies have husband and wife as directors. Maybe there is a case for having only one.

## UNDERSTAND YOUR TERM INVESTMENTS

When you invest money on a term deposit, you'll find a perplexing number of options, which are hard to assess.

A client put \$100,000 on a term investment for five years with interest at 6% payable at the end of each quarter. A few months later, another \$100,000 was invested, also at 6%, but payable at maturity. The first yielded \$27,887.52 interest after tax and the second only \$24,750.

Understand what the bank is offering. The interest rate isn't everything. Frequency of interest payments is just as important.

Also, don't overlook the credit rating of your bank. There's a wide divergence from AA- (the bank has a very strong capacity to pay its debt) down to BBB- (the bank has adequate capacity to pay its debts, but adverse economic conditions...).

If you put all your savings with one bank and a disaster befalls that bank, you might regret not spreading your investments. Of course, you might also regret spreading your investments and including that one bank which gets into trouble!

You might find [interest.co.nz](http://interest.co.nz) useful to compare interest rates and to use their calculator. If you're on the top tax rate, it might pay to find a PIE investment and be taxed at 28% instead of 33%. Some banks offer PIEs for five years; most don't.



## CLOUD PROGRAMS HELP YOU KEEP UP

*Keeping up with technology has always been an issue for small businesses. As a rule, it's worth having the latest and the best you can realistically afford. This ensures you are at least level, and possibly ahead, of your opposition and your clients who expect you to be keeping up.*

Nowadays it's a bit easier to keep up because many programs are cloud-based. This means you don't buy a program on a disk or download from the internet, but you "lease" it online. Instead of paying a one-off price, you pay a monthly fee to use it. Microsoft Office, which costs about NZ\$10 a month for use on one computer, is an example.

While it seems like you'll be paying forever (which you will as long as you need the program), the big advantage is that you'll get regular updates to the program. Essentially, you'll never get left behind.

Another advantage is that you'll never lose your work because it's stored in the cloud (online). If your computer or laptop gets stolen, no problem. Your work can be retrieved. You'll also get a reasonable amount of cloud storage so you can regularly back up your work, store your photos or other personal stuff.

The downside is you'll keep paying when once you might have kept a program running for years without having to upgrade it. The overall cost would have been lower than the lease arrangement. But you also have to consider the tax implications. Generally, you're not buying an asset for which you claim depreciation over time. Usually, the lease payments can be claimed as an operating expense.