Mallett Angelo Quinn Ltd
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Client Newsletter

December 2016

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IS YOUR BUSINESS CYBER SAFE?

Technology and change is prevalent across all areas, right through from the supply chain to the customer. Computers are no longer isolated assets; complex cloud based systems allow all areas of an organisation to be truly digital.

Although this can have many benefits, an increased digital presence, combined with the expansion of mobile technology, is exposing businesses to risks; particularly where there has been the rapid introduction of new technologies to keep pace with competitors. As a result, businesses can often lack awareness of the true extent of their digital footprint and cyber-crime is unfortunately on the increase.

> *There is a further risk that NZ industries may be losing out to global competitors due to a lack of investment in digital security.*

Whilst organisations are often aware of the cyber security and privacy threat, a recent survey (Global State of Information Security 2016) found that NZ businesses' investment in cyber security measures are lagging behind that of comparable economies. Only 17% of NZ digital businesses currently have an internet security policy in place compared to 39% of Australian businesses. Similarly, just 20.5% of NZ businesses surveyed have aligned cyber security spending with business revenue, compared to an overwhelming 63% of global businesses.

There is a further risk that NZ industries may be losing out to global competitors due to a lack of investment in digital security. The EU, South Korea, Hong Kong and Singapore have all introduced comprehensive new data protection regulations. By comparison, NZ has a lack of mandatory reporting obligations for data breaches, which means our businesses may be unprepared to operate in global markets.

As every organisation uses digital technology and the internet to different degrees, context is key and a personalised approach specific to the business needs to be taken.

However, a security failure could severely damage both business reputation and customer relationships. It is recommended that:

- cyber security measures are built into new digital initiatives as they are being developed,
- businesses increase their investment into more advanced tools for detection of potential cyber attacks, and
- policies are in place to respond swiftly to any security breach.

In-house IT teams may no longer have the expertise to keep up with the ever changing cyber-threat and outsourced expertise may need to be sought to provide a more cost effective and efficient solution.

IN THIS ISSUE

The Directors & Staff at MAQ would like to extend their best wishes for the festive season.

We will be closing Thursday 22nd Dec 2016 at 12 noon and reopening 16th Jan 2017 at 8.30 am

FARMHOUSE EXPENSES

The IRD have long permitted a straightforward concession allowing a flat 25% deduction for farmhouse expenses, as well as 100% deductions for interest and rates. The concession is not legislated and dates back to the 1960s, when farm ownership and operating structures were generally less complicated than they are today.

However, IRD recently announced that the concession is to be withdrawn from the start of the 2017-18 year. It will be replaced by a new approach that is intended to more accurately capture the business versus private costs relating to maintaining the farmhouse.

Under the proposed methodology, farming businesses will generally need to apportion farmhouse expenses between business and private use on a just and reasonable basis – time and space will generally be the appropriate method, consistent with other types of businesses.

Where expenses are incurred on the farm as a whole, the farmhouse expenses will first need to be determined based on the cost of the farmhouse (including curtilage and improvements) relative to the cost of the farm, before the apportionment between private and business use of the farmhouse is calculated.

The IRD have however recognised that there will be occasions where this will be impractical to calculate. They have addressed this by proposing that where the cost of the farmhouse is less than 20% of the total cost of the farm, farmers can follow an alternative method by deducting 15% of all farmhouse expenses, as well as continuing to claim 100% of the interest costs relating to the farmhouse. This should make the compliance and record keeping process more straightforward for these entities.

ATTRACTING & RETAINING YOUR TOP TALENT

The ability to engage and retain valuable employees remains a critical risk for all, not only for the financial impact; but also as it adversely affects employee morale.

Renewed hiring confidence in our marketplace has resulted in a shallow pool of trained staff, particularly in areas such as construction. This has meant that the balance of power is now in favour of the candidate. As a result, stronger emphasis needs to be put on attraction and retention efforts in order to hire (and keep) top employees.

The first step, before even going out to market, is understanding what candidates are looking for. Opportunity for growth and development remains one of the top influencers in an employee's decision to look elsewhere, or in accepting a new position. Despite this, many employers rank career growth low when thinking about what candidates are looking for (instead ranking salary and benefits much higher) creating a disconnect between potential employees and employers.

The need for speed and communication throughout the hiring process is key. A standard (permanent) recruitment process typically takes 5 weeks, and throughout this time there are limited updates to individuals. Failing to keep a candidate in the loop, and long lead times until an offer, can result in frustration and all too often the candidate has accepted another role.

Attracting top talent is only one piece of the puzzle however. If a new starter feels undervalued once they are an official employee it is likely in today's market they will take their talent elsewhere. In order to keep prized employees, employers need to start their retention planning as soon as new hires start.

Retention strategies can range from coaching and mentorship, through to rotational programs giving employees exposure to different areas, plus training, support and colleague collaboration.

THE ART TO SAVING MONEY

We know we should spend less, save more. We know we need to be smart about investing those savings - make them work hard for us.

But how do you actually go about it? Where should you put your money? How do you balance risk versus security? How do you guard against inflation?

This article is not about what shares to buy... which bonds to look for ... which rental property to buy. It's about what types of things you should consider when thinking about where and how to invest your money.

What to ask yourself:

How much cash do I need to take out of my savings, and how often?

If you're still in the earning phase, and you don't need cash then you probably just need sufficient cash to cover unexpected emergencies - like the car needing a new gearbox. However if your savings are now supplementing your income because you've retired, then you want to have sufficient cash in easy access on a regular basis. Cash can take the form of savings accounts, term deposits, and even bonds. Structure your investments in a way that you can withdraw a regular amount to live off, without needing to break an investment.

What stage of life am I, and how much risk can I afford to take?

If you're young and have many earnings years ahead, then taking on higher risk, higher return investments is fine. If things go wrong, you have time to make up any amounts lost. And if they go well, you can make a very attractive return on your initial investment.

However if you're retired, and this is all you are going to make in your lifetime, then you really want to reduce risk. This is not the time to lose money on high risk investments. Instead it's time to follow the tried and true, the stable, the sure, the known investments that may not offer huge returns, but still offer sound returns and you know your money is safe. It may mean the "blue chip" shares that pay good dividends rather than the bargain shares for the new companies which may really take off.

Does some of my investment grow with inflation? Have I inflation-proofed it?

If all your savings are invested in interest-bearing investments, you will not see any capital growth. Your savings will remain the same regardless of the rate of inflation - so eventually that term deposit of $10,000 which you set up 20 years ago will be the same amount today - it just has far less buying power. To guard against inflation eroding your capital, look to balance the safer, interest bearing investments with some investments that also enjoy capital growth, such as shares, property or similar.

What kind of returns should I expect?

As a rule of thumb, many rental properties will give their owners a 5% return on the capital invested, before deducting any costs. After the costs the returns drop and if most of the capital was borrowed, will even be negative. Commercial rental properties tend to offer around 8% gross return, but there is some variability here. While the amount needed to buy a commercial property is considerable, there are shares in commercial property syndicates which offer a similar return on investment.

Shares differ enormously, but the blue chip shares at the moment are returning around 5 - 8% on the capital invested.

Overseas shares also have a range of dividend returns, plus the added risk of exchange rate movement. However they offer the advantage of spreading the risk as factors which may cause NZ to suffer a recession may not affect other countries in the same way. There is a downside that company tax paid by overseas countries is not recognised in NZ so you potentially pay tax on the same income both overseas and here in NZ.

Term Deposits, bonds and savings accounts are currently ranging from around 1% to 5%.

All of the returns need to be considered against the current low inflation rate. Even the low interest rates are offering a real return.

Making investment decisions can be difficult. If you're in that position then it is worth talking to a registered investment advisor.

IRD RULINGS

Over the past few years there has been a pronounced improvement in the manner in which Inland Revenue selects and conducts its investigations.

There has been an increased focus on data analysis, comparisons to statistical norms, and use of external information such as land transfer data. As a result there is an increasing need to consider how IRD might approach a particular transaction or issue.

In cases where the position is unclear or the dollars involved are material, consideration needs to be given to approaching IRD beforehand to seek their approval or view to treat something in a particular way. This can occur by approaching IRD for a 'private binding ruling' or a 'non-binding indicative view'.

Both processes are positive and collaborative, as IRD generally are focused on determining the correct position under the law. In contrast, if IRD approach the matter 'after the fact' through the course of an investigation there may be more focus on proving a tax shortfall exists; and their view of the law can feel as though it is bending to accommodate that outcome. It can become emotional, as each party becomes increasingly entrenched in their view, giving rise to significant cost to defend a position and if the taxpayer is unsuccessful, penalties could apply. Too often the incremental cost will exceed what it would have cost to approach IRD beforehand.

A private binding ruling provides the highest degree of comfort, because if successful, the outcome is binding on IRD. This provides peace of mind that a different individual from IRD won't take a different view in the future. The binding rulings process is not subject to a legislated timeframe within which one must be provided, however IRD work to a timeframe of 3 months and are very good at meeting that time frame. They are also willing to provide early indications of their expected view if required for the purpose of a particular transaction that may be occurring. IRD do charge a fee to provide a binding ruling, it does so at an hourly rate of approximately $160 per hour. The total IRD cost for a ruling is generally about $15k - $20k. This cost must be considered in light of the tax involved and the comfort otherwise associated with taking a particular position. When this is balanced with the downside risk of IRD disputing the treatment in the future it quickly becomes reasonable.

A further option is to acquire an indicative view. We understand IRD will consider issues through this process if it will take 20 hours or less. IRD don't charge for providing an indicative view, however the outcome is not binding. Irrespective of the fact that the IRD is not bound by the outcome, from a practical point of view it should provide a high degree of comfort. It would be unusual for an alternative view to later be taken by IRD, and if this did occur, the fact that an indicative view was acquired should provide a strong negotiating position when asserting no penalties should be charged.

NOTHING IS CERTAIN, EXCEPT DEATH AND TAXES…

Benjamin Franklin's well known phrase does however appear to come as a surprise to some people.

Although tax returns across the world need to be filed annually, taxpayers come up with a variety of creative and ingenious excuses to try and avoid late filing penalties.

In the US, people have gone to the expense of arguing in court that 'Taxation is taking property, thus a violation of the 5th Amendment' and 'Taxation is slavery, thus a violation of the 13th Amendment'. Unsurprisingly both arguments were struck down by the courts.

In the UK, the tax authorities report amongst their best excuses, 'My husband ran over my laptop', 'My tax papers were in the shed, and a rat ate them' and 'I've been busy looking after a flock of escaped parrots and some fox cubs'! Perhaps the parrots can be put to work to generate some income to pay the fines?

While genuine reasons for late filing may sometimes be accepted, unfortunately passing the blame to hungry pets isn't going to cut the mustard. Hopefully this serves as a good reminder to get your return ready for filing as the next deadline approaches!