

In this Issue

Cryptocurrency

Get organised for annual accounts

GST on low value items from overseas

Distributions from a family trust

New five-year bright line test

Finance leases – reminder

How To Build Great Teams

Upcoming Changes to Employment Legislation

Independent directors

Stay safe online

CRYPTOCURRENCY

The buzzword of the digital age

Cryptocurrency is the new buzzword for trading and investment in the digital age.

It's gained fame – and some notoriety – in recent years as a form of money that's designed to be secure and anonymous.

For thousands of years, people have used objects of value to carry out transactions. The Chinese and Indians used cowry shells as an early medium of exchange. In other parts of the world, gold and silver became legal tender and coins were made from these precious metals. Later, paper money was produced. Anything of value, of course, has been used for trading, relying on trust to determine its worth.

Gold in the 19th century became a standard currency. The “gold standard” adopted by many countries held that “fiat currency” (paper money) could be converted to gold at a set rate.

Wealthy countries accumulated gold, but other countries lost it as they paid off debt. The First World War created new political alliances and government finances deteriorated. A new, more flexible system was required. The British pound and US dollar became standard currencies and smaller countries began holding these currencies instead of gold.

At the end of World War Two, the Bretton Woods agreement meant the United States dollar became the international standard, itself being valued against gold valued at \$35 an ounce. In 1971, the US dropped the gold standard and the world entered the flexible world of “fiat” money, the value of which is determined by governments.

Fiat money has held sway since, as the international means of exchange, but we're now entering the age of cryptocurrency.

As its name suggests, cryptocurrency uses web-based cryptography, which converts traditional data into code to track purchases and transfers. The same sort of code is widespread on the internet to protect private information.

Cryptocurrencies such as Bitcoin allow users to buy things of any value electronically

and store money anonymously without going through a traditional bank. No money is ever printed, no coins minted.

There are no fees nor government control, making it an attractive proposition for people tired of bank fees and wary of market manipulation. It's the decentralised nature of cryptocurrency that sets it apart from traditional banking. No one controls the network on which it runs.

This lack of control worries many central banks, though most admit cryptocurrency won't go away soon and might well be the future of money. All are studying its implications for the global financial system. Some countries, such as South Korea, have banned bitcoin trading via exchanges in their nation. What are the implications for taxes, inflation, GDP, trading in illegal goods etc?

So how do you buy cryptocurrency? You can buy units or “coins” from brokers with traditional money or cryptocurrency. Your coins are stored in a virtual wallet from which you can spend them. You can also earn cryptocurrency by “mining”, which involves solving complicated online maths problems. All transactions are updated and held on a public ledger called a blockchain.

Bitcoin was the first major cryptocurrency and is the best known. It was created in 2009 and last year rocketed in value before diving 30 percent by year end. Even so, it's a big player that financial authorities have to take seriously as the possible future for transactions of all kinds, including stocks and bonds.

Bitcoin's market capitalisation was more than NZ\$300 billion at the end of 2017. About 17 million “bitcoins” are in circulation.

• In New Zealand, Inland Revenue is considering whether profits from Bitcoin and other cryptocurrencies should be taxed just as it taxes trading in conventional currency.



Get organised for annual accounts

The 31st of March is rapidly approaching. Now is a good time to think about getting organised for your annual accounts to minimise hassles.

The following comments are based on a 31 March balance date. If yours is different, please adjust accordingly.

- If you have bad debts, write them off before you get to 31 March or you'll have to include the amount owing to you in your sales for the year.
- If you have invoicing to do in April for work done in March, remember these sales belong to the past financial year and must be included in your accounts receivable (sundry debtors). We find some professionals, particularly if they have only one invoice to issue, overlook this.
- If you have to count stock, think about how you can minimise the effort at balance date. Can you get rid of obsolete stock? Have you organised people to count the stock?
- It's unlikely your stocktake can be done after you close for business on the last day of the financial year and before you reopen the next day. You will, therefore, need to take a record of transactions occurring after the stocktake and before the year end and deduct these from the stocktake. If your stocktake occurs after balance date, you will need to keep a record of sales from balance date until stock is counted and add these back to stock. If any deliveries occur around stocktaking time, you may also have to adjust for these. Some people refuse to accept deliveries at such a time, to keep things as simple as possible.
- Money owing by you at the end of the year (accounts payable or sundry creditors) needs to be listed so we can claim the expenditure for tax purposes. Some accounts, such as power, are easily overlooked. The easiest way

of getting this list is to go through all your April payments and decide which ones relate to the previous financial year. We're assuming you pay all your bills promptly.

- If you have an investment in a PIE, you will need to provide your PIR, (prescribed investor rate), which is your tax rate. You get this rate by looking at your income for the previous financial year and your income for the current year. For example, your taxable income for the year ended 31 March 2017 was \$43,000 and you anticipate your income for the year ending 31 March 2018 to be \$49,000. The tax rate applicable to the \$43,000 is 17.5% and the tax rate applicable to the \$49,000 is 28%. You are entitled to use the 17.5% for the year ending 31 March 2019, being the lower of those two. If you accidentally choose too high a rate, you can't get the overpaid tax back. If you go too low, you have to put the PIE income in your tax return and pay the extra tax.
- It might be a good idea to get some maintenance work done before the end of the year, so you can get a tax deduction for it.
- Some people think if they change their motor vehicle before balance date, it could save tax. It's probably better to make your decision based on good business rather than on tax. If you're going to change the vehicle shortly, have a look at the book value you would anticipate at 31 March 2018 and compare this with the market value. If you're going to make a loss, change your vehicle before balance date. If you're going to make a profit you can defer the tax on that profit for a year by changing the vehicle after balance date.

GST on low value items from overseas

The Australians may have cracked the problem of collecting GST on low value imports. GST is to be imposed at the point of sale. Overseas businesses meeting the Australian GST threshold will need to register for GST and charge it on sales of low value imported goods. They will be required to lodge returns to the ATO.

Goods costing more than the low value threshold (if it were New Zealand this would be \$400) will be subject to GST at the border, in the usual way. Our Government is considering whether to follow Australia's lead on this issue.

Distributions from a family trust

Be careful when making distributions to beneficiaries who are living overseas. Take into account the tax laws of the country they live in. One danger area is making an advance to a beneficiary, which under some jurisdictions, could be treated as taxable income.

New five-year bright line test

The new rules only apply from the date of enactment of the Bill which is expected to be passed in March 2018. If an agreement to purchase the property is entered into before the date of enactment of the Bill, the five-year extension to the bright line test will not apply. This could provide a window of opportunity. The extension still only applies to residential land and tax losses will still be ring fenced.

Finance leases - reminder

The three criteria for a finance lease are:

- Period of the lease is greater than 75% of the asset's useful life or
- There is a right to purchase or acquire the asset at the end of the lease at no or low cost or
- Ownership of the leased asset is transferred to the lessee at the end of the lease.

How To Build Great Teams

Research shows there are often key factors present in winning teams. And it's not about recruiting the smartest people and then assembling them. It takes more than that if your team is to function well, get things done and work together for the success of your business.

Great Teams Communicate Frequently

The more a team communicates, the more successful the team is likely to be. A lower rate of communication leads to a decline in performance. This has implications for office layout and design, as well as the tone of your meetings. For virtual teams, there should be a way for team members to easily share information with their colleagues.

Great Teams Talk And Listen

Lower performing teams have dominant members who do most of the talking. Usually they're not so good at listening either. Open two-way communication is important for superior performance. It helps to encourage less dominant, introverted team members to have their say. Listening to them will help build a high trust, high performing team.

Great Teams Also Have Frequent Informal Communication

The best teams spend a lot of time discussing ideas outside of formal meetings. It's important to create as many opportunities as possible for these chats. The more this informal communication occurs, the better the team performs.

Great Teams Seek Outside Information

The tendency for "group think" (where everyone thinks the same) is a trap to avoid. The best teams connect with many different outside sources, bringing what they learn back to the team for debate.

In Summary:

- More communication is better
- We need to ask everyone's opinion and learn to listen better
- Create more opportunities for informal discussions. (When was the last time you took your team out for lunch?)
- Get out of the office more to expose ourselves to new ideas.

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Upcoming Changes to Employment Legislation

The Labour – New Zealand First – Greens coalition government has been vocal about changes to workplace relations and overall employment law and continue to take a regulatory approach.

The changes have been separated into two categories: changes which the Labour Party has promised will come into effect within their first 100 days in Government, and the changes we can expect to come into force in the longer term.

While the Government has not confirmed exact dates for many of the changes, their first 100 days' will conclude in February 2018.

CHANGES EXPECTED WITHIN THE FIRST 100 DAYS

Increase in Minimum Wage

On 1 April 2018 the minimum wage will increase to \$16.50 an hour, rising to \$20 by April 2021.

This represents a 27% increase over the next 4 years and by 2020, a fulltime employee on minimum wage, will receive an annual salary of \$41,600.

Increase to Paid Parental Leave

Currently, eligible employees receive 18 weeks' paid parental leave.

Paid parental leave will increase to 26 weeks by 2020.

Paid parental leave will increase to 22 weeks on 1 July 2018, and 26 weeks on 1 July 2020.

Parental Leave payments will continue to be made by the Government, not the employer. An employers' obligations to hold positions open for the duration of parental leave remain unchanged.

Remedies for Personal Grievances

Reinstatement will once again be the primary remedy for personal grievances.

90 Day Trial Period

Where an employer wishes to terminate an employee under the 90 day trial period, the employer will have to provide reasoning behind the decision to terminate.

Employees will be entitled to challenge this decision, and a new referee service will be established to deal solely with these claims.

The Government has advised that disputes will be heard within 3 weeks of being raised, how workable this is, is not yet known. Referees will make a binding decision as to outcomes and/or penalties which cannot be appealed.

While employers and employees will be entitled to representation throughout the process, lawyers will be excluded.

Rest and Meal Breaks

Since 2015 there has been no prescription around timing and duration for employee rest and meal breaks.

It has been confirmed that a regulated rest and meal break schedule will be restored. This legislation will dictate the minimum number of, and timing for breaks depending on how many hours an employee works.

We expect that the rest and meal break schedule will be similar, if not the same, as those introduced in 2008:

- One 10 minute rest break if the employee has worked between two and four hours
- One 10 minute rest break and one 30 minute meal break if the employee has worked between four and six hours.
- Two 10 minute rest breaks and one 30 minute meal break if the employee has worked between six and eight hours.

Foreign Workers

It is proposed that New Zealand employment law will apply to all foreign workers undertaking work in New Zealand for foreign employers.

From the information available so far, it appears as though foreign workers will require New Zealand employment agreements and must receive New Zealand minimum entitlements.

It is not clear how this will work, as from the information available it would appear that even someone working in New Zealand for a month (or even 1 week), out of an Australian office, would be subject to New Zealand employment law and would require a New Zealand Employment agreement.

Collective Bargaining

Changes to collective bargaining processes include:

- Restoring a unions' ability to initiate collective bargaining in advance of employers
- Re-introduction of the duty to conclude a collective agreement
- Allowing contractors to bargain collectively and join unions
- Restoring the requirement for new workers to be employed on the same terms and conditions as provided by any existing collective agreement for the first 30 days
- Removing the ability for employers to deduct pay from workers taking partial strike action

LONG TERM CHANGES

Fair pay agreements

Labour has proposed to introduce Fair Pay Agreements (FPA) which will dictate remuneration and minimum employment standards within an industry.

FPA's will be negotiated by businesses within an industry and the Unions representing workers within that industry. The agreement reached will apply to all employees within the industry.

Redundancy Compensation

The Government has proposed to introduce minimum redundancy protection for employees

affected by restructuring.

It has been indicated that compensation could be four weeks for the first year of service and an additional 2 weeks for each subsequent year, capped at 20 years of service.

For example:

- 5 years of service = 12 weeks redundancy pay
- 20 years of service = 42 weeks of redundancy pay

For someone earning \$65,000 gross per annum, this would amount to:

- 5 years of service = \$15,000 in redundancy pay
- 20 years of service = \$52,500 in redundancy pay

It is important to note that redundancy pay is an addition to final payment of wages and any outstanding holiday pay.

The details around exact figures have not been released and this information is based on previous Labour Party policy and commentary from industry sources.

"Dependent contractors"

The Labour Government has been vocal about Independent Contractors who currently work under the control of an employer but do not receive the same minimum entitlement as employees.

While specific detail is still unknown, it is likely that the current UK model will be adopted and a middle ground between 'Employee' and 'Independent Contractor' will be created. Those who fall into this middle category of 'Dependent Contractors' will receive some of the same rights and entitlements as employees which may include annual leave and sick leave.

Summary

From the information that is available, it is clear that significant change to employment law is on the horizon. While we know that these changes will be costly for all employers, these changes will be particularly difficult for small and medium sized businesses.

It is predicted that employment levels will decrease during 2018 and by 2020 there will be approximately 15,000 fewer jobs and a significantly higher cost of living.

Furthermore, it would appear that the equal pay and pro-union bargaining laws have the potential to create an 'earning-envy' culture as it will not be only the minimum wage earners who expect a significant wage increase. This has the potential to greatly affect workplace productivity, given output over cost would decrease.

We expect there to be significant pressure on current dispute resolution bodies (Employment Relations Authority and the Employment Court)

Independent directors

It is common in New Zealand for the directors and shareholders of small companies to be the same people and many are also employees of the company – executive directors. Whether this is in the form of a family owned business or a just a small to medium sized enterprise made up of unrelated individuals this involvement on all levels can create difficulties.

The advantage of such a set up is that the individuals are motivated to make the business work and be profitable.

The downside is that the closed nature of the board can leave gaps in the knowledge and experience held by the directors and their closeness to the business can lead to subjective decision making.

Depending on the numbers on the board, this can also lead to a stalemate position if there is a difference of opinion on matters requiring board approval.

There are two other types of directors that can be brought into the board to help address these issues, non-executive directors and independent directors.

NON-EXECUTIVE DIRECTORS VS INDEPENDENT DIRECTORS

Whilst both can address the lack of knowledge and experience, a non-executive director may be representing a shareholder and, therefore, may not act without some bias.

An independent director will generally have no links with the company, other than sitting on the board, and have no affiliation to any of the other directors or shareholders.

CASE STUDY

A liquidation that we have been conducting involves a company



with two directors with the shares held by entities associated with each of the directors. One director was an executive director, employed by the company. Two further non-executive directors were appointed to the board – one nominated by each of the other directors.

The board functioned properly, and in unity, until the company faced financial issues.

When the issues were identified, one director made a proposal to restructure the company's business in an effort to remedy the problems. The restructure proposal was not accepted by the other executive director and, when it went to a vote, the non-executive directors voted with their appointor so there were two in favour and two against – stalemate.

As a consequence, the company continued to trade for a period and left all four directors with a potential liability for breaches of their duties as director.

The closely aligned shareholder interests did not want to change the boardroom dynamic by resigning as directors, or voting against their appointors interests and/or personal views. In the end the directors settled with the liquidator.

A truly independent director, with no affiliation to the other directors or the shareholding parties, could have looked at the restructure proposal in an objective way.

CONCLUSION

There is no way to know what decision an independent director might have made in the liquidation referred to above but at least a decision would have been made, and action taken accordingly, rather than having the company in limbo.

Stay safe online

Almost everyone is now making financial transactions of some sort online. It's making the job of doing business simpler and more efficient, but it's certainly not without risk. We need to be aware of how to stay safe and stay protected every day. Online hacking and identity theft can have devastating consequences.

The accounting software company CashManager lists what it says are the most important things to do – and not do – to improve your online security.

ALWAYS:

- Choose a password that contains a combination of characters, at least eight characters long.
- Update your website, software and apps as soon as a new update becomes available.
- Be cautious when receiving an email from an unknown sender.

- Keep your anti-malware and antivirus software up to date.
- Report all phishing scams to the official organisations they are trying to replicate.

NEVER:

- Give out your bank details unless you are on a legitimate shopping site with https in the url, or your official bank website.
- Use the same password for your online accounts.
- Store your personal information in unprotected documents.
- Re-enter your passwords and private information in pop-up boxes.
- Click on links that look suspicious.

– Source: www.cashmanager.io



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