

"WHERE SUCCESS  
BUILDS SUCCESS"

Newsletter for Cleland Hancox Limited

KO TO KOUTOU HOA | ROTO I NGA MAHI ● YOUR FRIENDS IN BUSINESS

Summer 2016

## IRD Claims on Former Trustee for Trust's Tax

When you resign as a trustee of a trust, you must notify the IRD in writing. Trustees are liable for the trust's tax. Inland Revenue holds all the trustees of whom they are aware, responsible for

all of the taxes incurred. The IRD considers that for tax purposes a person ceases to be a trustee when IRD are informed in writing.

## Overseas Bank Accounts and Death

Overseas involvements have been an increasing trend of our clients. One snag has been problem delays and expense of closing the foreign bank accounts and realising the other foreign financial assets of deceased clients. The AML/CFT laws do

not help, and the USA levies an estate duty.

We suggest that elderly clients check the situation for their future executors before committing or leaving significant assets overseas.

## Two Year Brightline Capital Gains Tax

New Zealand has never had a comprehensive capital gains tax. So people have become adroit at making property dealing appear to be on capital account, when the gains achieved might otherwise have looked like an income earning process. The concept at the core of this problem (from the IRD point of view) is that of the "intention of the taxpayer". Too nebulous; too difficult to ascertain.

The recent booming and speculative Auckland property market — accentuated by foreign buyers, has prompted a new "Brightline" law. Brightline because it dispenses with the fuzzy notion of taxpayer intention. If somebody buys a residential property in New Zealand from 1 October 2015 and

sells it within two years, then any capital gain is defined to be taxable. The exemptions are for the taxpayer's main home and deceased estates.

A notable feature of this two year brightline rule is the amount of data collection it has authorised, including under the Land Transfer Act 1952. For every transfer of residential land in this country a Land Transfer Tax Statement is now required. This gives the IRD a formal link into the property transfer system - with special attention to non-residents; really a de facto register of foreign buyers. [Also see article on home-owning trusts needing IRD numbers].

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Family trusts must obtain an IRD number in order to sell the property.

## Health & Safety when Working at Home

It has come to our attention that the new law (starting 4 April 2016) will not require employers to provide for the health and safety of staff who work from their homes. This workplace is outside the scope of the places of work for which employers are responsible.

## ACC Residual Levies to Finish

In 1999 ACC moved back to full funding levies — as opposed to pay-as-you-go. This required a Residual Levy to be imposed in order to fund the lifetime costs of long term injuries up to that date. Now after 16 years, this actuarial deficit is nearly made up. Parliament has passed a law which allows the Minister to set the date the Levy ends.



Cleland Hancox Limited were proud to sponsor a hole for the Asthma Waikato's Golf Tournament they held in November. Pictured Ray Hancox and Shane Ballie

## New financial reporting requirements for Not-For Profits

### IS YOUR ORGANISATION READY FOR THE REQUIRED CHANGES TO FINANCIAL REPORTING FOR THE 2016 YEAR?

Is your organisation a registered charity? If yes, then your financial statements for the year ended 31 March 2016 are required to comply with the new financial reporting act and reporting standards.

Compliance with this Act is a statutory requirement and the financial statements need to be filed with the Charities Services within 6 months of balance date.

There are four tiers in the new financial reporting requirements and which tier your organisation falls into depends on the amount of annual operating expenses and if your organisation is publicly accountable. All Charities default to Tier 1 (full reporting using Public Benefit Entity accounting standards) but can choose to report under another tier if they meet certain criteria. Most Charities will be able to adopt Tier 3 or Tier 4.

In most cases this will be similar to how you are reporting at the moment with the following additions:

1. A Statement of Entity Information – Who are we?, Why do we Exist?

2. Statement of Service Performance - “What did we do?”, When did we do it?”

3. Statement of Cash Flows - “How the entity has received and used cash” (Tier 3 only)

4. More disclosures required for related Party Transactions

Only Charities reporting under Tiers 1 and 2 are required by law to be audited or reviewed. Most major funders have taken this on board and now do not require audited financial statements if you qualify for Tier 3 or 4. However they are looking increasingly at good governance by the organisation.

Even if your organisation is not a registered charity the new financial reporting framework has an impact as you may no longer need to be audited or reviewed. This depends on your governing documents and what grant funders requirements are. The government is in the process of re writing the Incorporated Societies Act and the bill released for public discussion on 10 November 2015 includes the same reporting requirements as registered charities.

Helen Yates is a Director of Cleland Hancox Limited. For more information on the above she can be contacted on [helen@clelandhancox.co.nz](mailto:helen@clelandhancox.co.nz)

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## Trust Needs IRD number to Sell House

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There are many family trusts which own only the family home and perhaps a bach or other lifestyle property. These trusts have never had income so did not register with Inland Revenue. But as part of the new two year brightline rule, these family trusts must obtain an IRD number in order to

sell the property. The same rule applies to family trusts buying real property.

Once an IRD number is obtained the Trust is required to file a nil income tax return every year, or apply to IRD to be an inactive taxpayer.

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## Low Investment Returns

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Interest rates have now declined to a level almost unknown in living memory. Perhaps they dropped lower in the Great Depression. This is good for clients with mortgages, but not so good for most clients in their 50's or older — saving for retirement. Especially as other investment returns eg dividends and rents tend to correlate with interest rates. Overseas investment rates are worse than here.

If this downward influence remains for a long time, then retired people and the baby boomer generation coming into retirement face a leaner future. In other countries, interest rates have been low for a long time now, and retired people are eating through their capital. In the USA for example last year many millions of Americans paid a 10% penalty to withdraw lump sums from their pension funds.

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## Do you know the Importance of Completing an Annual Client Questionnaire?

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Taking time to accurately complete the annual client questionnaire can save you time and money. When you complete your questionnaire it provides your Accountant with accurate information in order for them to prepare your financial statements. The Accountant will not have to spend time contacting you to clarify matters unnecessarily.

It is also an Inland Revenue requirement that Accountants ensure that they have a completed questionnaire from you, which also provides authority to deal with the Inland Revenue on your behalf.

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“Spreadsheet” newsletters are not professional advice. They are general information for clients only, and should not be relied on for any particular matter. Please contact us if advice is required.

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Overseas  
investment  
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## Outsourcing Your Treasurer/Bookkeeping Duties

If you are having trouble finding a treasurer or bookkeeper we can take over that role or part of that role for a monthly fee. Using us will ensure continuity of service, reduce employment obligations and free up your members time to concentrate on the objectives of the organisation. It is also reassuring for you that there is someone independent overseeing the financial information for an added level of security.

### Some of the services we can provide are:

- Data entry into appropriate accounting package
  - Preparation or review of GST returns
  - Prepare Monthly financial reports for management/committee meetings
  - Collection of mail
  - Payment of invoices
  - Issue and collection of debtors
  - Payroll service
  - Grant application information
  - Attendance at Board meetings
  - Be second authoriser of bank payments/ transactions
  - Work from your premises if required
- Contact us to find out more



Xero provides a daily download of bank statements each morning and information can be accessed from your computer or other electronic devices which includes an ipad, iphone or android phones and tablets. Coding can be carried out anywhere at anytime which takes away any restrictions you may have to be at the office in order to carry out your bookkeeping.

Xero is secure and reliable. You can choose packages which are tailored to suit your business needs from the simple electronic download of bank statements (cash book) to a more complex system which has the following easy to use functions:

- Easy invoicing. Create professional invoices easily within the system
- Your latest banking and credit card transactions are imported and categorised
- View and share interactive reports and budgets in real time – no need to wait for month end
- Expenses – it is easy to handle personal expenses by reviewing and approving receipts
- Pay bills – manage your Cashflow by scheduling payments and batch paying supplies

**Contact us to find out more about Xero.**



Level 3, 18 London Street  
Hamilton 3240, New Zealand  
Telephone: 07 838 2692  
Facsimile: 07 838 1667  
Email: [info@clelandhancox.co.nz](mailto:info@clelandhancox.co.nz)  
[www.clelandhancox.co.nz](http://www.clelandhancox.co.nz)



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