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How much should you invest?

Are you investing enough to achieve your major life goals, such as retirement?

There's no one answer for how much to save or invest. Every person's investing target is a function of their specific circumstances — how much they make, how much they spend, the lifestyle or experiences they want to have later in life, and how much they're willing to sacrifice to attain it.

Regardless of where you are in your journey toward financial independence, it's generally a good idea to save **at least 20 percent** of your after-tax income each year.

If that number seems high, remember that saving and investing can take many forms. It can be traditional shares, managed funds, or ETFs, old-fashioned superannuation schemes, and of course KiwiSaver. It can also include real estate, such as repaying equity on a rental property.

By saving 20 percent or more of their income each year, people can do themselves two big favours:

- They're putting away a lot of money that can earn interest or investment returns. Eventually, the compounding effect means these earnings can out-strip their regular income from salaried employment or business.
- They're learning to live on only a portion of their income, making it easy to pay their bills later if they experience an interruption in earnings.

No matter what field you're in, investing in more education to expand your skills can also be a worthwhile form of investment in your future earning capacity.

The 50/30/20 rule is common guidance for structuring a personal budget. It basically says that:

- **50 percent of a person's regular income should be used to pay for their needs.** Needs are those bills that you

absolutely must pay and are the things necessary for survival. These include rent payments, food (groceries, not dining out!), insurance, basic transport, and utilities such as water and electricity. These are your "must-haves."

- **30 percent of their income on wants.** Wants are all the things you spend money on that are not essential. This includes dinner and movies out, that new handbag, tickets to sporting events, holidays, the latest electronic gadget, and online streaming services. Anything in the "wants" bucket is optional if you boil it down. You can work out at home instead of going to the gym, cook instead of eating out, or watch free to air TV instead of getting tickets to the game or paying for Netflix.
- **The remaining 20% should be invested.**

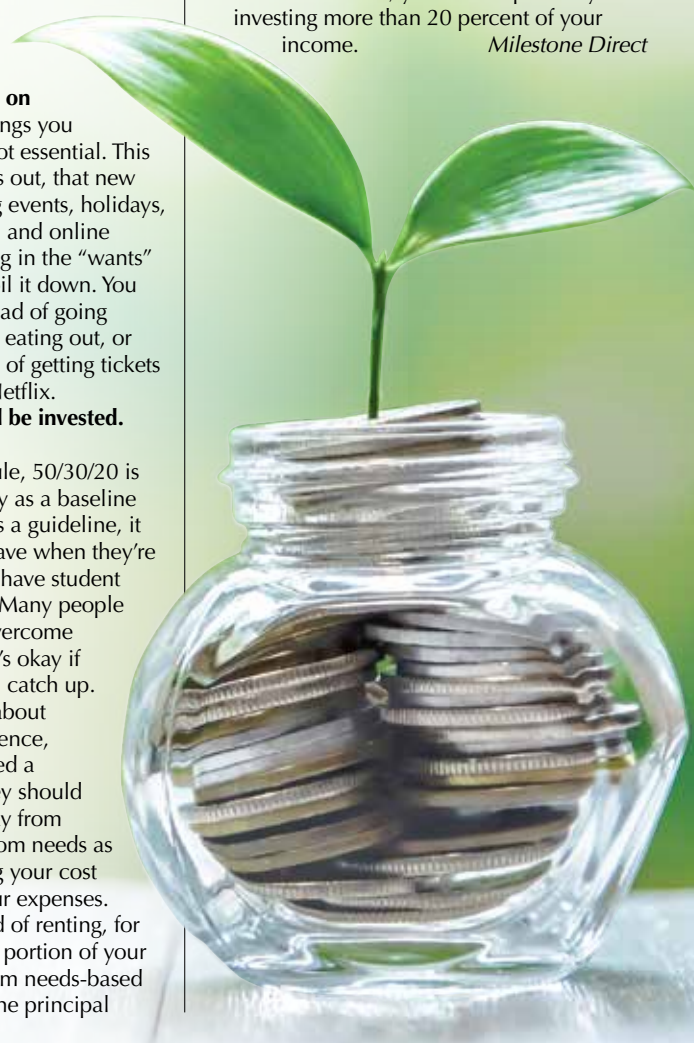
As far as the strength of the rule, 50/30/20 is a decent guideline, but mostly as a baseline for people first starting out. As a guideline, it can be harder for people to save when they're young — many young adults have student loans or their first car to buy. Many people have other bills or debts to overcome before they start saving. So, it's okay if you're behind — you can still catch up.

For those who are serious about achieving financial independence, 50/30/20 should be considered a starting point. From there, they should try to shift their spending away from wants, and then eventually from needs as well. This is done by lowering your cost of living or by reorienting your expenses. By buying a residence instead of renting, for instance, you can reclassify a portion of your housing costs each month from needs-based spending (rent) to investing (the principal

portion of mortgage repayments).

Once you start earning more, perhaps through hard work, experience, promotion, or further education, you should probably be investing more than 20 percent of your income.

Milestone Direct



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Signs of a scam

Here are a few tell-tale signs that an email, phone call or text may be a scam:

The email, phone call or text may be threatening.

The scammer might demand money. They might want to be paid in unusual ways such as gift cards (for example, iTunes cards), bitcoins or money transfer systems.

The scammer may pressure you to make a decision or do something quickly.

They might ask for passwords to your online accounts. Legitimate organisations will never

ask for passwords.

A scammer may ask for your bank account details.

Scammers often give website or email addresses that are wrong but look almost right.

The email or text might be badly worded or formatted.

If you get an email that you think might be a scam, use your mouse to hover over a link without clicking. This will let you see if the website address they are sending you to is accurate and relevant to the email you received.



Ways to grow your business

- Increase the number of customers (of the type you want to have)
- Increase their transaction frequency
- Increase the average transaction value
- Increase the effectiveness with which you do things

Break-even analysis

The break-even analysis is a very useful tool for determining your pricing strategy and tracking your cash flow. It can be used to calculate the sales volume at which your variable and fixed costs will be recovered.

Another way to look at this is that the break-even point is the point at which your product stops costing you money, and starts to generate a profit.

Your accountant will be able to help you determine your break-even point and assist with your pricing strategy.

Cash flow

Positive cash flow boosts your growth options.

The more cash your business generates the more profit it will make. The reverse may not be true. Your business accounts may show a profit but you may still owe more than you can pay.

Knowing your inwards and outwards cash flow over time enables you to plan for growth. A regular cash flow report will address the following questions:

- What your cash flow buffer is (how many weeks you have in hand should your income cease)
- How far you are from your cash flow target (what you reasonably require the business to generate over a given period)
- How your cash flow trends over time.

Similarly, a cash flow forecast enables you to manage your cash flow and to know when you may need help from your bank. We can help you with these reports, and to identify what is driving your results so that you can make the right decisions to grow your business.

Reimbursement for use of telcos

Telecommunications usage plans is Inland Revenue speak for your telephone and internet connections.

The department has created rules for reimbursing employees. This would also include shareholder employees.

If an employee is using the telecommunications less than half the time then an employer can reimburse the employee for 25 percent of the costs. If it is more than half the time the maximum reimbursement increases to 75 percent.

You are not allowed to make an arrangement with an employee to take a smaller salary and then top them back up with the allowance.

If the purchase of an asset is involved, the reimbursement by the employer has to be related to the depreciation rate each year.

These rules don't apply to the self-employed.

Generally the maximum claim for a self-employed person for reimbursement of telecommunications costs is 50 percent, however it must be related to the actual usage.

Bye-bye tax invoices

Tax invoices are to disappear. Instead, you're going to need to retain "taxable supply information". This can be in any format, but will have to include:

- "Prescribed information" - identifying the supplier and the recipient
- name of entity receiving the supply and information about the supply
- how much was paid
- the date of supply
- description of the goods or services supplied
- amount of GST charged (which can be on an inclusive basis).

As you can see, you're going to have to hold much the same information, but it could be held on your computer in any form, such as a quote.

Copy invoices will no longer need to state "copy only".

Family trusts - new tax law

When you put in a family trust tax return in the coming year (2022 tax year), more information is going to be required by Inland Revenue:

- transfers by associated people (generally means relatives of the beneficiaries) to the trust
- loans between the trust and related parties
- more details about distributions to beneficiaries
- more details about any settlements (includes free services to the trust and money donated) on the trust
- information about the power to appoint or dismiss trustees

- Inland Revenue could ask for information back-dated for seven years.



Keys to sustainable business success

- Have a dream or a vision
- Find opportunities and be prepared to take risks
- Do market research to ensure your project is viable
- Have goals and plan to achieve them
- Be determined to succeed
- Surround yourself with positive people

- Choose a team committed to providing awesome service
- Seek help from those who have skills you don't have
- Run regular management reports, you can only manage what you measure
- Promote your product or service
- Be decisive
- Stay positive when things don't go well
- Have honesty and integrity
- Love doing what you do



Debt collection in an age of INFLATION

Inflation was once a feature of commercial life. Wages and prices were expected to rise by 5 to 10 percent each and every year. When such uncertainty in the value of the dollar was pervasive, firms would build into their contracts provisions for inflation.

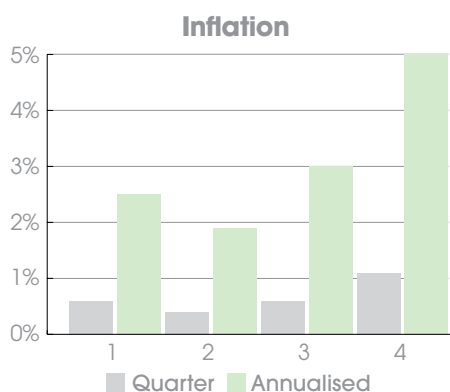
Many commercial arrangements allow for payments to be made in the future. However, when prices were moving quickly, parties needed some way to fix the future value to something that would make sense. Most businesses are not into currency trading and wanted some certainty.

Two approaches were used. The first was a price, with adjustments linked to the inflation index, usually but not always the CPI, or Consumer Price Index. Many larger organisations liked to use the Producer Price Index. The other was to build into the contract an interest rate that incorporated not only the time-value-of-money but also the expectation of inflation.

If you assumed that prices would rise by five percent, and you wanted a two percent return on any outstanding capital, an interest rate of seven percent was what you would go for.

However, inflation was tamed nearly three decades ago under the formidable Reserve Bank governor Dr Don Brash. Now prices rise by a steady and predictable one to two per cent annually. Firms have fallen out of the habit of building into their agreements any reference to the CPI or other indexes.

Now, however, the rules of the game might be about to change. There was much media excitement a few months ago when Statistics New Zealand announced that annual inflation was now 3.2 percent. However, what most media missed was that the changes in quarterly inflation looked like this:



Prices in the last quarter rose by 1.3 percent, which equates to an annual rate of inflation of over five percent. By quoting the figure of 3.3 percent, the media were only telling us how far we have come, not how fast we are going.

This is like measuring the average speed of a race car from the moment the starters light turns green and the first ten seconds, without mentioning how fast the car is speeding at the ten second mark. Well, at the moment we are at the ten second mark and the speed is 5.2 percent.

With luck, the Reserve Bank can wrestle this genie back into its bottle, but if it cannot, those of us in the business of managing receivables ledgers and setting future contract prices, will need to brush off long-lost skills.

Take control of direct debits

Don't you love it when a supplier is so important it demands you provide details of your bank account so it can direct debit it. It's helping itself to your money without you having much opportunity to dispute the bill. Even if you do dispute it, the money will have gone. The solution is quite easy. Have a dedicated bank account just for that direct debit. If the worst happens, you could stop funding the account. You retain control.

New sale rule splits business components

A new rule from 1 July 2021 states that when you sell your business, you're expected to split the price into its component parts.

If you're selling a shop, it has stock, shelves, some equipment and you want to be paid some goodwill. You're expected to put figures on all of these. As a consequence, the buyers split the price in the same way when they do their accounting.

Before this rule came in, it was common for a seller to split the figures one way and the buyer to split the figures another way – both of them for best tax advantage.

What if you overlooked doing this?

As seller, you have three months in which to notify the buyer of the split. Since the split could favour the seller and disadvantage the buyer, buyers should beware.

After the three months, it's the buyer's turn.

Covid subsidies and GST

The Covid subsidies paid by the Government contain GST, except the wages subsidy. Therefore, output tax is payable on the subsidies received, except for the wages subsidy.

How to retain company losses when selling a business

Until recently, if more than 51 percent of the shares in a company changed hands, any company losses were no longer available to be set off against future years' profits.

The law is being changed. Effective for the 2021 year (for most people 31 March 2021) you need only to make sure there is no major change in the company business when the new shareholders take over.

Permitted changes include:

- to achieve increased efficiency
- to respond to advances in technology
- the scale of the business
- using existing assets to produce new products or services related to existing ones.

Losses incurred before the 2014 year will still need to be written off. There are several complications and special cases, so if this affects you, get advice.

Fringe benefits

At present, an employer can provide up to \$1,200 of miscellaneous benefits per year to each employee, subject to certain limitations. This could be done from two companies, thus doubling the amount of non-taxable benefits. Shareholders who work for their own company are treated as employees so, as you can see, it would be possible to get \$2400 worth of benefits per year not taxable. If there were three or more companies, the figure could get even bigger. The law is to be changed so this practice can't continue.

Tax calendar

17 January 2022

Second instalment of 2022 Provisional Tax (March balance date except for those who pay Provisional Tax twice a year)
Pay GST for period ended 29 November 2021.

7 April 2022

Terminal tax for 2021 (March, April, May and June balance dates). For all clients except those who have lost their extension of time privilege.



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Rental property repairs and maintenance

Do you ever stop and wonder whether you are entitled to write off new lino or perhaps the replacement of a stove or a whole kitchen? Firstly you need to identify the relevant asset. Is it the lino, the stove or the kitchen that is the relevant asset or may be it is the whole house? IS 10/01 lists the assets Inland Revenue views as "stand alone". If the assets you are considering are in the list, they are the relevant assets.

The next step is to determine whether you are replacing the whole of the relevant asset (capital) or just a part of the asset (revenue). Unlike a free standing stove, lino is attached to the house and can't be removed and still carry on its function (floor covering) when detached, so it is just a part of the house. Replacement lino is therefore a repair to the house. Inland Revenue's view is that carpet is the relevant asset as it isn't glued down like lino. A free standing oven on the other hand could function without needing

to be attached to the house so is the relevant asset. If you replace the free standing stove, it would have to be capitalised and you would be permitted to depreciate it. Whether the original stove was separated in the asset register originally is irrelevant.

You also need to consider the nature and extent of the work undertaken on the asset. It may be so extensive that it has resulted in the reconstruction, replacement or renewal of the asset. You also need to consider whether there is any improvement. When you replace the kitchen are you putting the kitchen back into a similar state to what it was when it was originally installed, or are the changes so extensive as to be more than this (for example, replacing a formica bench with a stone one)? In the first case, you have a deductible cost but in the second case you have an addition to the house - capital and non-depreciable. Fixed assets that cost less than \$1,000 (GST exclusive) can be claimed.

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McIntyre Dick & Partners - Invercargill	(03) 211-0801
McKenzie & Co - Oamaru	(03) 434-7944
Naylor Lawrence & Associates - Palmerston North	(06) 357-0640
- Dannevirke	(06) 374-5730
- Feilding	(06) 323-8752
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RSM New Zealand - Auckland	(09) 271-4527
- Auckland North	(09) 414-6262
- Auckland Central	(09) 367-1656
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Strettons - Taupo	(07) 376-1700
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Vazey Child Limited - Hamilton	(07) 838-2169
Wallace Diack - Blenheim	(03) 578-7389
Whitelaw Weber Limited - Kerikeri	(09) 407-7117
- Kaikohe	(09) 401-0991
- Kaitiaki	(09) 408-1220
YRW Limited - Tauranga	(07) 578-0069

Immigration update

There have been significant changes to immigration processes for employers. The new system aims to simplify the visa application process, make New Zealand less reliant on lower-paid temporary workers and instead better addresses skills shortages and the skill levels of migrants.

The following summarises key changes that may relate to your business:

As of 1 November 2021, Immigration NZ are replacing six temporary work visa types (including the Essential Skills Work Visa and Long-Term Skill Shortage List Work Visa) with a new temporary work visa called the Accredited Employer Work Visa (AEWV).

For employers to hire staff using this visa type, they must go through the process to gain Accredited Employer status before hiring any migrant workers. The six visas that are being replaced are:

- Essential Skills Work Visa
- Essential Skills Work Visa – approved in principle
- Talent (Accredited Employer) Work Visa
- Long Term Skill Shortage List Work Visa
- Silver Fern Job Search Visa (closed Oct 2019)
- Silver Fern Job Practical Experience Visa

The AEWV will be issued for either 12 months or 3 years to the holder, depending on the wage, location and availability of workers for the role.



Changes in Particulars

Please remember to let us know of any changes in:

- Physical address
- E-mail address
- Phone and/or fax numbers
- Shareholdings
- Directorships
- Trustees

Or anything else that may be relevant.

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