

better business

SEPTEMBER 2015

THE TIMES THEY ARE A-CHANGIN'

Bob Dylan released an album in January 1964 entitled "The Times They Are A-Changin'". The title song being a resounding success and one of the classics. At the time the song was viewed as a reflection of the generation gap and of the political divide marking American culture.

Without going into the deeper meaning of the song and its lyrics the title is as true now as it was then. We live in times of constant and rapid change. Political, social, economic, environmental... the list goes on.

We can embrace the changing world and enjoy the opportunities and benefits that change brings. We can pretend that change isn't happening and continue in a state of denial, or we can be somewhere within these ends of the spectrum.

From a business perspective we all live in a world of change. The way that we do business has changed consistently and will continue to do so. We are influenced mostly by technological changes that should make our world easier, quicker, more connected and ultimately more successful. Every individual will have a view on how they feel about this.

We at Polson Higgs recognise that you are operating in a changing environment. Legislators make and change rules that affect you. Technology changes affect the way that you

do business. We want to be at the forefront to help you through these changes. Especially in the world of accounting software where benefits that new and developing packages have on business.

We also recognise the human side of business, that is it is important to have meaningful relationships with your financial advisors. We are here to provide this for you.

This issue of Better Business brings together some technical and some business interest information. Please read this and remember that we are here to assist you.

Certainly the words of Bob Dylan of over 50 years ago can provide comfort for today. The world always has been a changing environment. Just imagine how dull it would be if the times are not a-changin'. There are opportunities out there lets work together to capture them.



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NEW TAX ON RESIDENTIAL PROPERTY

Over the last few years the opposition, and the Government to a lesser extent, have been talking more and more about the possibility of introducing a comprehensive Capital gains tax to New Zealand. While some regimes (e.g. Foreign Investment Fund rules and Financial Arrangement Rules) have in effect taxed capital gains a comprehensive Capital Gains tax has not actually been implemented.

Further changes will occur from 1 October 2015 to tax certain land profits. While the Government has been careful not to call the new property measures a Capital Gains tax - It is.

From 1 October 2015, subject to certain exceptions, any residential property purchased and sold within two years will be subject to

tax on any gains. While properties purchased with an intention of resale have always been taxable this is a more blanket approach. The suggested rationale being that any property purchased and sold within two years must have had an intention of resale on purchase.

The Government have acknowledged that this could catch people where they have had an unexpected and sudden change of circumstances requiring a sale of recently acquired property but at this stage there is no intention to make an allowance for these circumstances.

As with most tax rules there are exceptions. One of the key exceptions in this case is for the "Main Home." The intention with this exception is to ensure the Family Home which is bought



New Zealand has one of the highest per capita numbers of trusts in the world.

has been drafted intentionally narrow in order to limit the exception to one property at a time, meaning holiday homes bought and sold within two years will always be caught however, a number of difficulties occur with the "Main Home" exemption when it comes to Trusts.

New Zealand has one of the highest per capita numbers of trusts in the world. It is relatively common for homes, especially when people are in business, to be held by the family Trust. The Government are of course aware of this and so have extended the restriction on a single "Main Home" to include property held in Trust. This is where the problems start.

The limit on one "Main Home" as drafted includes property held in any trust provided the principal settlor does not have a main home. Essentially this could mean for example the "Main Home" exception might not apply where parents gift funds to their children's trust, in the process becoming settlors, for the deposit on their family home and the parents already have a "Main Home" of their own.

and sold within two years is taken out of the tax equation, however the drafting of the legislation as it is currently proposed creates some difficulties.

The definition of "Main Home"

It will be prudent to take extra care on how property is purchased or owned to avoid unnecessarily being caught in the new rules. This is just one issue which may occur under the new rules.

New disclosure rules have also been included to help capture the information to enforce these new property taxation rules. In essence these rules will require you, via the registration process, to provide the Government with your IRD number when purchasing and selling residential land.

A similar exemption to the taxation rules will apply to excuse the requirement for disclosing the sale of the "Main Home" however for the disclosure requirement this exception will not apply to Trusts. This will require all trusts to disclose every transaction involving residential land. A potentially unintended consequence of this will be the requirement for more trusts to acquire an IRD number.

If you are purchasing any residential property after 1 October 2015, please contact one of the team at Polson Higgs to discuss how the new rules may affect you.



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Call Before You Click

- Shareholding Changes

If you have a company, we'll let you into a secret. We know, each year when we speak with you about what you want to do about dividends, that the minute we start to talk about imputation credits and the imputation credit account, we watch your eyes glaze over and we know the "la la la la la" soundtrack is playing in your head. It's okay. Almost everyone finds them hard to understand. And really, that's okay with us because... that's what we're here for, right?

So, we know it might not occur to you, when you log on to the Companies Office website to update your shareholder details, that you could have made your tax position more complicated by doing yourself out of tax credits.

Because the Companies Office has made it really easy to update details on their website and that's great. Particularly for small companies, it makes it quick, easy and convenient. However, it's not the Companies Office's job to look out for your tax position. It's ours. So when you go to update shareholder details for prior shareholding changes, there's nothing to remind you that if your company's shareholding has changed by more than 34% each year, you lose what they call "continuity of shareholding". Put another way, if your company doesn't have 66% commonality of shares

in any given year, it loses its imputation credits. You may end up paying more in tax, and you'll lose the credits you built up in previous years and there's nothing you can do about it.

The rules around shareholder continuity are about making sure that this year's shareholders who enjoy the benefits today of the tax losses that were carried forward and the imputation credits that accrued last year are largely the same people who were shareholders when those benefits were building up. To calculate a company's shareholder continuity you generally have to track the voting interests of the individuals who ultimately own the company. This is not always straightforward.

Size and timing of the proposed change? If you want to make more than a 34% change to shareholding, can we talk about it to make sure you understand all the implications? Should the company pay a dividend now to utilise available imputation credits, before you make that change in shareholding?

...you could have made your tax position more complicated by doing yourself out of tax credits.

Tax losses? Did the company have tax losses last year which were carried forward? If the proposed change in shareholding affects more than 49% of the shares, then the company won't be able to carry the tax losses forward.

Look Through Company? If the company is a Look Through Company, a transfer in shareholding may result in a tax cost.

Directors' interests? Does the proposed change affect directors' interests in any way? We should make sure the register of directors' interests is updated, in that case.

So, next time you want to just make a quick update to your company details on the Companies Office site, put down that mouse

and pick up the phone. Talk to us. We can look at your situation and what options are available. And we can also put together the documentation you need to record the transactions so everything is squared away.



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Xero Tips and Tricks



As part of the year end process you will spend a lot of time compiling source documentation to send into us so we can prepare your Annual Accounts. For those of you who are not used to accounting lingo, source documentation is the proof of your accounting records. An example

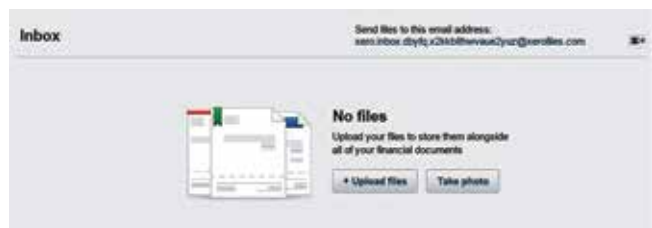
would be an invoice for the purchase of a fixed asset or a bank statement confirming the closing balance at year end. If you are using Xero there is an easy way of storing this information online for easy access. It is called Files.

To get to the Files page in Xero, just click on the folder icon found at the top right corner of every page.



To get files into Xero, you can:

- Upload them
- Drag and drop them into your inbox
- Take a photo
- Or email them in via the email address unique to your Xero subscription (we suggest you save this as a contact in your email



program so it is easy to find).



You can also attach a file anywhere you see the file attachment button in Xero including:

- Transactions such as sales invoices, quotes, bills and expense receipts
- Fixed assets

- Contacts
- Accounts in your chart of accounts
- Manual journals
- Inventory items

Files

Inbox (0)

Contracts (0)

+ New folder

Within your Files inbox you are able to create a file library (folder) for storing your files. For example you may wish to store your insurance documentation in a file library for easy access.

Use the file library if you would like to easily manage your files. From the file library you can track down a particular file and see which transactions you've attached it to.

Once you've attached an Inbox file to a transaction, Xero removes it from the Inbox. If you want to keep a record of your files in the file library, move them out of the Inbox and into another folder. We have seen several examples of businesses that are now almost entirely paperless as a result of using Xero Files.

This great feature is available at no charge as it is included in your Xero subscription!

If you would like to know more about files please contact the team at Polson Higgs, who is a Gold Partner with Xero, for further information.



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Davies Heat 'n' Cool

For more than 100 years Davies Heat 'n' Cool in Dunedin has been keeping people warm. George W. Davies was brought out to New Zealand by his uncle in 1909 to design and install heating in the seven-storey Consultancy House. George's uncle knew that his nephew had an uncanny knack of finding the best heating solutions.

Charlie Chettleburgh started with the business as a 15-year-old, serving his apprenticeship under George Davies. Charlie, who became George's right-hand man, purchased the business in 1954 when George retired.

Peter Chettleburgh, Charlie's son, joined the company in the late 1960s when he left school, and took over the running of the company in the mid-1970s. Father and son worked together for 20 years.

...It is indeed a family business.

Peter's twin sons, Lindsey and Daniel, are now very heavily involved in the business, Lindsey as operations manager and Daniel looking after the mechanical services

Charlie Chettleburgh started with the business as a 15-year-old serving his apprenticeship...

side. Sandra, Peter's wife, is the Davies Heat 'n' Cool's administrator. It is indeed a family business.

Peter described some of the changes Davies Heat 'n' Cool has undergone since he joined the company. "During

the 1980s the work was pre-contracting tender work before the company diversified into heat pumps offering a sale and installation service before branching out into designing and building heating, ventilation and air conditioning systems. Peter: "I had grounding with my father from way back, because when I first joined the firm we designed and built heating systems for schools and so forth. Design and build is probably the most interesting stuff I have ever done. Bunnings Warehouse in Dunedin was the biggest design build project we had attempted, and it has been very successful with the use of big heat pumps. Many smaller, more complex, buildings have also been undertaken."



The family business is proud that its enduring success is based on expertise, quality products and skilled workmanship.

vented by the forklift truck, which stacks products about five metres high."

Sandra Chettleburgh explained the company's involvement with Polson Higgs. "Our accountant Jim Reay changed firms to join Polson Higgs and we went with him a year and a bit ago. Polson Higgs maintains our computers, including any computer issues, which Shane Boyle and Darlene Black deal with. We would be lost without the computer help." Sandra uses Xero software and the Cloud in conjunction with Microsoft 365. "The ANZ direct link

"The store at the Synlait dry milk powder plant at Dunsandel is massive, 220,000 sq.m, about twice as big as Bunnings. The building had to be fly-proof! We designed and built a ventilation system to control the carbon monoxide levels

banking system, set up by Polson Higgs, is very good." Polson Higgs also maintains and manages the payroll of the 13 staff and everything to do with taxes. Of course it does not end there. Polson Higgs provides a wide range of support to Davies Heat 'n' Cool, and the family, including the usual Annual Accounting and Tax functions, as well as GST and FBT help and more general matters.

Davies Heat 'n' Cool continues to expand and today supplies heating and ventilation systems from Christchurch to Invercargill. Peter: "We are doing some work in medium-sized new buildings in Christchurch. Our staff work up there for one or two weeks, then they come back to Dunedin." The floods in South Dunedin and this year's savage winter have also meant more winter business than usual for Davies Heat 'n' Cool.

The family business is proud that its enduring success is based on expertise, quality products and skilled workmanship. And they are proud, too, that Lindsey and Daniel Chettleburgh will take over the business and keep up the family connection. Polson Higgs is very pleased to be an integral part of the team.

Have You Considered Outsourcing Your Payroll?

Polson Higgs can provide all aspects of payroll management and advice on legislative compliance issues in a timely, accurate and confidential manner.

We will:

- Pay your staff on time, every time
- Maintain holiday and sick leave entitlements
- Ensure compliance with all relevant legislation
- Arrange payment of wages and PAYE for you

You will:

- Never need to pay annual licence fees again
- Never need to buy or upgrade software again

- Never forget an Inland Revenue Department filing date again
- Never need to arrange "back-up" payroll staff again

Our payroll management service is a total peace of mind package. If you would like to learn more about this service, please contact Michelle who will be pleased to give you further details of what this package can do for your business.



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Technology Giants Rule



There are three major technology players in 2015; Apple, Google and Microsoft.

Apple is the only one of them that is principally a hardware vendor. Apple's customer base has been built on their "i" hardware, particularly iPhones and iPads. These devices didn't even exist eight years ago. Apple is also the best hardware provider for customer retention as Apple buyers truly LOVE their devices. However, even though it's a hardware company, those Apple fanatics will tell you it's the Apps or software applications they use on their iPhone or iPad that make them dependent on those devices in their everyday lives. Apple is also very, very good at making money. Apple reported they had \$US203 billion in cash and equivalents and only \$US4.5 billion in debt at the end of June 2015.

Google, the Internet software giant, mainly generates revenue from advertising on their own websites or other websites that display Google ads. While that doesn't seem a particularly diverse product range, the revenue stream is enormous. The share or stock market is a good place to provide you with an idea of the size and scale of Google. On July 17 of this year, Google's share price rise on that single day increased their market capitalisation by more than the entire value of HP (Hewlett Packard). As number two in the worldwide market share of the personal computer market (desktops and laptops), HP is a significant hardware vendor but they're still a minnow when compared to Google. Google is reinvesting a lot of that revenue into other products like Google Chrome and Android that they provide to customers and other vendors for free. In 2014, Google's Android accounted for 78% of worldwide smartphone sales, Apple 18% and Microsoft only 3%.

Microsoft is undergoing a major transformation as it transitions to a cloud services software company and it seems to be working. Their cloud-based Office as a subscription service, Microsoft Office 365, is

their fastest growing software product ever! Of particular interest is the recent release of the Windows 10 operating system. The sale of Windows software pre-installed on new computers or as a software upgrade used to generate 20%

of total revenue for Microsoft. For Windows 10, Microsoft will earn some revenue on the sale of Windows 10 pre-installed on new computers but virtually zero from software upgrades. Upgrades from older versions

Windows 7 and Windows 8.1 to Windows 10 are FREE on older computers. To say "Microsoft" and "Windows for free" in the same sentence is almost incomprehensible but the end game for Microsoft different today. They want Microsoft Windows 10 operating system on your computer over the next 12 months whatever the initial short term impact on revenue.

It's a fascinating time to be working with technology in our business as well as our valued clients. It's area that is changing our business and personal lives like never before.

To say "Microsoft" and "Windows for free" in the same sentence is almost incomprehensible...



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It's a fascinating time to be working with technology in our business as well as our valued clients.

Where is the value in Wealth Management?

We are often asked to describe the value we provide our clients in the process of giving investment advice and it can initially be hard for a prospective client to understand what we do to add value. Although the obvious answer is that we are here to help our clients make good decisions with their money, it is always about a lot more than investing.

For most people money is usually not the end goal in itself; there are usually wants and needs that the money is designed to provide for. We go further than just looking at their investments and investigate what each client's real wants and needs are and that's where we think the real value comes in. We begin every assignment with a new client in the same way – we are looking to discover what is important to each individual and it never ceases to amaze how different people's expectations and values are when it comes to their money. Digging deeper in getting to know a client has become an important part of what we do because if we get their priorities wrong at the beginning it reduces our chances of helping them succeed, and therefore reduces our chances of being great financial advisers.

During the time we put aside for what we call 'discovery', we focus on the major events in people's lives and especially on the critical transitions that people go through, such as the sale of a farm or business, or change of family circumstances. Once we have found out what our client's real future needs and goals are, we can then use our modelling tools to either reassure them that they are on track to achieve their goals, or perhaps suggest a strategy that will result in meeting these future needs. Being able to provide some confidence about the future with a written plan is always a big added value that client's tell us they appreciate (more than one has told us it's our secret weapon!).

Being able to revisit this strategy or modelling

...more than one has told us it's our secret weapon!

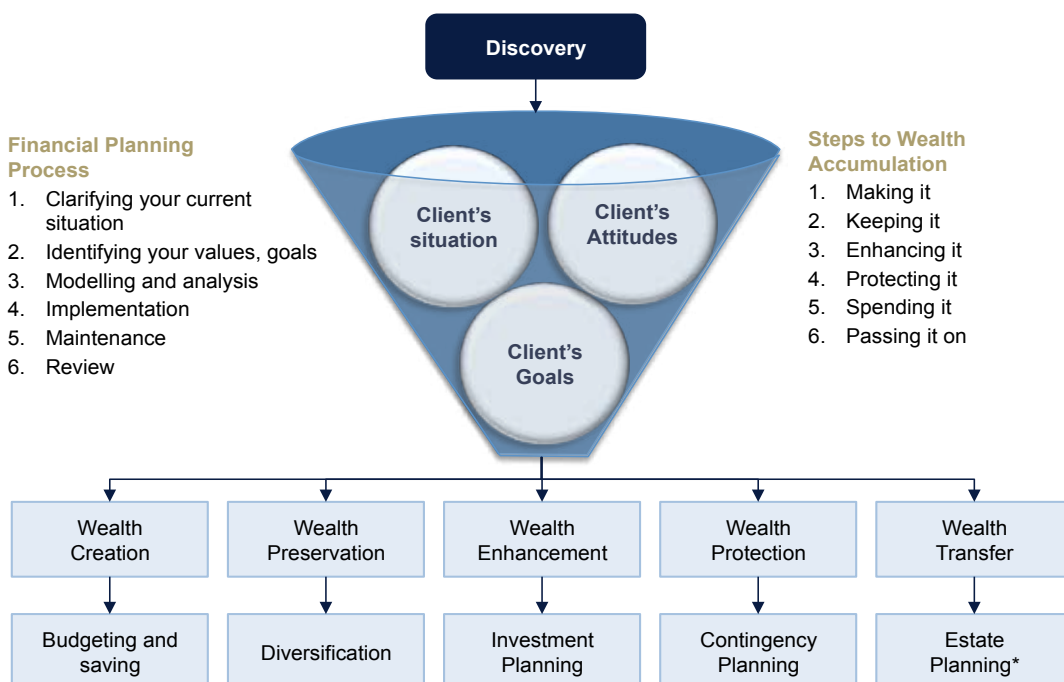
For most people money is usually not the end goal in itself; there are usually wants and needs that the money is designed to provide for.

throughout the lifetime of the portfolio is also valuable as when people change what they are doing there is often room for error or risk. For example, say you are selling a business or a farm, this is the time when people often

realise that they are going to be operating outside of their normal comfort zones. It is certainly the time to work with your accountant and lawyer. Your financial adviser can show you how to protect the capital that you have exchanged for your lifetime of hard work, your farm or your business and use it to maintain your lifestyle and achieve your goals. Our wealth management team is here to make sure you make the good decisions with your money ... with the extra value of reassurance and a good night's sleep.



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POLSON HIGGS STAFF CONFERENCE

The Partners and staff at Polson Higgs took a day out of the office for our annual staff conference in July. We may have been away from Moray Place but work was never far away. This year's conference was focused on our advisory services and how our team can best support our clients with professional advice and continued client focused service.

This year's theme, Touch-Pause-Engage reflects our core values and encapsulates the stages we see as critical in delivering client focused services:

- Touch** Listen, understand the challenges and identify the client needs
- Pause** Utilise our individual and collective experience and systems to mitigate risk and determine the best course of action for our client
- Engage** Present and implement the agreed solution while providing ongoing support and service

The conference was an excellent opportunity to develop our collective knowledge and skills and reaffirm the Polson Higgs core values. As clients you should expect to see us looking for meaningful ways to engage with you and ensure we better understand you and your business.



Coach Tim delivers the pre-match team talk



Client-focused advice and support was the theme of the conference



real people, better business

SENIOR TEAM

Partners

Business Advisory

Stephen Higgs

Steve Dunbar

Tim Dunn

Henry van Dyk

Michael Turner

Taxation Services

Business Advisory

Associate

Carole Adair

Consultant

Philip Broughton

Jim Reay

Accounting Solutions

Jamie Reidie

Jenni Redding

Alison Glover

Business Systems Solutions

Donna Hall

Information Technology

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Payroll Services

Michelle MacDonald

Human Resources

Julia Connor

Training

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Wealth Management

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