



## DECEMBER 2017

The Principals and Staff of Graham & Dobson thank you for your continued support during 2017. We wish you a safe, happy and relaxing festive season.

The offices of Graham & Dobson will be closed from 4.00pm on Friday, 22 December and will re-open on Thursday, 11 January 2018 at 8.00am.

### SNIPPETS

#### CHRISTMAS/NEW YEAR ANNUAL LEAVE

Preparation and communication of your intentions as an employer are key to successfully managing staff leave over the festive season. Things to cover off might be:

- Review your employees' current leave entitlements
- Check the availability of entitlements to enable the cashing up 1 week's annual leave if requested. A request can only be made if there is leave entitlement available – employees cannot cash up any accrued leave that is not yet an entitlement.
- If the business is to close down, communicate the expectation of leave to be taken with all staff
- If you have an employee without leave to cover the close down period it is important you confirm the business' policy around paying in advance. If you opt to pay an employee advanced leave, be aware that if the employee leaves after the festive season you may be left with debt which can be difficult to recover.
- Ask staff to have all leave applications, including cashing up requests, in by a specific date
- Advise staff the dates they are to receive their wages
- If you require staff to work or be on call – provide a clear roster that outlines this.



#### IRD DISCLOSURE ABOUT COMPANIES CARRYING LARGE TAX DEBTS

A recent law change now permits the Inland Revenue to disclose information about companies to certain approved credit reporting agencies if the companies breach a tax debt threshold of \$150,000.00.

Access to this service provides creditors with greater protection from businesses carrying large tax debts and is a critical development for smaller creditors who may otherwise be unaware they are dealing with a business with a credit risk. Once a company's tax debt reaches a level greater than \$150,000.00, it generally means that options to resolve the debt have been unsuccessful and the Inland Revenue may be considering insolvency and enforcement of proceedings.

There are three credit reporting companies in New Zealand: Centrix, Dun & Bradstreet and Equifax.

#### CHECK YOUR OWN CREDIT RECORD

Your credit information is changing all the time and could have a big impact, especially if you are about to seek credit. It is free to get a copy of your credit record but if you want the information quickly you will need to pay for it. Included in your credit record is your payment history for:

- Credit Cards
- Mortgages
- Car Finance
- Hire Purchases
- Electricity, gas and phone accounts may also be on your report

If you discover credit accounts you never applied for, payment defaults you do not know about or credit enquiries you never authorised, then you might have been the victim of identity fraud. You can ask the credit reporting companies to correct your information – each company has their own procedure for doing this.

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## OFFSET MORTGAGES

While offset mortgages are popular in the United Kingdom and Australia, they are still relatively unknown in New Zealand with only a few banks offering mortgage offset accounts. So what do they offer and are they a better alternative to a typical conventional mortgage?

An offset mortgage account allows the mortgage holder to designate a set number of accounts (savings and everyday) where they hold a positive balance to be offset against the balance of their mortgage.

Interest is only paid on the outstanding balance of the mortgage account after the balance of the offset accounts has been deducted. For example, where the balance of the mortgage is \$450,000 and the balance of the savings and everyday accounts is \$25,000, then interest is only paid on \$425,000. This differs from a typical mortgage where interest is paid on the full home loan while interest is earned on current and savings accounts.



Revolving credit also differs from an offset mortgage in that revolving credit is a single account combining the home loan, transactions and savings accounts. Similar to a normal transactional account, funds can be deposited and withdrawn at any time with

automatic payment, direct debits and electronic transfer also being possible.

### Comment

#### The pros of offset mortgages:

- **Offset mortgages are flexible with the mortgage being able to be decreased with one-off payments as opposed to paying a lump sum payment on a conventional mortgage which cannot be redrawn later**
- **As interest is calculated daily, every deposit into the savings and transaction accounts works to reduce the mortgage and the amount of interest paid.**
- **Withdrawals can be made as required with withdrawals from the current or savings account acting as an extension of the mortgage.**
- **Saving occurs at a faster rate than a conventional mortgage and a conventional savings account.**

#### The cons of offset mortgages:

- **Offset mortgages are only available as floating interest rate mortgages.**
- **The interest rate on floating rate mortgages tends to be higher than fixed term mortgages.**
- **Interest rate changes, both up and down, occur quickly so you need to be comfortable with the uncertainty of a floating rate**
- **Even though the offset accounts may have a positive balance they do not earn interest.**
- **Offset mortgages require financial discipline. Deposits decrease the home loan balance, while withdrawals increase it.**

## LIFE HAS NEVER BEEN SO GOOD!

Earlier this year online publisher, Our World in Data, published a report, 'The World as 100 People Over the Last Two Centuries', using poverty, literacy, health, freedom, population and education as markers of global living conditions. The study shows remarkable progress has been made – yet very few survey respondents thought the world was getting better.

However, if the world in our own lifetime is the only timeframe considered, it is easy to make the mistake of thinking living conditions are relatively static – the rich, healthy and educated parts of the globe are here and the poor, uneducated, sick regions are there. One reason we do not see progress is partly due to the media being obsessed with single, negative current events without a historical perspective and partly that we are possibly unaware of just how bad the past was!

In 1820 only a tiny elite lived comfortably while the vast majority (95% of the global population) lived in subsistence conditions in what we would call extreme poverty today - as late as 1981 that figure was 44% of the global population. Latest statistics put the figure at around 10% and this is remarkable that, in a time of unprecedented population growth, our world has managed to give more people more prosperity.

The study's most interesting conclusions relate to knowledge, productivity and education. If you were aged over 15 years living in 1800 there was a 90% chance you would not be able to read. Today, more than eight out of 10 people can read and there are 4.6 billion people older than 15 years who are literate. In 1800 there were fewer than 100 million folk with that same skill.

Increased productivity, more output for less input, has substantially reduced weekly working hours since the 1930s and has made vital goods and services less scarce – equaling more food, better clothing and housing etc.

Forecast projections are that by 2100 there will be almost no one without formal education and more than 7 billion minds will have the benefit from at least a secondary school education.

However, admittedly the big problems remain, not the least because one out of every ten people still living in poverty is unacceptable. But what is clear from the long-term perspective is that the last 200 years has brought us to a better position than ever to solve these problems. As we approach Christmas 2017 and take stock of our daily lives, now would be a good time to reflect on the realisation that the global potential of people able to work together today to bring about needed solutions for the world is a much, much stronger group than there ever was on this planet.





## TECHNOLOGY AND R&M

The condition of New Zealand's housing stock was hotly debated during the lead up to election. Houses that were acceptable in the 1970s are now considered outdated

and of low quality for the 21<sup>st</sup> century living and housing expectations. With the expected introduction of new legislation, we await what changes landlords will be expected to implement to meet rental housing 'Warrant of Fitness' compliance.

Landlords may need to incur significant improvement costs to bring properties up to the required standard so the inevitable question will arise – are the costs tax deductible or capital in nature? Because buildings are not depreciable, if expenses are considered to be capital, no tax deduction at all will be available.

The process of determining whether expenditure comprises tax deductible repairs and maintenance work (R&M) has been established by the Courts, but it is inherently a judgement call and is open to interpretation. As a result, it is a common area of review by Inland Revenue during an investigation process.

Generally, where new building materials are extensively used, and perform different functions, the work may be considered a change in the character of the asset and is therefore more likely to be a capital cost in nature. However, one accepted means of treating expenditure as deductible R&M is on the basis of technological improvement. This rationale is based on the Privy Council decision in *Auckland Gas Co. Limited v CIR* in which Judge Lord Nichols stated:

"It often happens that, with improvements in technology, a replacement part is better than the original and will last longer or function better. That does not, of itself, change the character of the larger object or, hence, the appropriate description of the work. Some objects do not lend themselves so readily to this exercise in characterization. A house is a simple example of this. Demolition and rebuilding a dangerous flank wall of a house would normally be regarded as repairing the house. The answer might not be so obvious if an entire derelict wing of a large house were demolished and rebuilt, especially if the new construction were substantially different from the original. Questions of degree might arise in such cases."

### Comment:

**With regard to the above another common example would be:**

**A landlord may choose to replace all of the windows of a rental property with double glazing. Double glazing can make a substantial improvement to a home's heat retention as it is often the windows and**

**frames that are most susceptible to heat loss. However, there is a strong argument for concluding that the character of the house is unchanged visually and the windows perform the same function. While not explicitly dictated as the only choice of window they can be considered the new technical 'standard' and indeed will be if compliance to rental housing warranty standards becomes the norm. In principle the cost of making this type of improvement should be tax deductible.**

**However, if, in this example, it is deemed that the landlord has chosen to replace the windows with a better product to improve the character of the house, then arguably a capital improvement has been made. After all, single glazed windows are available and common sense suggests the landlord would not have paid for the improvement if no advantage was gained. Perhaps replacing double glazing in the odd broken window from a stray cricket ball instead of all of the windows might be deemed in line with the IRD's interpretation of R&M expenditure!**

## ALL THAT GLITTERS

Can an investment in gold bullion create a tax liability? The Inland Revenue thinks so as the Department considers that gold bullion purchased as an investment has been acquired with the purpose of eventual disposal – i.e. a purpose or intention of resale exists. In the IRD's view, a commodity such as gold does not provide an annual return or income for the period of ownership, so it is hard to argue that the investment was for any purposes other than eventual disposal. The 'reason' for acquiring the gold is, in their view, irrelevant. Whether it has been purchased as an investment, or a hedge, this does not counter the underlying purpose of disposal in the future. In comparison with other investments such as shares in a company, which may be held on capital account for the purpose of deriving a dividend stream, gold has none of these features.



Consequently, any gain that arises on its future sale is income and taxable.

## JOIN THE QUEUE!!!

New Zealand employers sometimes complain that it is hard to get keen candidates to fill jobs but there is no such problem in China. Some 1.56 million job seekers recently registered for the 'guoka' – China's national civil service examination. Of those, 1.38 million were approved to sit the exam and compete for 28,533 government jobs – i.e. 48 applicants for every position! The most coveted position has attracted 2,666 candidates for a place in the Liaison Office of the International Co-operation Department of the National Health and Family Planning Commission!



## ALL I WANT FOR CHRISTMAS!



It was coming up to Christmas and Sammy asked his mum if he could have a new bike.

So, she told him that the best idea would be to write to Santa Claus.

But Sammy, having just played a vital role in the school nativity play, said he would prefer to write to the baby Jesus. Sammy went to his room and wrote "Dear Jesus, I have been a very good boy and would like to have a bike for Christmas".



But he wasn't very happy when he read it over. So he decided to try again and this time he wrote: "Dear Jesus, I'm a good boy most of the time and want a bike for Christmas".

He read it back and wasn't happy with that one either. He tried a third version. "Dear Jesus, I could be a good boy if I tried hard and especially if I had a new bike". He read that one too, but he still wasn't satisfied.

So, he decided to go out for a walk while he thought about a better approach. After a short time he passed a house with a small statue of the Virgin Mary in the front garden. He crept in, stuffed the statue under his coat, hurried home and hid it under the bed. The he wrote this letter: "Dear Jesus, if you want to see your mother again, you'd better send me a new bike".

