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What a busy 2017 it has been, with many changes on the political front in NZ and overseas. It will be interesting to see what 2018 will bring us, but before we get to 2018, it is time for us to rest, reflect and put on a few kgs while we are doing it. The traditional summer at the Bach looks to be a hot dry one according to NIWA, which sounds fabulous for the campers. Let's hope there is some rain in between for the farmers.

With 2017 coming to a close, we would like to say that we are grateful for the relationships we have built with you over time. We look forward to many more years of service, helping you grow your business through an era of constant change. Just as business is changing, so is accountancy and how we provide this service for you. We at Robertson Fulton know the importance of keeping up with these changes and are excited to work with you through these.

As part of the change, some of our Xero and MYOB clients have started receiving monthly report packs from us. We have found these a great way of keeping on top of key performance indicators for your business. If you think this would benefit your business and would like more information please contact us.

We wish you all a lovely Christmas and New Year and look forward to catching up in 2018.

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HOLIDAY OFFICE CLOSURE

Our office will close at 1p.m. on Friday 22 December 2017 and reopen at 8.30a.m. on Monday 15 January 2018. Arrangements will be made with individual clients who require any regular services during this time.

OCTOBER/NOVEMBER GST RETURNS

With our Christmas closedown, all GST returns that we prepare will need to be done before we close on 22 December 2017. Please make a special effort to bring your papers in by 12 December and answer any questions promptly. Remember payment is required by 15 January 2018.

TECHNOLOGY AND R & M

The condition of New Zealand's housing stock was hotly debated during the lead up to the election. Houses that were acceptable in the 1970's are now considered outdated and low quality for 21st century living. With the introduction of a new Government we are waiting to see what changes will be implemented for landlords, for example, will a housing Warrant of Fitness be introduced?



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 will be available at all.

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 the investigation process.

Generally, where new building materials are used extensively, and perform different functions, then this may be considered a change in the character of the asset and therefore more likely to be capital in nature. However, one accepted means of treating expenditure as deductible R&M is on the basis of technological improvement. The rationale is based on the Privy Council decision in *Auckland Gas Co. Limited v CIR* in which 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 characterisation...A house is a simple example of this. Demolition and rebuilding of 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 may arise in such cases.

Let's take another common example. A landlord may choose to replace all of the windows of a

rental property with double glazing. Double glazed windows 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. It is visually unchanged 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'.

In principle, the cost of making this type of improvement should be tax deductible. The tax benefit promotes the creation of healthier, greener homes. However, if in this example the landlord had chosen to replace the windows with a better product to improve the character of the house, then arguably a capital improvement has been made. Single glazed windows are available and common sense suggests the landlord would not have paid for the improvement if no advantage was gained.

Instead of replacing all of the windows, replacing the odd broken window from a stray cricket ball might help the landlord keep out of Inland Revenue's capital improvement firing line.



Accommodation allowances

In today's fast changing commercial environment, it is common for employers to provide board or accommodation to employees, and move staff to new locations based on the needs of the business. This can occur when permanently moving an employee to a new location, or when temporarily seconding an employee to a different location.



The value of board or accommodation provided to an employee generally comprises income of the employee and is subject to PAYE. However, in relocation scenarios, given the business drivers in these situations, it is sometimes possible for accommodation to be provided tax free. It is a case of working through them to confirm how they apply.

In the case of a permanent relocation, payments for accommodation may be treated as non-taxable to the employee for up to three months from arrival at the new location, providing they have moved to:

- take up employment with a new employer, or
- take up new duties at a new location with the existing employer, or
- continue in their current position, but at a new location.

If an accommodation allowance continues after this three month period, the payments will become taxable to the employee. Various other costs can also be paid tax free, such as moving and transportation costs.

In the context of a temporary change in workplace, such as a secondment, the length of the secondment and its purpose will determine to what extent accommodation will be tax free. If the business intends the temporary relocation to last for a period up to 2 years, then the accommodation for the whole duration of the secondment can be treated as non-taxable. This tax free period can be extended to 3 years if the employee is working on a project to build, restore or demolish a capital asset. If it becomes evident that the employee will need to be seconded for more than 2 or 3 years, respectively, the accommodation will be taxable from the date expectations change.

Real life scenarios can of course be complicated and the rules themselves are complex as they attempt to accommodate (no pun intended) those situations. For example, the rules cater for employees with multiple workplaces, new employees who are placed on immediate secondment and extended periods due to

exceptional circumstances, such as natural disasters.

For businesses encountering this scenario, the first priority is to ensure there is a system in place to capture and record the provision of accommodation to employees. It is then a matter of confirming what the correct tax treatment is.

Team Development

Business owners and managers are often focused on a company's financial performance, return on investment and other monetary indicators of business success. Intangible investment in human capital can commonly be overlooked as it can be difficult to measure improvements, or any direct increase in outputs. However, employee effectiveness is critical to the performance of all business processes.

There are numerous approaches that can be used to increase the effectiveness of employees, of these the athlete-centred and employee-centred approaches are summarised below.

Using the sports field as an example, an athlete-centred approach has been proven to develop exceptional gamesmanship and understanding. Although you might not view your colleagues as a sports team, significant improvements can be made by investing time in staff development. Managers have a great opportunity to lead from the front and pave the way for a more effective organisation by creating a learning, rather than telling, work environment. To achieve this, managers need to view themselves more as teachers than autocrats. This allows employees the freedom to make errors and gives managers points to correct and teach from, developing a greater understanding of the problems at hand.

Graham Henry has an active focus on empowering the rugby players he coaches, giving them more responsibility, rather than using a dictatorial decision making style. An important aspect of this



There is no distinction between whether the employer pays an accommodation allowance or provides accommodation directly. The rules can be complex depending on the situation, but tax is a business expense (and risk) like any other and should be managed accordingly.

is having a senior leadership team available to help set the tone of the group for situations both on and off the field. By allowing the senior leadership team control of almost all aspects of the team, the athletes have greater buy in and acceptance of team decisions.

Business owners could take a similar approach and create high performing teams to adopt an athlete-centred approach in business decision making processes.

The employee-centred approach relies on managers to empower their staff to take responsibility for their own work outputs, and make their own decisions.

A nurturing environment must be created for this 'employee-centred' approach to be successful. A 'teach, don't tell' coaching style is a core principle. Managers who avoid telling employees what to do, and instead test their understanding of topics through the use of leading questions, enable employees to develop their decision-making ability and technical skills, and still think through the problem themselves. The managers still 'teach' the employee in areas where there is a lack of knowledge, but the questioning style helps the employees broaden their knowledge and retain responsibility for their outputs.

Good managers will move between this 'teach don't tell' style of coaching, to a more prescriptive style as required by the situation.

Voluntary Disclosures

Tradies have been under the watchful eye of Inland Revenue (IRD) for the last few years since being identified as a cash-dominated industry in 2012. A media campaign has recently been launched to warn tradespeople that doing 'cash jobs' may comprise tax evasion, and that every cash job leaves a trail (or lack of a trail) that can be tracked by IRD.

Some of you will have received letters directly from the IRD warning you of this. Tradespeople risk substantial financial consequences if they are caught understating taxable income in their tax



returns. Fines, penalties, use of money interest, and potential prosecution are all within the IRD's power.

This begs the question, if a business identifies an error and the correct amount of tax has not been paid, what should be done? Contrary to some views, it does not comprise a windfall gain. If a business has underpaid its tax by more than \$1,000 it must be disclosed to IRD. No business

owner will take joy in having to pro-actively contact IRD.

The first thing to do is contact us. After discussing the situation with you, we will consider the best course of action for you. Normally the best way to proceed is by making a written voluntary disclosure. With any reassessment to increase a person's tax liability, IRD will consider whether shortfall penalties should be charged. If charged, the amount is based on a percentage of the tax shortfall and the percentage varies depending on the nature of the error and the taxpayer's culpability. The taxpayer should therefore use their written disclosure to clearly set out what the error is, how it arose and what actions have been taken to ensure it will not happen again. The disclosure provides an opportunity to explain the facts in the most favourable way possible. It reassures IRD of the taxpayer's willingness to comply with the tax rules and demonstrates that the matter is being taken seriously.

In most cases, if a voluntary disclosure is made no shortfall penalty should be charged.

In a small number of cases, the IRD may receive the disclosure and commence an investigation. IRD could potentially take the view that if one error was made, something else might be wrong. This reinforces the need to word the initial disclosure carefully to ensure there is an appearance of 'there is nothing to see here, move along'.

If a voluntary disclosure is not made, and IRD find the error themselves the situation could be much worse. Shortfall penalties, that may not otherwise have been applied, could be charged and the IRD may undertake a more comprehensive investigation. So we would always recommend full disclosure at the earliest opportunity. Being able to sleep at night is worth some temporary discomfort.

We will assist you with any disclosures needed to be made to IRD to ensure these are done with your best interests in mind.

Holiday Pay

Do you have Christmas holiday pays to calculate and are unsure if it is being done correctly? If so contact Cherie in our office who does many of

these and can help you through what can be difficult calculations.



Snippets

Sneezing Colleagues

Modern workplaces are increasingly open plan, so sneezing colleagues are hard to miss during the flu and hay fever seasons. Many would be able to name one or two people with particularly loud or interesting sounding sneezes, but funnily enough research has found that the sounds made when people sneeze are all for show.

The usual 'achoo' sound so many of us make when sneezing is specific to English speakers. The Japanese sneeze is a "hakashun", with the Filipino a "ha-ching", and the French making an "atchoum".



You might then wonder what sound a deaf person makes when they sneeze. Interestingly, their common sound is simply one of air escaping from their lungs. No achoos, hakashuns or atchoums – just a quick exhalation.

Researchers from University College, London found that the sound and volume of a sneeze is

modified depending on social acceptability. As deaf people have never heard the sneezing sounds of people around them, they sneeze how nature intended.

So next time the sneezing season comes round, listen in to how your colleagues sneeze – you might learn something interesting about their background.

HO HO HO!

A Sign of the Times

As a little girl climbed onto Santa's lap, Santa asked the usual, "And what would you like for Christmas?" The child stared at him open mouthed & horrified for a few minutes, then gasped: "Didn't you get my E-mail?"

