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The official newsletter of NZ CA Limited

AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

June 2024 Issue 87

UNVEILING NZ'S BUSINESS METAMORPHOSIS

Navigating transformation in the land of the long white cloud (Aotearoa)

In this Issue

Tax calendar

30 June 2024
Last day to apply for annual FBT returns

28 July 2024
3rd instalment 2024 Provisional Tax (June balance date)

28 August 2024
1st instalment 2025 Provisional Tax (March balance date)

Business transformation in New Zealand is a dynamic process influenced by a range of factors, including technological advancements, market trends, regulatory changes, and global economic shifts. Let's delve into the specifics:

1 Digital Transformation

Aotearoa has been actively embracing digital transformation across industries. The adoption of cloud computing, big data analytics, artificial intelligence, and Internet of Things (IoT) technologies has been steadily growing. According to a report by NZTech, digital technologies contributed approximately NZ$6.6 billion to New Zealand's GDP in 2019, with significant potential for further growth.

2 Government Initiatives

The New Zealand government has been proactive in promoting business transformation through various initiatives. For instance, the Digital Economy Work Programme focuses on enhancing digital skills, improving digital infrastructure, and fostering innovation to drive economic growth. Additionally, initiatives like the Business Transformation Agenda aim to streamline government services and improve the ease of doing business. *www.mbie.govt.nz/business-and-employment/economic-development/digital-economy/digital-economy-work*

3 SMEs and Startups

Small and medium enterprises (SMEs) play a crucial role in driving business transformation in Aotearoa. The country has a vibrant startup ecosystem supported by organisations like Callaghan Innovation and New Zealand Trade and Enterprise (NZTE). These entities provide funding, mentorship, and networking opportunities to help startups scale and innovate. *www.callaghaninnovation.govt.nz, www.nzte.govt.nz*

4 Sustainable Practices

With growing awareness of environmental issues, sustainability has become an integral part of business transformation efforts in Aotearoa. Companies are increasingly adopting sustainable practices, such as reducing carbon emissions, minimizing waste, and investing in renewable energy sources. The government's commitment to carbon neutrality by 2050 further reinforces this trend.

5 Industry Focus

Various sectors in New Zealand are undergoing significant transformation. For example, the agriculture sector is embracing precision farming techniques and agri-tech solutions to improve productivity and sustainability. The tourism industry is leveraging digital platforms and immersive experiences to enhance visitor engagement. Similarly, the healthcare sector is exploring telehealth services and digital health solutions to improve patient care and accessibility.

6 Challenges and Opportunities

While business transformation presents numerous opportunities, it also comes with challenges. These may include legacy systems, resistance to change, cybersecurity risks, and skill shortages. Addressing these challenges requires a holistic approach involving technology adoption, organisational change management, and strategic partnerships.

7 Impact of COVID-19

The COVID-19 pandemic has accelerated digital transformation efforts in Aotearoa. Remote work, e-commerce, and digital communication tools have become essential for business continuity. Companies have pivoted their strategies to adapt to changing consumer behaviour and market dynamics, highlighting the importance of agility and resilience in the face of disruptions.

8 Future Outlook

Business transformation in New Zealand is expected to continue at a rapid pace, driven by evolving customer expectations, technological innovation, and regulatory reforms. Organisations that embrace digitalisation, agility, and sustainability will be well-positioned to thrive in the increasingly competitive global landscape.

By considering these key factors, businesses in Aotearoa can develop strategic roadmaps for successful transformation initiatives, ensuring long-term growth and competitiveness in the global marketplace.

Disclaimer: The following response was generated by ChatGPT, an AI language model developed by OpenAI with a little bit of help from us.

Invest in yourself

The ultimate path to success

"The secret is not to find the meaning of life, but to use your life to make things that are meaningful." – **James Clear**

Amongst the myriad of opportunities and challenges, there exists one investment that reigns supreme: the investment in yourself. Beyond the stock markets and real estate ventures lies a realm of infinite potential waiting to be tapped – YOU!

Picture this: You are the CEO of your own life. Every decision you make, every action you take, how you see the world, your self-beliefs, and your fears, shape the trajectory of your journey. Investing in yourself is not merely an investment; it is a commitment to your own growth, a dedication to becoming your optimal self each day.

What does it mean to invest in yourself? It means prioritizing your physical, mental, and emotional well-being. It means acquiring new knowledge, honing your skills, and expanding your horizons. It means setting audacious goals and relentlessly pursuing them, knowing that every step forward is a step closer to your dreams.

Investing in yourself is not always easy. It requires discipline, perseverance, and a willingness to step out of your comfort zone. But remember this: the greatest returns often come from the greatest investments. As you invest in yourself, you are laying the foundation for a future filled with success, fulfilment, and abundance.

Think of yourself as a garden. Just as a garden requires care, nourishment, and attention to flourish, so too do you.

Cultivate your mind with books, courses, and experiences that enrich your understanding of the world.

Cultivate your body with exercise, proper nutrition, and rest, knowing that a healthy body is the vessel through which you will achieve greatness.

Cultivate your spirit with moments of reflection, gratitude, and connection, for it is from within that true strength and resilience emerge.

Investing in yourself is not selfish; it is ESSENTIAL. When you show up as your optimal self, you inspire others to do the same. Your growth becomes a ripple effect - the impact on you, and other people you interact with in life becomes your ripple effect.

We urge you: to seize this moment. Take the leap of faith. Invest in yourself with unwavering conviction and watch as the world unfolds before you in ways you never thought possible. Remember, the journey of self-investment is not a sprint; it is a journey to enjoy along the way.

Pace yourself, stay focused, and never lose sight of the extraordinary individual you are destined to become.

In the end, the greatest investment you can ever make is in yourself. Let your investment in yourself be the catalyst for a life beyond your wildest dreams.

Source: thementalfitnesscompany.com

"The secret to getting ahead is getting started." – **Mark Twain**

Changes to personal income tax thresholds

Threshold Increases: Starting from 31 July 2024, the income tax thresholds will increase. This change aims to reduce income tax for people earning over $14,000 per annum (The current thresholds have remained the same since 2010, except for a new top threshold introduced in 2021).

New Thresholds:
$0 – $15,600: Tax rate of 10.5%
$15,601 – $53,500: Tax rate of 17.5%
$53,501 – $78,100: Tax rate of 30%
$78,101 – $180,000: Tax rate of 33%
$180,001 and above: No change (tax rate of 39%)

These adjustments aim to align tax thresholds with wage growth and provide relief to taxpayers.

COMPANY VEHICLES KEPT AT HOME BUT USED FOR BUSINESS

– general rules – quick refresher

Certain commercial vehicles, as defined in publication IR409 ("work-related vehicles"), can be taken home by employees and the related travel not be considered a fringe benefit. You must give employees a letter explaining the restrictions. It is not sufficient just to include an appropriate clause in the employment contract. A draft of the letter is set out on page 9 of the above-mentioned publication.

Travel to and from work is exempt from FBT and travel which is incidental to business travel. Inland Revenue gives the example of passing a bank on the way home from work.

There is also a requirement for the employer to check at least once a quarter to ensure compliance.

Cars (ie not "work-related vehicles") are treated differently. There is no right for an employee to take the vehicle home and still be exempt from Fringe Benefit Tax, apart from Emergency calls, as defined.

In some cases, the business actually operates from home and therefore both cars and commercial vehicles travelling from there to clients/ customers could still be considered to be at work travel. Fringe Benefit Tax would not apply.

However, if an employee, who just works at home as a matter of convenience and from time to time uses the company car to get from home to an actual place of work, for example a general medical practitioner travelling to the health centre each day, use of their company car would be a fringe benefit.

It is rumoured Inland Revenue may be going to look at compliance with the fringe benefit tax rules, which apply to motor vehicles. There could be an issue with twin cab vehicles not being considered work-related. These vehicles seat 4 people and have a shorter cargo bed than a regular work-related vehicle.

Recommendation: inform clients of the need to comply and perhaps send those using work-related vehicles a sample letter to use.

Disposal of trading stock at below Market Value

From 1 April 2024, it is proposed donations of trading stock to charities will be deemed to occur at cost price so there is no taxable profit on the donation. Normally, disposal of trading stock is deemed to occur at market value. For example, the owner of a business who takes stock for personal use.

Trustee Income to be taxed at 39%

The Trust tax rate will change to 39% for the 2024/25 income year.

Deceased estates will avoid the 39% rate in the year of death and the following 3 years. During that time they will continue to be taxed at 33%.

Special rules will also enable certain disabled beneficiary trusts to continue to be taxed at 33%.

Trustee net income of $10,000 or less is to be taxed at 33%.

Shareholding continuity and different classes of shares – watch your imputation credits and losses!

For imputation and losses purposes there is a minimum percentage of shares that must be maintained for a particular period. For imputation 66% must be maintained from the date an imputation credit arises to the date it is used. For losses carried forward 49% must be maintained from the beginning of the period the losses arose till the end of the period they are utilised, unless the business continuity test applies. For loss offsets or subvention payments a minimum of 66% common shareholding must be maintained. Where there are different classes of shares with different voting rights the continuity percentage is based on a weighted average calculation of four voting rights. These are, the right to vote on:

- declaration of dividends
- changes to the company's constitution
- any variation in the company's capital, or
- the appointment of company director

For example. There are 120 A and 120 B shares and the A shares have the right to vote on all four of the above and the B shares only have the right to vote on the declaration of a dividend. The B shares weighting is therefore only 25% compared to the A shares at 100%. The weighted average of the B shares is therefore 25 divided by 125 (100 + 25) being 20%. This means all the B shares could be sold without breaching the imputation continuity percentage.

Minimum wage increase from 1 April

The Government has announced that the adult minimum wage will increase to $23.15 per hour from 1 April 2024. The training and starting out minimum wages will increase to $18.52 per hour.

Different wage thresholds may apply for employees on certain working visas.

90-day trial period

With effect from Saturday 23 December 2023, all employers in New Zealand, no matter their size, can use 90-day trial periods.

Prior to Saturday 23 December 2023, this has only applied to employers with 19 or fewer employees.

If employers are hiring people on certain work visas, they will also need to consider immigration requirements relating to the use of trial periods.

A valid trial period

- must be agreed to in the employment agreement before the employee starts work, or the trial period is invalid
- must have a valid notice period in the employment contract
- can be used in any industry and for any job
- must be agreed by the employer and employee in good faith – an employee can't be forced into being employed on a trial period
- means that the employee can't bring a personal grievance for unjustified dismissal or other legal proceeding about their dismissal (as long as the employer has given the right amount of notice to the employee)
- must be in the employment agreement and must state that:
  - — from the very start of their employment, the employee will be on a trial for a set period which isn't more than 90 days (but can be less). The exact time period must be stated, for example, it could be 30 days, or 90 days, or another stated time period; and
  - — during the trial, the employer can dismiss the employee, and the employee can't bring a personal grievance or other legal proceedings about their dismissal.

Rights and responsibilities

Employees on valid trial periods:

- have all minimum employment rights and responsibilities (for example, in relation to health and safety, minimum pay, annual holidays, public holidays, sick and bereavement leave and equal pay), except bringing a personal grievance for unjustified dismissal
- must be treated the same as other employees who aren't on a trial period.

Even if an employee is on a trial period, they can still bring a personal grievance on grounds other than about their dismissal.

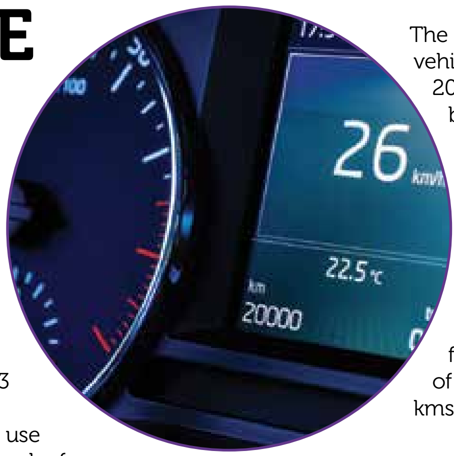
Giving notice of dismissal

If the trial period isn't going well and the employer decides to dismiss the employee, they must give notice to the employee that they will be dismissed.

The employer doesn't have to give reasons for a dismissal during a trial period or give the employee a chance to comment before the dismissal. But it is good practice to tell the employee why they are being dismissed.

Source: www.topflight.co.nz

MILAGE RATE



Every year, the Commissioner must decide how much businesses can claim for using their vehicles. They do this by looking back at the costs from the previous year, like from April 2023 to March 2024.

Businesses can either use these set rates or keep track of their actual vehicle expenses to claim back money for using their vehicles for work.

Employers can also use these rates to pay back employees for using their own cars for work. But it's important to know that these rates are based on past costs and might not match exactly what people spend every day.

The rates for claiming vehicle expenses for the 2023/2024 year are listed below. The first-tier rates are higher this year because of increases in fuel, insurance, and interest rates. The Tier two rate is for running costs only. Use the Tier two rate for the business portion of any travel over 14,000 kms in a year.

Vehicle Type	Tier One Rate	Tier Two Rate
Petrol or Diesel	$1.04	35 cents
Petrol Hybrid	$1.04	21 cents
Electric	$1.04	12 cents

Bright line test
on property held briefly

Residential rental property owners will know they could be subject to tax on any gain on sale if they've owned the property for only a short period of time.

The name for this short period is "the bright line test".

There were three bright line tests – for two years, five years and 10 years. Effective from 1 July 2024 it is proposed to replace the three bright line tests with just one test.

It will be for a two-year period regardless of whether the property was bought before or after 1 July 2024.

Note the start of the bright line test is from the date of settlement on purchase. It is not from the date of signing the sale and purchase agreement, unless it is a purchase off the plan in which case it is the date the agreement is signed. This has always been the case. The bright line period ends at the time of signing a sale and purchase agreement for the sale of property.

Main home exclusion

Here are some points to remember:

- Where the bright line end date is after 1 July 2024 the main home exclusion will be based on the predominant use of the land.
- The land must be used most of the time as the main home.
- The exception is for a new build. When determining the predominant use, you ignore the period under construction.

Interest deductions on residential rentals

There have been significant changes to the tax deductibility of interest paid to buy residential rental property.

Previously, subject to certain transitional rules, the interest on money borrowed to buy property where the sale and purchase agreement was dated after the 27 March 2021 was not tax deductible.

Limits were imposed on property bought before this date.

The current situation is:

Year ended 31 March 2024 – 50% of interest is claimable on property where the sale and purchase agreement was dated on or before the 27 March 2021.

Year ending 31 March 2025 – the cut-off date is dropped, and interest deduction is partially allowed for all borrowing. The claim is limited to 80% of the interest incurred.

Year ending 31 March 2026 onwards – full tax deductibility of interest is restored.

Knowing your numbers

In these crazy times of change and uncertainty, it's more important than ever to have a handle on the vital signs of your business – you know, the numbers that keep the engine running smoothly.

Businesses can hit a rough patch just because they're not keeping tabs on those key numbers. Not knowing where your leads are coming from, how well you're turning them into customers, or the value those customers bring, can lead to chaos and a shaky future.

On the flip side, those who stay on top of their numbers are the ones who can spot trends on the horizon and pivot like pros. They're not just surviving; they're thriving.

So, what's important for a small business?

You should watch your balance sheet ratios – that's the equity you have in the business. In tougher times, like right now, you should have more equity in your business than in good times. Take the example of a property investor who can rely on increasing property values when times are good. A 20% equity works fine. But when times change you need more, otherwise there's too much borrowed money and too much interest to pay.

Keep an eye on your KPIs – that's your key performance indicators. These are things like:

Revenue growth. This measures the increase in revenue over a period of time. It indicates the business's overall financial performance.

Profit margin. It shows the percentage of revenue remaining after all expenses are deducted, reflecting the efficiency of operations.

New customer cost. Knowing what it costs to get a new customer gives you a good idea of how effective your marketing and sales are.

Customer lifetime value (CLV). This estimates the total revenue a business can expect from a single customer over their lifetime, guiding decisions on customer retention and loyalty programs.

So, keep your eyes on the prize, stay agile, and remember that with the right insights, your business can not only weather the storm but come out stronger on the other side!

NZ CA
AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

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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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BUSINESS SUCCESSION

or sale on your mind

Selling or transitioning out of a business that you've created, or brought and build, over many years can be a stomach-wrenching exercise. There's a lot to think about, people to consider, a myriad of critical decisions to make, and actions to take to achieve the best succession or sale outcome.

One of the many positives about being a business owner is that you don't have to traverse this critical junction alone.

This report charts a road map for small and medium-sized (SME) business owners to help them prepare for and successfully transition out of their businesses – whether it be in full, or part, to family members or an external third party. Creating a business that survives its initial years and grows into a sustainable and thriving enterprise is not a given.

Therefore, it's critical that business owners make the same time, financial and emotional commitment to the succession or sale of their business, as they've poured into starting and running it.

> "Just 77% of new business entrants survive their first year."

Reasons for Sale

There are a range of reasons why businesses change hands. Most often the circumstances are planned, such as the owner retiring and wanting to realise wealth tied up in the business, or they want to grow the business's competitive advantage, with the help of strategic acquirer, so they can step back from the day-to-day running. However, sometimes unforeseen circumstances force succession or sale, such as an owner's ill-health, surprise interest from a competitor or other buyer, as well as favourable or unfavourable market conditions.

Planning ahead is critical

Business succession can be complex and risky, particularly If it's done too quickly, and without proper planning, adequate due diligence, and a clear strategy. It can also be disruptive for employees, suppliers and customers.

Best practice would see business owners working on a succession or sale strategy well before they intend to pass on or sell the business. This plan should include a range of possible options and be regularly revisited and refined every year as the business grows and matures. It should also take into account market forces at play including changing business conditions so that it can be enacted quickly if circumstances demand it.

This plan should align closely with your strategic business goals, these goals broadly fall into the following categories:

- Creating a disruptive business or technology that may change ownership quickly – this may have involved attracting start-up venture capital.
- Building and expanding a medium-term business – this may have involved attracting critical skillsets, injecting additional capital through debt finance, debt funding, investors or injecting your own personal capital.
- Maintaining and sustaining a long-term business. Such as a family business – this may have involved several stages of workplace expansion, capital raising, purchases and restricting.

The 3P's of a successful succession or exit strategy

Achieving the best succession or exit outcome relies on having a well-planned deliberate and timely succession or sales strategy. This means getting a fair price for your business, negotiating reasonable exit terms and after-tax results to ensure you have the best retirement options, and a smooth handover to the new owners.

The 3Ps of a successful succession or exit strategy are:

PURPOSE – What do you want to achieve? Full sale or partial sell-down and to who – family, investors, shareholders, a competitor, or employees?

PREPARATION – Who would be interested in your business? How would you find them? What makes your business attractive to them and therefore maximises your business value?

PROCESS – Which exit option is the most appropriate to help you achieve your goals and deliver the best outcome?

> "Only 51% are still operating after three years."

Business decisions are never made in vacuum. External factors, such as the state of the economy, industry, market and regulatory environment in which your business operates, as well as global geo-political events, can influence the vale of your business, market or investor demand, and timing of sale.

Keeping an eye on the economic forecasts, particularly related to the cash rate and inflation, can help business owners and their advisors plot a succession or sale strategy that is timed to take advantage or strong economic conditions. On the buy side, buyers and investors will also use these forecasts to inform their decisions about capital availability and the price at which they will transact.

See us for more information and assistance.
www.rsm.global/newzealand/

WORKPLACE HEALTH AND SAFETY (HSWA): The basics

"The best time to plant a tree was 20 years ago. The second-best time is now." **– Chinese Proverb**

The 2019 eruption of Whakaari (White Island) was catastrophic, killing and seriously injuring many people. WorkSafe's criminal prosecutions against entities and officers connected with the tragedy for breaches of the Health and Safety at Work Act 2015 ("HSWA") have now concluded, with sentencing in February 2024 and significant fines and reparation imposed.

The prosecutions serve as a timely reminder of the importance of taking health and safety seriously. In this article we outline employers' core health and safety obligations and steps that should be taken as a minimum to comply with them.

HSWA KEY DUTIES

HSWA imposes obligations on a variety of people and entities relating to work, workplaces, and people in or near places of work.

The primary duty holder under HSWA is a person conducting a business or undertaking ("PCBU"), which includes employers. A PCBU must ensure so far as is reasonably practicable, the health and safety of "workers". "Workers" include employees, contractors/subcontractors, employees of contractors or subcontractors, apprentices, trainees and volunteer workers.

This duty requires, among other things, that a PCBU ensures, so far as is reasonably practicable:

- a work environment that is without risks to health and safety.
- safe plant and structures and safe systems.
- safe use, handling and storage of plant, substances and structures; and
- the provision of any information, training, instruction or supervision that is necessary to protect all persons from risks to their health and safety.

What is reasonably practicable depends on a number of factors, including: the likelihood of the hazard or risk, the potential degree of harm, what the PCBU knows or reasonably ought to know about the hazard or risk and ways of eliminating it, and the availability and suitability of ways to eliminate the risk.

PCBUs must engage with workers on matters that could affect their health and safety and provide a reasonable opportunity for workers to participate in improving health and safety. Workers have their own statutory duties to take reasonable care for their own health and safety, the safety of others, and to comply with a PCBU's reasonable health and safety instructions, policies and procedures.

A PCBU must also ensure, so far as is reasonably practicable, that the health and safety of other persons (e.g. customers, clients, suppliers) is not put at risk from work carried out as part of the PCBU's business or undertaking.

OFFICER DUTIES

Directors and other individuals with significant influence over the management of a PCBU have personal duties under HSWA to exercise due diligence to ensure that the PCBU complies with its health and safety duties. Breaches of the duty can result in fines and imprisonment, and officers cannot insure themselves or be indemnified against such liability.

WORKSAFE ENFORCEMENT

As New Zealand's health and safety regulator, WorkSafe has a range of enforcement tools for breaches of HSWA. These include issuing improvement notices, infringement notices, accepting enforceable undertakings and prosecutions. Failure to comply with duties under HSWA is a criminal offence prosecuted in the District Court. Individuals can also bring their own prosecutions where WorkSafe chooses not to, in limited circumstances.

EMPLOYMENT DUTIES

It is an implied term of all employment agreements that employers must provide a safe workplace. Breach of health and safety is also often cited as a disadvantage for the purpose of an unjustified disadvantage claim. Therefore, employers need to be alert to the risk of breach of contract claims and personal grievances for health and safety failings.

These claims are more common in practice than WorkSafe enforcement action, particularly when bullying or other actions causing psychological harm are alleged.

It is important in the context of these claims to remember employees are barred from bringing a claim for compensation for work-related personal injuries covered by the Accident Compensation Act 2001.

PRACTICAL MANAGEMENT

To help mitigate the risks associated with breaching health and safety obligations, as a minimum, employers should consider implementing the following:

- Health and safety policy
- Bullying and harassment policy
- Emergency plan/procedure
- Accident/incident register
- Hazard/risk register

Health and safety is a vast and at times complex area of law. What is required in addition to the above will depend on the nature of the work undertaken and the environment the PCBU operates in.

Source: www.langtonhudsonbutcher.co.nz