



It's been a while...

You haven't had a newsletter from us in a while – that's because we've been busy setting up a new accounting and firm management system: CCH iFirm.

The new software will be faster and more cost-effective than the old system, which we've had for 25 years (and that should give you some idea of why it was time for a change!).

Large tax audit bill avoided

As we've indicated previously, we're very concerned about increasing IRD audit activity. Often, through entirely no fault of your own, you can find yourself on the end of an audit.

Needless to say, this can be a stressful and **very** expensive experience. A recent example is from one of our clients who were faced with the threat of a potential tax bill from IRD of around \$30,000 over four years. But because they involved us early, we were able to help them to come out of it with no tax liability.

We will soon be offering Audit Shield insurance to our clients. This insurance is to cover you against a potential IRD audit. More information about Audit Shield and what it covers will be sent to you shortly, and will explain what to do to sign up.

Domestic house insurance – are you relying on the online calculators?

One of our clients – Omni Insurance Brokers – has written a helpful and interesting article about the new specified sum insurance for residential property. (The article is at the end of this newsletter.) If you are considering insuring based on the amount presented to you by an online calculator, then we encourage you to read this article – our clients report these calculators can be underestimating by up to a third!

Outlook for the Kiwi dollar

It looks as if our dollar is likely to strengthen in 2014, as the Reserve Bank Governor has indicated he is likely to raise interest rates in the New Year. Check out [this article from Bloomberg](#) for more details.

And what do we think about the economy?

Clients often ask us our view of the economy... While we are not economists, it is our view that unless we see significant adverse events, such as a local natural disaster or an overseas meltdown, the New Zealand economy is in the beginnings of a recovery.

Our take on this is that for the first time for many years, businesses and households will be affected by significant inflationary pressures. **We recommend businesses that have the opportunity for increased sales watch cash flow very carefully, and discuss with us the implications of increasing business.**

You may have to increase stock holding and accounts receivable balances, which in the short-term may place your finances under considerable pressure. We can assist with the calculation and management of these new challenges and advise on funding options.

Preparing for the Silly Season

We are at the end of spring and the Christmas break is just around the corner. Here are a few points to think about over the next few weeks:

1. Are you having a shutdown period? If so, you will need to communicate this to your customers and let them know any alternative contact details (if necessary).
2. Managing stock – if you have to increase your stock during November and December, check your last years' patterns for what sold and what you ended up having to put on sale to clear the excess stock.
3. Cashflow – GST and provisional tax are both due on 15 January. Also wages will still need to be paid and PAYE is due 20 January.

4. Staff Christmas Events – there are multiple options around staff functions that do not have to cost a lot of money. You could ask your staff for input as some may prefer an outdoors event rather than the traditional dinner.

Remember, COMMUNICATION is a big way to avoid problems; ask us for assistance (with cashflow, forecasting or tax finance) if you are going to need extra funding or to increase your borrowing. Banks will be more receptive to contact earlier when you foresee a problem rather than a panicked phone call in January.

Repairs & Maintenance on Rental Properties – what is deductible?

It's all about timing! If your rental property is in need of repairs and maintenance after a tenant has moved out and before a new tenant moves in, then the expenses incurred are deductible.

However, if your tenant moves out and you *then* decide to sell the property, any repairs and maintenance expenses incurred after the tenant has left are not deductible.

All maintenance costs on a rental property are only deductible if it is going to return an income. If you decide to sell your rental property, contact us first (and before your tenant moves out) to discuss the situation.

Great NZ tax swindle

The September 2013 issue of North & South magazine has an interesting article on the leakages from the NZ tax system. Specifically, both large corporations and cash-job contractors are able to avoid paying much (if any) tax, which increases the burden that falls on middle-class salary earners and small to medium businesses.

Unfortunately the article is not online, but we have a copy of the magazine in our offices and will happily send you a copy if you are interested.

Are you entitled to a refund?

You may have heard the ads on the radio about getting tax refunds. While a small number of people are entitled to a refund, most people who have had tax deducted at the correct rate have paid the correct amount of tax, so are not due a refund.

These ads focus on the people who get refunds, not on the hundreds of people who have paid the correct amount of tax or who would have had tax to pay. The large amounts usually refer to cases where the taxpayer has several years of tax refunds owing to them.

We want you to be assured that we always check all of your entitlements.

GST and Provisional Tax – 15 January

The next tax date for GST and provisional tax is 15 January 2014. As the Christmas break is only three weeks away, we wanted to give you plenty of notice – some people will return to work on 6 January, but others will return on 13 January. To help you prepare, we will be mailing the tax letters this week.

Accounting software

We continue to recommend that our clients use either Xero, Banklink or MYOB for your in-house financial management. We note there has been a recent small change to Xero's pricing – [click here](#) to see a Stuff article about this.

If you have any questions about what package might be best for your needs, please contact the accountant in our team who you usually deal with. What is best depends on the size and nature of your business, plus your inclination (or not!) for bookwork.

Aussie rules

You may have heard that a majority of the NZ Institute of Chartered Accountants (NZICA) members recently voted to join the Institute of Chartered Accountants in Australia (ICAA).

We actually think this move is a bit premature, but the intention of members was to improve services for clients. This shouldn't affect you directly – we just want to keep you in the loop.

And finally...

Email has been part of business life for quite a while now, but it's still worth repeating: always make sure you only hit "reply all" when you really mean to.

[This article](#) points out some of the downsides to accidental mass-emails, which can range from server failures to being fired!

Our office will be closed from Monday, 23 December 2013 and we will reopen Monday, 13 January 2014.

We hope 2013 has been good to you, and wish you all the best for the Christmas season!

From the team at Oborn & Johnson

Guest Article from one of our clients: Omni Insurance



Domestic House Insurance

As of 1st July 2013, house insurance policies through all major suppliers in New Zealand were changed from their previous “replacement to square metre” wording to a “replacement to specified sum insured” wording. This means each home owner at their policy renewal, or for any new policy, will be required to nominate a sum they are satisfied will enable them to rebuild their home in the event of a total loss.

The primary reason behind this change is to enable insurers, and their reinsurers, to be able to accurately determine their level of exposure in New Zealand. Previously, on a replacement to square metre wording, the insurer had no realistic indication of how much the likely cost to replace or reinstate any home would be. The earthquakes in Christchurch showed that two houses in a similar area of the same size could have a markedly different rebuild cost due to the quality of, and products used in, construction, among other factors. By changing to policies which replace to a specified sum insured, insurers now know exactly what their exposure in the New Zealand market is, and each property owner accordingly will pay for the right amount of cover for their home based on their elected sum insured.

There are a variety of ways to assist with calculating your home rebuild cost. The best option is to obtain a valuation for insurance purposes via a suitably qualified registered valuer. The cost for this varies (with indicative pricing for domestic homes ranging from \$350 + GST up to \$1,000 + GST, dependent on the valuation company, location, size and construction of the home). Alternatively, home owners can utilise insurance-approved estimated rebuild calculators. These calculators are available online and are free to use. It takes approximately 10 minutes to run through a series of questions detailing the specifics of your home. The end of the process provides you with an estimated rebuild cost for your home based on the declared information. Two of these calculators can be found at the following links;

- <http://need2know.org.nz/what-you-need-to-do/estimate-your-rebuilding-cost/>
- <http://vero.co.nz/dirvz/vero/vero.nsf/Content/SumInsuredTools>

As a house insurance policy approaches renewal and the switch from replacement to square metres to replacement to specified sum insured wording, the insurer will propose a value at which to renew your policy. The values proposed by insurers are based on basic information available to them. Accordingly, the figure provided will not be accurate and should not be relied upon to provide sufficient cover in the event of loss. In our experience, the figures provided by insurers can be underinsuring a property by several hundred thousand dollars. An article released recently in the insurance industry supports our finding, with reports indicating at least 40% of home owners could be underinsuring their homes by not undertaking the necessary calculators or valuations prior to their renewal and agreeing to use the basic figures supplied by insurers.

At Omni Insurance Brokers Ltd we believe the most important thing to keep in mind when proceeding to change your cover to the new sum insured wording is to ensure, as the home owner, that the sum you elect to use on your policy is one you will be happy with if your home was to suffer a loss (through Natural Disaster or otherwise) during the period of cover. Take the necessary time to review your policy and make sure the cover is how you want it to be right from your renewal date.

For more information, contact:

Matt Thorburn or Clint Alcock

matt@omniinsurance.co.nz / clint@omniinsurance.co.nz

Ph: 0800-552-222 / 09 578 2222

PO Box 128167, Remuera, AUCKLAND 1541

The information presented in this newsletter is not rendering accounting or legal advice. Because taxation and accounting matters must be dealt with on a case by case basis, the information presented herein is not intended to supplant professional advice being sought in regard to a specific issue.