Issue Two: Twenty Twenty One

ADAPT | EVOLVE | TRANSFORM

Covisory Connect

MAGAZINE

INTRODUCTION:

NIGEL SMITH
Founder -
Covisory Group

2021 has been an interesting year to say the least.

We all know it is not normal, with COVID travel restrictions in place and the constant fear of lockdowns that the Government is programming into us. While most of you reading this are okay financially, many continue to suffer, including a lot of small businesses.

I was recently in the Hawkes Bay. It was sad to see unpicked fruit rotting on fruit trees. Many businesses simply cannot get labour, let alone customers if you work in the tourism sector.

At Covisory we have been steady, even busy at times. However, what we are seeing are routine or small enquiries. What we do not see out there is confidence by businesses and people to make big decisions or investments. There is simply too much uncertainty for that. People are spending and doing, but mainly on things that directly benefit themselves personally.

We do not see housing prices slowing up on their rapid increase as long as there remains cheap money and a continued inflationary effect on the costs of construction. The recent ill thought-out changes to the Brightline tests and the removal of interest deductibility have not even dented the continued rising prices. The Labour Government's ill thought-out changes are still vague and uncertain, with 143 pages of issues, questions and options set out in the Government's consultative document.

We question how much they will listen to our submissions and the problems we will identify to them. Our article on the changes in this issue should enlighten but also worry you.

2021 also marks the 15th anniversary of Covisory. While we will cover off some milestones in subsequent issues, our feature article this month looks at what the new normal is for all of us across a range of areas in our life. COVID has changed our lives, but the rate or pace of change has certainly increased. Next issue we will look forward at what we can expect in changes for the next 5 years.

What 2021 has bought is an even closer and more personal working relationship between you and our team. We have continued to be your trusted adviser and sounding board, a privilege which we cherish, respect and value.

Nigel Smith

CONTENTS

About us

[but really all about how we can assist you with your issues and concerns]

Are you looking to understand what is important to you from your perspective?

We partner with you to help you understand what is truly important to you. We help individuals, families, and their businesses to exceed their expectations for what matters most to them.

Have a problem?

We work with you to transform how you conduct your businesses and trusts. We help you to build enduring, resilient systems and capabilities across all that you do.

Our team defines us

Covisory is a team that are united by a strong set of values, with a deep commitment to making a positive impact through our work and how we connect with you, our client.

With an expert team with significant technical and commercial experience based in both New Zealand and Australia, we combine local insight and global expertise and contacts to help you turn your goals into reality.

Our consultants include accountants, lawyers, designers, business managers, entrepreneurs, strategists, researchers, and writers. We can provide you with the right team, with the right expertise and experience when you need it.

All our people have been drawn to Covisory for the opportunity to apply their expertise to important complex challenges that you face.

Our reputation is defined by our interactions with our clients

- We help clients build strong systems to achieve better performance through data.
- We work with you to build positive outcomes for your future, and for future succession.
- We create solutions that are always in partnership with you, that uniquely combine our expertise and the particular resources of your business and family circumstances. We deliver innovative solutions that create immediate results and a strong framework to sustain your progress into the future.

OUR PURPOSE

To be innovative customer-centric advisers exceeding your expectations for your business, trust, wealth & tax needs

Recent Work

What have we been working on – May – June 2021

Our work is always diverse and interesting and currently includes the following:

Tax work relating to:

- Property Developments - GST and Income tax consequences.
- Solutions for tax debt.
- Inland Revenue queries on GST refunds.
- Refinance and change in banks for major trading company.
- Tax residency for NZ individual who during covid period relocated to Thailand.
- Review of group of property-owning companies to optimise tax.
- How to structure JV for land ownership between property developer and tenant.

International Focus work relating to:

- Machine Learning (ML) / Artificial Intelligence (AI) consulting assignment for the optimisation of subcontinental sugar cane manufacture.
- Involved with business brokering opportunity relating to the sale of a high-performing local IT cloud/data/security/networking firm, working alongside Mike Bradley on this one.
- Partner work with prominent UK, APAC + US strategic alliance partners such as SingularityNet.io – in international Blockchain marketplace.
- Financial consolidation and statutory group reporting for international insurance company (ANZ, EU + UK) – working with NASDAQ-listed firm Konsolidator.com.
- Corporate Trustee work (for NZ Foreign Trusts) – general accounting / investments / cash flows.; Colin's mentoring on the side-line on this one – from time to time.
- Advice on Market Entry / Internationalisation for Cyber Security SaaS solution – penetrating the German market and its extended home markets across D-A-CH.

Trust work relating to:

- Trust restructure and opinions re requirement to disclose information to beneficiaries and in particular divorced ex-husband.
- Transfer of a trusteeship for a global retirement trust, including transfer of all bank account and investments.
- Finalisation of a RFP for the management of trust investments and the subsequent appointment of investment advisors after a review period.
- Carrying out anti-money laundering checks for non-residents who need to apply for a New Zealand IRD number but do not require a New Zealand bank account.
- Review of a New Zealand family trust structure where the majority of beneficiaries are now tax resident overseas and consideration of the tax planning implications on that.
- Clean up of retirement of trustees from 10 years ago where the retiring trustees were not properly discharged at the time.
- Helping trustees consider the information disclosure requirements and drafting of resolutions to record trustee decisions regarding disclosure.
- trust dispute re unit titled property

We are happy to help you, please give us a call on +64 9 3071777.

Trapped in New Zealand

So you were either visiting New Zealand when COVID hit, or you chose to return home when you could, to get away from the full impact of the pandemic in other countries.

To date, you have not returned overseas because of fears of COVID in foreign countries, or just that you have felt safe in New Zealand and not ready to return yet.

Quite likely you are still working for an overseas employer, who quite likely is still deducting the foreign equivalent of PAYE.

So the question that we are asked is "am I still resident in New Zealand and what does it mean?".

1 Tests of New Zealand Income Tax Residency

1.1 Regardless of your immigration status, ie whether you are a citizen or permanent resident or otherwise, the tests for tax residency are quiet simple.

1.2 Firstly, you will be tax resident in New Zealand if you are physically present in New Zealand for more than 183 days in any 365 day period. The days do not need to be consecutive and you will be considered to be resident from the first of those 183 days. A part day in New Zealand counts as a whole day. As an aside to cease to be tax resident here, you need to be out for 325 days with those being calculated on the same basis.

1.3 The second test is whether you have a permanent place of abode in New Zealand. This is not just a home, but an intention to reside in New Zealand, as well as an analysis of the durability of strengths of your ties to New Zealand. It looks at what other links and ties you have here, ie savings, investments, family, holiday home, personal effects and property.

1.4 You will be tax resident in New Zealand if you meet either the 183 day test or the permanent place of abode test. For most people trapped in New Zealand, they will clearly be resident because of the 183 day test having been met.

1.5 For a person who has not been tax resident in New Zealand before, or a returning Kiwi who has been non tax resident of New Zealand for greater than 10 years, they can be transitional tax residents. This is a one off special exemption for the month that you become tax resident in New Zealand, and the subsequent 48 months.


COVID ESCAPE
COVID

1.6 As a transitional resident, you are taxable on your New Zealand sourced income and your worldwide employment income. Thus, the earnings from your foreign employer remain taxable here, notwithstanding that the income is actually sourced in New Zealand anyway, ie you did the work while physically present here.

1.7 New Zealand has entered into over 40 double tax agreements with foreign countries. If you are lucky enough to be tax resident in one of those countries, it may be that the tie breaker provisions in the relevant DTA will provide some relief from you. These are a series of hierarchal tests which determine which country gets to treat you as resident and which country can only tax income from sources within that country.

1.8 The first test is whether you have a home in one country, the other or both. The homes does not need to be owned, it could be provided by a trust or rented. It simply needs to be available to you. A hotel or motel room would not generally be regarded as a home.

1.9 If the first test cannot be positively answered, the second is your centre of vital interest. It looks at the relative connections you have in each of the two countries and whether there is a clear winner in terms of strength and durability of these ties.

1.10 If there is still no tiebreaker determined at this stage, the next test is the habitual abode, ie where you habitually live over a typically 5 year period under New Zealand case law, and then your citizenship.

1.11 So for many people the double tax agreement will provide a tie breaker if they are indeed trapped in New Zealand and tax resident here.

2 IRD Statements

2.1 The IRD does not have any discretion around income tax residency. There is no provision that allows them to unilaterally decide whether you are or are not tax resident here. The tests apply irrespective of your circumstances and situation. However, when COVID came along in 2020, the IRD did note that there may be people who were trapped in New Zealand because of COVID related travel restrictions. The IRD said it would consider these on a case by case basis but in our experience, the ability to argue that you are still trapped in New Zealand now will be a very difficult road to pursue with the IRD. Exactly why are you trapped here? Usually it is fear of returning to your home country and the wish to remain in New Zealand where we are relatively safe.

3 Issues

3.1 So what are the issues that you need to really think about if you are trapped in New Zealand.

3.2 You are likely tax resident here as you have been here for more than 183 days in any 365 day period.

3.3 Are you eligible to be a transitional tax resident either because you haven't been resident here before or because you have been non tax resident in New Zealand for more than 10 years?

3.4 Is there double tax relief available?

3.5 The employment income you are being paid for, the physical work which is done in New Zealand, should be subject to New Zealand PAYE and taxes not foreign taxes. This is something you will need to sort out with your employer.

3.6 If you have foreign rental or investment income, these will need to be considered under the New Zealand tax law, unless you are a transitional resident or get double taxation agreement relief.

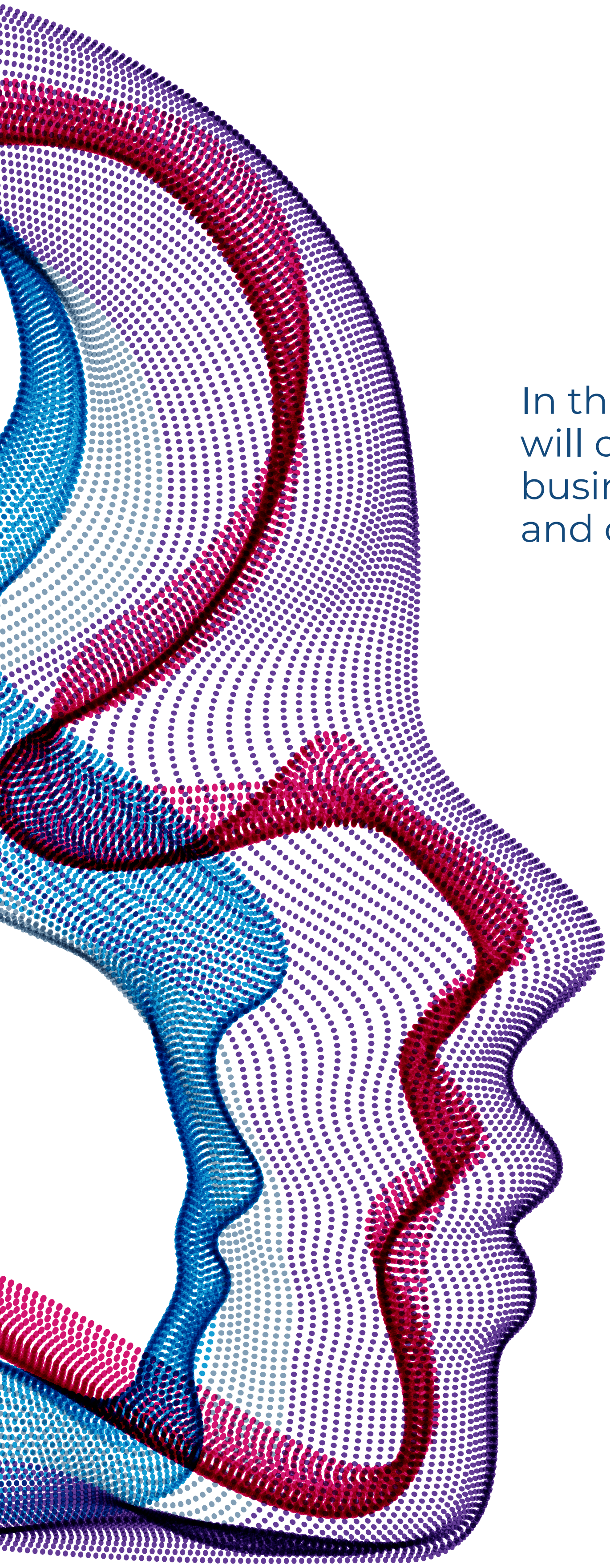
For further information refer our whitepaper No. 11 – A Guide for Kiwis Returning Home. This is available on our website www.covisory.com

If in doubt get advice. Better to be clear about your situation up front than to have an unwanted letter from the IRD in the future.

Nigel Smith
Covisory
www.covisory.com
nigel@covisory.com
+64 9 307 1777

FEATURE:

What does normal mean in 2021?



In the coming year, Covisory will celebrate 15 years of business serving our clients and our community.

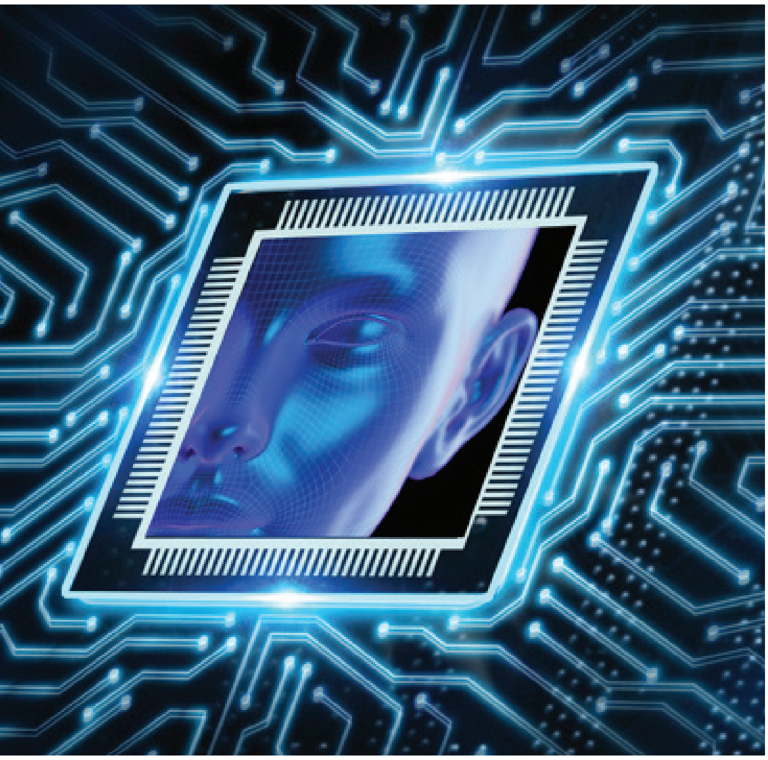
In that time, the world has changed both in quiet and in dramatic ways. In the financial industry, the way we invest, conduct transactions, and interact with customers has transformed. Technology has advanced to manage ever growing amounts of data, as all of us conduct more and more of our professional and personal lives online. At the same time, other aspects of our lives and our society have suffered unintended consequences.

Compared to 15 years ago, it's easier than ever to get and use information, and harder than ever to hide it. That can drive positive change when it comes to professional transparency, but creates new social problems when it strips away our privacy. It can often feel like the pace of change has grown too fast to maintain a clear sense of what is normal. Today, we'd like to look at what normal means right now for us as a business, as people, and as a society, and how that compares to what many of us expected to see instead. Going forward, we'll build on this article to examine what the future might bring.

How we use technology to do business

The core driver of change in the past decade has been technology. Customers and businesses interact face-to-face much less often, and even remote interactions by phone are becoming more rare. Instead, interactions and services are increasingly automated, faster, and more efficient.

Most of us, especially people under 40, shop, manage our finances, and even invest online without ever talking to a real person. At the same time, businesses rely on technology more and more to understand and meet clients' needs. The ability to gather and use information to do that has, by extension, become the key to success in business.



Today, IT is everywhere

15 years ago, it was still commonly expected that increasing automation, digitalisation, and the democratisation of information would increase competition and innovation among businesses. Instead we've seen market consolidation as relatively few businesses have successfully leveraged big data to their advantage. Today, we have fewer, more powerful players scrambling to serve ever larger markets, and increasingly leveraging new technologies to do so effectively. All of us, governments, businesses, and private individuals, have grown to lean on digital technologies. Governments and businesses gather, store, and analyse our personal data to shape policies, products, and media.

We use cloud technologies to store everything from work documents, to old family photos and social media to interact with each other. Today, many of us live and work almost entirely online.

Social distance was normal even before Covid

Compared to the past, it's increasingly normal to interact at a distance. We text, post updates, and make the occasional video call. We personally meet with fewer people, and spend less time with them than we did. At the same time, more details of our lives are displayed online on various social media platforms, visible for strangers to see and judge. Our private relationships are fewer and often shallower, even as the public scrutiny we're faced with grows. This phenomenon has been linked with mental health issues, particularly chronic anxiety and depression, common particularly among younger generations. One way we've reacted to this is to find other ways to feel personal connections to people. Often, we do this by listening to podcasts or watching youtube channels that we can relate to. This isn't necessarily a new phenomenon—it's parallel in many ways to how many of us interacted with our favourite TV shows in the 20th century.

In the same way, businesses have recognised the potential of these new forms of media, and leveraged them to reach new customers. The key difference here, though, is that viewers and listeners can easily and publicly react via comment sections, or their own social media channels. More than ever, customers can influence through rhetoric as much as their purchase decisions. Instead of just being consumers, people can much more easily speak out to help set the agenda for businesses as well as governments.

Climate change and changing investment behaviours

While scientists have been trying to draw attention to the issue of climate change and the need for environmental sustainability for over half a century, little of consequence has been done on the issue. To governments and businesses, sustainability was a minor issue of philanthropy and PR, not a potentially devastating global emergency. In the private sector, few people saw a way to make a real difference. Today, this is changing in large part due to growing transparency and the increasing influence of consumers.

New Zealand is currently on track to become the first country in the world to require large financial institutions to report on the climate impacts of their investments. That would mean that businesses and investors will be able to definitively tell whether they and their investment decisions are part of the problem, or part of a solution. This comes after years of growing interest in sustainable investment, where investors deliberately invest in ways designed to promote sustainable environments, societies, and governance.

The middle class is under pressure

Compared to 15 years ago, the middle class in New Zealand, as well as the rest of the developed world is under pressure. Even as investment is becoming more accessible, the broadest demographic who has the disposable income to invest is being squeezed. Multiple economic shocks, ranging from the 2008 financial crisis, to the US-China trade war, to the COVID-19 crisis have ultimately put middle-income wage-earners on the back foot.

Stagnant wages haven't kept up with rising home prices, and the education systems of the developed world produce vast numbers of graduates whose skills don't match up to the needs of businesses. The result is the most educated labour force of all time facing un- or underemployment in the midst of a global skills shortage.

Each of the major issues we face today is complex and nuanced, but all of them together paint a broader picture of a changing world with growing pains. New technologies and ways of doing things have already changed us and the world around us, but we haven't adapted to the impacts that those changes have had on our lives, businesses, and society as a whole.

What's normal in 2021 is change and uncertainty. Beyond that though, we've normalised embracing change, seeking to drive it, and using it to make the world better.

Covisory
www.covisory.com
+64 9 307 1777

Can you rely on your accounting software to get it right?

We are bombarded daily with claims how accounting software can ensure compliance and accuracy but what is forgotten is that accounting software is only as good as the people who enter the information.

Recently we had a couple of interesting new jobs where the GST returns filed were wrong, highlighting how placing your reliance solely on the reports your accounting software has presented without checking is not always a good policy.

In the first example the bookkeeper had processed the same bank transactions twice, both by coding the actual bank transactions feeding through xero and then also processing a journal for the same transactions.

It is incompetence really but then they just accepted whatever the Xero GST return report spat out and paid the GST accordingly.

The result in this case being significant overpayment of the GST.

Another example was where the client had coded items incorrectly and claimed GST on 100% of an invoice rather than just the GST portion. In this case they had underpaid their GST significantly.

We do see time and again that just accepting the whatever the accounting software publishes as the GST return is not always the right option.

It is quite scary really that the way accounting software is being promoted as getting the GST correct without the need for someone to check it to the P&L and balance sheet and just auto filing the return straight through the software etc.

IRD must have factored this into their calculation of what they want to collect for GST and accepted that there will be a certain percentage of inaccuracy up and down.

The moral of the story CHECK before you file your return!

Before filing your GST return

1. Check that you have included all items that relate to the GST period you are filing.

2. Check that you have coded each line item correctly.

3. Check the GST return against your P&L and Balance Sheet.

Covisory

www.covisory.com

+64 9 307 1777

Enduring powers of attorney

Having in place enduring powers of attorney (EPA) is an important part of any estate planning.

However, we are seeing that these documents tend to be left to one side as they put into the too hard basket or, more bluntly, the cannot be bothered basket! The changes made to the EPA regime a few years ago have made putting an EPA in place more cumbersome. We have recently experienced a couple of circumstances where individuals have not had EPAs but have lost capacity. Not having EPAs is not a great position to be in and throws up a number of practical issues which are difficult to resolve. Being able to do basic things such as paying bills becomes a major problem.

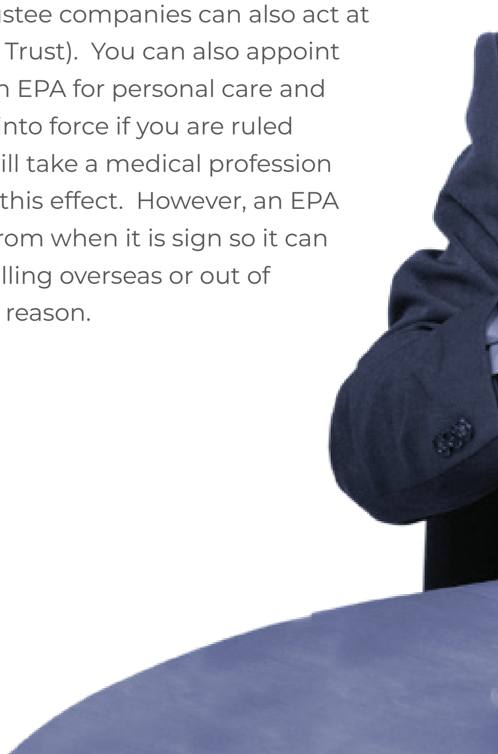
One example on the issues face here is an elderly husband and wife living in rural New Zealand. In the past they have had a trust structure and Wills, EPAs were not put in place. Unfortunately, over the last year the wife has been badly affected by dementia and while they were still living by themselves neighbours has reported to family members that the wife was wandering by herself at night. The husband then required surgery and a lengthy recuperation process and it was apparent that the wife could not look after herself when this happened. Unfortunately there was no EPA in place for either the husband or wife which meant trying to find the wife secure care was not easy.

There are two types of EPAs that you can put in place:

Personal Care and Welfare – this is concerned about whether you will live and that you are being properly care for.

Property – this deals with everything you own, including bank accounts, investments etc.

Under an EPA the donor appoints an attorney to act on your behalf and make decisions should you become incapacitated. There are slight different requirements for the two types of EPAs. For example for personal care and welfare you can only have one attorney, but for property you can have more than one – who can then act jointly or individually – and one of the statutory trustee companies can also act at an attorney (e.g. Public Trust). You can also appoint successor attorneys. An EPA for personal care and welfare will only come into force if you are ruled incapacitated, which will take a medical profession signing a certificate to this effect. However, an EPA for property can start from when it is sign so it can be used if you are travelling overseas or out of contact for some other reason.



What happens if you do not have an EPA? The most likely scenario is that someone will need to apply to the Family Court. The Court can then appoint a manager to look after your property or a welfare guardian for your personal care and welfare. Obviously this can be a problem as this all takes time and costs money. There are also ongoing reporting requirements back to Family Court that will further increase costs. The additional steps that family members will need to take here will be onerous, when compared to the work needed to put an EPA in place in the first place.

With New Zealand's aging population the incidence of people struggling with mental capacity as they grow older is increasing. Having an EPAs in place will alleviate future problems such as the one outlined above.

Marcus Diprose
Covisory Director
www.covisory.com
marcus@covisory.com
+64 9 307 1777

TAXATION:

Interest deductability on rental properties

Government releases discussion document on interest deductibility for residential rental properties

On 10 June, the Government released a consultative document of 143 pages on the proposals announced in March 2021 to deny interest deductions on moneys borrowed to acquire residential rental properties.

The consultative document provides a comprehensive analysis of the issues and the options the Government has in front of it and, while on a very tight time frame, seeks consultation and feedback from interested parties.

The Government's aim is to reduce the incentive for people to buy or retain existing rental properties by making interest non-deductible. By doing so, this rental stock will be more freely available to home buyers.

The Government is also trying to use this as a means to increase the supply of new housing stock in New Zealand by permitting, in proposed limited circumstances, interest deductibility on newly built residential rental properties. It is also proposed that the Brightline test for new built residential rental properties will be 5 years, although this may also apply to new beach houses or second homes as well.

You will recall that for residential properties acquired on or after 27 March 2021, interest will be non-deductible from 1 October. The same applies to moneys borrowed to extend or improve existing properties.

For residential rental properties acquired before 27 March 2021, the deductibility for interest will be phased out so that by 1 April 2025 no interest will be deductible at all.

So, what do the new rules apply to and what is excluded? The exclusions are:

- Land outside New Zealand.
- Employee accommodation.
- Farmland.
- Care facilities such as hospitals, convalescent homes, nursing homes and hospices.
- Commercial accommodation such as hotels, motels and boarding houses (but not Air B n B etc).
- Retirement villages and resthomes.
- The main home.

There is a natural interplay between the operation of the Brightline rules and the denial of interest deductibility. There is also a similar interplay with the existing mixed use asset rules and rental property loss limitation rules (prohibition of negative gearing). The inter-relationship between these various provisions all need to be considered and resolved before the law can be passed.

The Government is questioning whether if interest is non-deductible, but a property is sold and the gain is subject to the Brightline test, whether interest should be permitted as a tax deduction. Interest will be tax deductible for property developers and those who are taxable on the gain irrespective of how long a property is held, where property is on revenue account irrespective of when it is sold.

The definition of a new build is going to be a key facet of the proposed new law. This is because potentially interest deductibility can be obtained for the acquisition of new builds, and secondly a lesser 5 year Brightline test will apply. As noted above, potentially this will apply to not just rental properties, but also to baches etc that are new builds.

TAXATION:

A new build is likely to constitute:

- Where a dwelling is added to vacant land
- Where an additional dwelling is added to a property, whether stand alone or attached
- Whether a dwelling (or multiple dwellings) replaces an existing dwelling
- Renovating an existing dwelling to create two or more dwellings
- Where a dwelling is converted from commercial premises such as an office block into apartments

It is not clear whether a relocated house as an example would be considered to be a new build, even if it is relocated onto a new site and a new house is built on the existing site. There are still some areas that will need to be considered.

The Government proposes that a new build will provide interest deductibility and the shorter Brightline test for what it calls "early owners". These will be taxpayers who acquire a new build no later than 12 months after its code compliance certificate (CCC) is issued. The question then arises as to what happens if those new builds are on sold? Does the exemption or exception only apply to the first early owner, or does it run with the property for its life? Similarly, should the interest be deductible forever while that new owner holds the property, or should it only be for a period of time?

As many readers will be aware, the existing Brightline rules have caused some degree of hardship particularly in circumstances of family reorganisations. Where for instance the beach house is transferred from individuals to a trust, between trusts or from a trust to an individual, the Brightline test restarts. Thus you may have owned the family bach for 30 years, but on a transfer like one of these on or post 27 March 2021, the 10 year Brightline test would recommence. There is discussion around softening these to provide limited grandfathering rules, as currently occurs upon death and under relationship property agreements.

So, whether the Government's objective of tilting the playing field away from property investors and towards first home buyers will be achieved or not will depend on the final details of the rules. However, in our opinion, by providing an exemption for new builds, investors will be encouraged to buy these and to sell their existing residential property stock. What the Government has perhaps failed to consider is that probably the largest group buying new builds are first home owners. By encouraging investors to compete against this very group that the Government is trying to favour, it is likely to push up the prices and reduce availability of new builds to first home buyers. This is the very opposite that it is wanting to achieve. There is also a question about how quickly the building industry can gear up to increase the stock of new builds available anyway.

The rules will end up being exceptionally complicated. There will be large difficulty in complying with it and likely mass non-compliance, especially for Mum and Pop investors who prepare their own tax returns each year. As is always the case, there is likely to be the need for further remedial legislation even after consultation and the passage of time, as the problems are identified with the passage of time.

We will continue to keep you appraised of the proposals, particularly once the final format of them is announced by the Government in a few months time.

Nigel Smith
Covisory Director
www.covisory.com
nigel@covisory.com
+64 9 307 1777

SME:

Making changes on the fly - Covid & VBike

Pre-Covid VBike was an indoor cycling studio that focused predominantly on low heart rate training, using what we call an Eighty20 programme. 80% of the workout is easy and 20% hard.

Due to the previous negative impact of the internet on retail sales our aim was to be an annuity-based business, so Vbike was not reliant on a retail margin to stay in business. We also had two additional income streams, one being a bike workshop and the other bike fit. Pre-Covid this business model was working nicely, memberships were growing, our workshop was busy, and people wanted bike fits.

Then Covid hit. VBike at that stage did not have an online presence, our members were not allowed to come and ride, we had to suspend all memberships, in essence we had no revenue coming through the doors. Faced with this devastating scenario we needed to find new ways to generate revenue to survive.


BIKE

Covid forced me to do some soul searching, as the post Covid landscape could also be the way of the future where the Government could put us in lockdown or lock up, however you interpret it. I needed to change the VBike business model as our memberships had dropped by approximately 40%.

Our analysis showed there were several reasons why we lost so many members but primarily it was due to:

1. Businesses around the central city allowing their staff to work from home, so less people were around.

2. Members purchased home trainers so their need to come into the city and ride at VBike was no longer required.

During Covid everyone wanted to ride bikes and get outdoors to maximise their freedom so initially shops who had stock did very well. But this was a worldwide trend and has led eventually to stock shortages worldwide. Ebikes and high-end road, gravel and mountain bikes became hard to get.

We needed to pivot and change our model. VBike needed to build up our memberships and we desperately needed an online presence.

I approached friends at Monstera Design to help me build an online website, this was critical for moving forward as the Government could put us in lock down at any given point. However the sheer logistics of listing 2000 sku's was a huge undertaking for a small team.

In addition, Vbike needed to look at what indoor cycling programs we were offering. If you had looked at our website pre covid it may have seemed that it was solely for serious or elite athletes when it fact it wasn't. We extensively researched offerings of other fitness facilities, and programs that are offered for the home trainer. The conclusion we reached was that a lot of these offerings placed too much emphasis on HIIT (High Intensity Interval Training), high Heart Rate which from our perspective and experience is not good for the human body, especially as our ideal client has the average age at 44 and is made up of 66% male and 34% female.

Vbike is a small business and being small you need to be very flexible. You need to make changes on the fly so to speak. For us this has meant:

1. Getting back into retail while having very few bikes on the floor to sell;

2. Having an online presence;

3. Changing our indoor cycling offering;

4. Targeting more women to ride in our facility; and

5. Educating people on the benefits of training with a lower heart rate and adopting new training methods.

This is an ongoing journey, but the changes put in place have helped Vbike to be more robust, more responsive to changes and ultimately to survive.

Jianni Koutsos
VBike
www.vbike.co.nz
+64 9 215 2136

The home ownership dilemma

A July 2021 article in NZ Herald suggested as much 60-70% of new homes purchased recently will include some form of parental funding.

Prior generations of New Zealanders have purchased their first home with no expectation that our parents would provide loans or gift contributions to assist in the purchase. This was despite significantly higher interest rates and prices that were consider excessive at the time. In 1989, the average Auckland house price was around $157,000 and interest rates sitting around 17%.

Times have changed, but New Zealanders fascination with residential property has not diminished. The sky-rocketing house prices in NZ since COVID has made it even harder for a potential first homeowner to take their first step into the property ladder.

As parents of potential first home buyers, there are ways that we can assist our children buy their first home. The appropriate way is dependent on the circumstances (both personal and financial) for both the parents and their children.

The first thing to consider is whether you as a parent can afford to assist. If there is more than one child, can equal assistance be provided to each child and allow for our price inflation between children.

Future loans or gifts to assist a purchase and any repayment obligations by your children will impact parent/parents' future cash flow. Will this significantly impact your lifestyle and retirement?

If you can afford to assist, it is important that any assistance is discussed and documented with children. Things to consider are:

- What are your children prepare to do to assist? (ie Move home to save on a bigger deposit)
- Are your children's expectations realistic in terms of the type of house they want to buy and the amount of money they will need to spend?
- Is this a loan or gift? (Banks will want you to gift any contribution to your children)
- If repayment is expected, when and how?
- How is the gift/money protect if your child's relationship fails?
- How you, as parents, fit into the banking loans/ guarantees
- Can you pay any mortgage payments in arrears?

Potential solutions could include relationship property agreements between your child and partner and/or parents (or their trusts) take part ownership (tax considerations with 10-year bright line test now in place).

Covisory Partners have advised and assisted with a number of these situations. We understand the options available and been involved with family discussions to help set up the rules.

Please contact us if you need any help with what can be difficult discussions and decisions. We are independent – these are not our children!

The Parnell Covisory Team

Tax in Brief

Sale price allocation

STOP! If you are Buying or Selling a Business or Land and Buildings after 1st July 2021 New Tax rules may apply

From 1 July 2021, buyers and sellers of business assets may be required to agree an allocation of the sale to different asset classes for tax purposes.

This will apply where:

1. Two or more assets are sold, and the total purchase price of the assets is $1m or more, or
2. The only asset being sold is residential land (including buildings and chattels) and the value is greater than $7.5m.

The buyer and seller should agree on the amount of the sale price allocated to each of the following asset classes:

- Taxable (revenue) assets – ie trading stock, accounts receivable
- Depreciable (capital) assets – ie plant and machinery
- Non taxable (capital) assets - ie business goodwill
  The allocation should be based on the market value of each asset class and then used in the Buyers and Sellers respective tax returns.

What Happens if there is no Agreement?

Where the buyer and seller cannot agree on the allocation, the following rules apply:

1. Within 3 months of settlement, the **SELLER** may determine the amounts allocated and notify the buyer and Inland Revenue of the amounts.

   - If the seller allocates the sale price, then the amounts cannot be less than the greater of market value or the sellers tax book value for the assets.

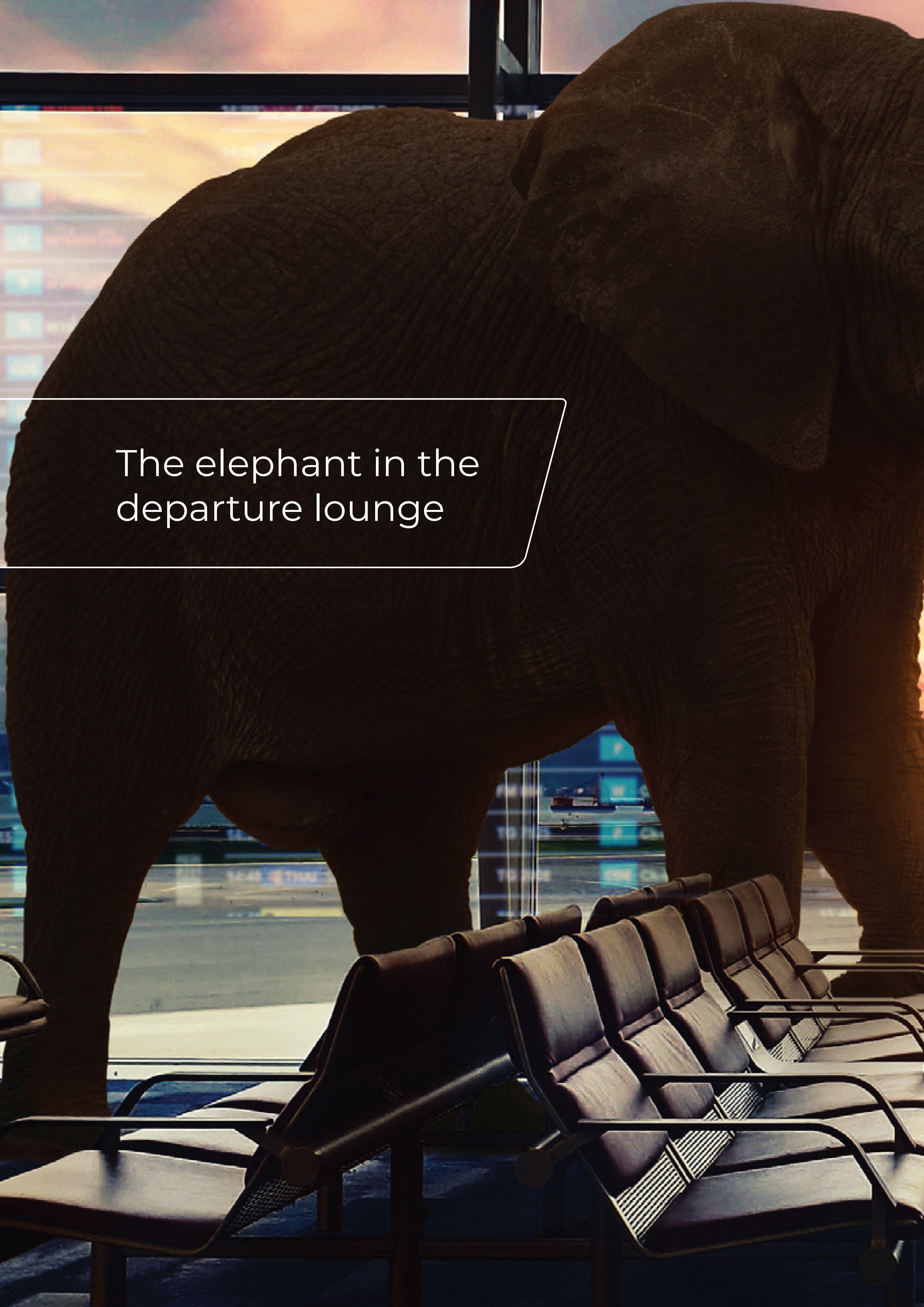
2. If the seller does not do this, the **BUYER** can within another three months, determine the amounts and notify the seller and Inland Revenue.

   - If the buyer allocates the sale price, the amounts cannot be less than market value for the assets.

Notification can be via Inland Revenue's myIR system or in writing.
A point to note that if the Inland Revenue considers that the sale price has not been reasonably allocated by either party when no agreement has been reached then it can investigate the sale and determine its own allocation.

To avoid the Inland Revenue becoming involved in the sale price allocation, we recommend that the buyer and seller agree a sale price allocation as part of the sale negotiations. If at all possible, the allocation should be included as part of the Sale and Purchase Agreement.

Chris Ng
Covisory Consultant
www.covisory.com
chris@covisory.com
+64 9 307 1777



The elephant in the departure lounge

The dramatic bursting of the entire Australian travel bubble last month, and the rapid spread of the more infectious Covid-19 Delta variant, has reinforced that there is a lot of water to go under the bridge before a framework for quarantine free international travel is established for New Zealanders.

As our vaccination program progresses, we look ahead to what international travel may look like through the remainder of 2021 and into 2022.

Compulsory 14-day managed isolation for travellers returning from overseas (other than Australia and the Cook Islands), regardless of their vaccination status remains the elephant in the room. Since Covid-19 vaccines were developed, we have been looking forward to a road map for the staged reopening of New Zealand's borders.

There's a growing expectation amongst vaccinated travellers wanting to reconnect with family overseas that at a minimum they should be allowed to quarantine at home on their return. Although the government has expressed that it is watching the IATA Travel Pass trial with interest, and that the Ministry of Health is working on the medical advice to inform the border policy, we've yet to see a definitive plan.

Managing Complexity Across Borders

For New Zealanders who must travel in the current environment, issues such as applying multi-country border restrictions (origin country / transit country / destination), pre-departure Covid testing requirements, recognition of vaccination status and individual airline protocols creates uncertainty. And as countries react to new Covid variants, the protocols in place when a flight was booked may have changed by the time the flight departs.

Examples we have seen of this uncertainty include a vaccinated New Zealand passenger flying to Europe. Under the airline's policy, the transit country's policy, and the destination countries policy the passenger was not required to obtain a negative Covid test before departing. Further investigation discovered that at the destination countries airport the airport manager had implemented a policy of only recognising EU issued vaccination certificates. Therefore, although a pre-departure test in New Zealand was not technically required, one was practically needed to meet the protocols as they were being applied on the ground.

Will We See 2022 UK and Europe Early bird Airfares?

Traditionally we expect to see the start of discounted Business Class and Premium Economy airfares to the UK / Europe from August to align with the following year's summer season (airlines only release availability for 11 months ahead). As London is the most common destination for New Zealand travellers the UK's traffic light system is likely to have a significant influence on whether we see Early bird Airfares this year.

At the time of writing, Singapore is the only airline hub country on the UK's Green List. This results in Singapore Airlines' passengers having significantly reduced UK arrival obligations (importantly no quarantine) and puts Singapore Airlines in a very strong market position relative to its main competitors in the New Zealand market. Emirates and Qatar Airways are effectively on the Red List and Cathay Pacific is effectively on the amber list.

Greater demand for 2022 travel to the UK / Europe (driven by a New Zealand framework for reduced quarantine obligations for returning travellers) and greater competition (driven by more airline hub countries moving to the UK's Green List) will likely determine whether we see will see discounted 2022 airfares to the UK and Europe (and London in particular) this year.

The Return of the Cruise Industry

One of the indelible memories of the pandemic will be passengers stranded on mega cruise ships and the rapid spread of Covid-19 onboard. This resulted in ports being closed and a pause on almost all sailings that has continued until last month.

With our borders still effectively closed for international travel, and closed to cruise ships, we will have an opportunity to watch the return of the cruise industry and see the effectiveness of each cruise line's response to Covid-19. Requirements such as pre-departure testing, compulsory vaccination of all crew and guests, and improved air filtration technology are some of the responses that have been implemented – although not by all cruise lines.

We expect that the premium / luxury cruise lines, with smaller ships and fewer guests will be better placed to avoid Covid outbreaks. For the New Zealand cruise market, we have seen increasing interest in small ship operators offering close to home itineraries (such as to Australia's Kimberley region) that are limited to vaccinated New Zealand and Australian guests.

Vaccinations and Variants

Although the formation of the travel bubbles with Australia and the Cook Islands is a starting point for establishing the new travel norm, we remain in a state of limbo until vaccination rates increase and while Covid-19 continues to mutate and spread. The work being undertaken by the Ministry of Health to inform the border policy is the important next step.

Daniel Colins
Fine Travel
Ph +64 9 363 2754
enquire@finetravel.co.nz
finetravel.co.nz

#a team connected

#your team

TAXATION, BUSINESS,
ACCOUNTING, TRUST'S, AML

+64 9 307 1777

www.covisory.com

Covisory
Wealth | Tax | Business