

RESIDENTIAL PROPERTY YIELDS

Often you will hear or read the term “property yield”.

If you have never been sure as to how to calculate it here is a simple but practical way.

Gross Yield

Annual Rental (say) 440 per week	22,880
Estimated current value of your property	475,000
Gross Yield (22,880/475,000)	4.8%

Net Yield

As a rule of thumb apply a 2% factor to allow for rates, insurances, maintenance management etc.

Net Yield (22,880—9,500 = 13,880/475,000) 2.8%

Clearly 2.8% lets (say) 3% is not sufficient to cover your interest rate and inevitably the property will require a top up.

The only reason we are prepared to top up this type of investment must be solely due to the anticipated capital growth. If it were not for this you would always be better off with your money in the Bank.

Can our property values keep growing at the average annual capital growth that we have come to expect?

What would an ideal yield be for this property?

The ideal yield would be around 7% as this would cover your interest rate (say) 5% and outgoings (2%). A 7% yield equates to a weekly rental of around \$640 which is clearly very unlikely on a property at \$475,000.

Our Advice

Chase the best yield you can get. It's the tenants that you want paying the bills not you.

**DONATIONS FROM FAMILY TRUSTS**

What and when to Claim?

Companies can claim charitable donations as a business expense so long as the company has made a profit. Individuals can claim donations so long as the donations do not exceed their gross income before tax.

Trusts cannot claim donations as an expense against their income. However, provided charities are included as beneficiaries of the Trust, they can receive a distribution from income.

KNOW YOUR BREAK EVEN POINT

The breakeven point (BEP) of your business is as critical as it sounds. You make a loss if you're below your BEP.

You don't make any money if you reach your BEP.

You make money if you exceed your BEP.

LATE PAYMENT PENALTIES

The Inland Revenue will no longer impose a 1% monthly incremental late payment penalty on unpaid tax for GST, income tax and Working for Families tax credits overpayment. The initial late payment penalties of 1% on the first day overdue and 4% one week later, will still be applied. UOMI will also be charged on the amount of any unpaid tax.

The Inland Revenue acknowledge that while late payment penalties encourage timely payment, they often end up accumulating to large amounts and have the opposite effect, overwhelming taxpayers with outstanding liabilities.

Further many of those receiving Working for Families tax credits, who must repay any credits overpaid, are already on low incomes, and struggle to repay debt accumulating.

This change will take effect on any late payments first arising after 1 April 2017.

CREDIT REPORTING OF TAX DEBTS

From 1 April 2017 Inland Revenue will be able to disclose information on significant tax debts to approved credit reporting organisations. While in theory this could affect all taxpayers its application will initially be limited to non-individuals.

Before a tax debt can be reported the following criteria must be met:

1. The debt is not subject to an instalment arrangement or an application for relief.
2. The taxpayer has been served personally with a formal notice at least 30 days earlier.
3. Inland Revenue has made reasonable efforts to collect the debt.
4. The amount is over \$150,000 or more than 30% of the taxpayer's gross income and older than 12 months.

Inland Revenue believe this proposal will have a positive effect on revenue and also place businesses dealing with taxpayers in a better position to make commercial decisions about the credit risk of dealing with that taxpayer.

**TO WRAP UP THIS EDITION— A COUPLE OF THOUGHTS**

The Giants of technology could in one foul swoop render your business model redundant. Make sure you stay ahead of the game.

Always, always, always celebrate and communicate your value success stories.

Purpose With Profit

Perriam & Partners Chartered Accountants & Business Advisors BEHIND THE BEANS—2017

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Our first issue of 2017 is here and we welcome all our fantastic clients back from their Christmas break and holiday downtime.

If you are as refreshed and as ready as the team at Perriams to attack 2017 then we are sure you are going to have a great year and with our support we'll make sure its even better.

All the very best for 2017!

2016 IS GONE! BUT NOT FORGOTTEN

What will I miss most?

That's easy, Usain Bolt the greatest sprinter the world has seen and may ever see. Rio was virtually it, for Bolt.

That man had a “need for speed”!

What will you miss the most from 2016?

**BUMPY—TRUMPY**

The Trump movie is now playing and will go for the next four years.

There will be action, drama and comedy—everything you could ever wish for in a movie.

Let's all hope it's positive for New Zealand and in particular our trade.

It will be “bumpy” with “Trumpy”.

**SOME QUESTIONS FOR YOUR ACCOUNTANT?**

1. Does your financial right hand know what your financial left hand is doing?
2. Does your Accountant spend weekends in a secure undisclosed location?
3. Is it more fun visiting your dentist or your accountant?
4. Do you get better financial advice from your partner or from your Accountant?
5. You might not hesitate spending \$150—\$200 on a night out with drinks and food but what sort of return could this have made had you made time to see your Accountant?

We look forward very much to assisting you and working with you this year. We're not a cost, rather an investment. An investment in your future.

**CREATE CUSTOMER FEEDBACK OPPORTUNITIES**

This will begin a process of dialogue, a discussion and allow you to find out exactly what your customer wants. It also gives YOU the opportunity to communicate about your values, about WHY PEOPLE CAN FEEL GOOD ABOUT DOING BUSINESS WITH YOU!

**SHOPPERS “DUPED” BY SALES TACTIC'S**

Whilst bargain hunters broke spending records over the Christmas period you will be interested to know you can “forget the Boxing Day” super sale. Figures from retail management software company Vend have revealed discounts on January 29 are on average 6% better than on Boxing Day.

So the answer is—be patient as Boxing Day sales may just be a have!

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OUR SHAREMARKET

I liked this comment from Mark Lister, Head of Investment advice for Craig Investment Partners.

“Kane Williamson’s Lesson For Investors:

I think investors should take the Kane Williamson approach this year. Like the BlackCaps captain, stay defensive and play most things with a straight bat, quietly accumulate returns and pick off decent opportunities when you see them. Most of all, remain disciplined and don’t lose your cool when the unexpected occurs, which it will.

This year is likely to be a tougher one, with lower returns, higher risks and more volatility.

The NZX 50 has more than doubled in the last five years, with an average annual return of 16.1 per cent. The golden run, well above the 9.1 per cent average since the index came into being”.



WHAT IS AN SME?

Often in print you will come across the abbreviation SME. It stands for Small Medium Enterprise. What you may not know:

- 502,000 SMEs (fewer than 20 employees).
- 70% of all enterprises have zero employees.
- SMEs contribute 1/4 of GDP.
- 97% of businesses are SMEs.
- 42% from 2010 did not survive 5 years.
- Human Resources
- Marketing



SELF CORRECTION OF MINOR ERRORS

From 1 April 2017, it will be permissible to correct minor errors in the following tax return where the amount of tax involved does not exceed \$1,000.

GOODWILL—A DEFINITION

The excess of net earnings over and above a fair return on the net tangible assets.

i.e. goodwill is present when the business earnings exceed the reasonable rate of return on the net tangible assets employed.

Plus there must also be a reasonable and “transferable expectancy” that any excess earning capacity will survive a change in ownership of the business.



GOODBYE SOON?

With the development of technology we may well see the end to the following sooner rather than later.

- Video stores
- Keys
- Fast food workers
- The mail box
- Our privacy
- The cheque book
- The yellow pages



We are sure there are lots of others.

DID THOSE SHARES SHINE?

In our first Newsletter of 2016 we included the following four stocks most commonly picked by the leading broking firms. How did they perform over the 12 months.

	Share Price 1 . 02 . 16	Share Price 12 . 01 . 17
Fisher & Paykel	\$8.65	\$8.86
Infratil	\$3.10	\$2.75
Diligent	\$5.99	\$7.39
Meridian Energy	\$2.35	\$2.72

A return of approximately 8% if you had invested in all 4 stocks, so not that flash.



SPORT

2016 was the year of the underdog. The improbable? In 2016 it probably happened.

Sporting droughts broken:

Leicester City (132 years)
Chicago Cubs (108 years)
Cronulla Sharks (49 years)
Cleveland Cavaliers (46 years)
Hurricanes (21 years)
Ireland v AB's (111 years)

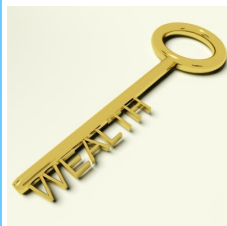
This just proves anything is possible.

Patience and hard work are required. If you're waiting for that win or break in your own business then it should be no different “perseverance and hard work”. There's just no substitute.



WEALTHIEST 150 IN NEW ZEALAND

Whilst we are all for paying less tax, how is it fair that according to the Inland Revenue half the wealthiest 150 New Zealanders declare incomes of less than \$70,000 for tax purposes? In other words none of their personal income is subject to a top tax rate of 33%. Are you comfortable with this? They must be using Accountants!



A PENNY FOR YOUR THOUGHTS! WHY?

The saying “a penny for your thoughts” is an English idiom simply asking people to volunteer their opinions on an issue being discussed. Though no payment actually changes hands, the phrase has become a regular part of the English vernacular. In modern usage, it is often stated as an indirect way of asking what someone is thinking about or what is bothering them. Its origins are fairly unknown though it dates back to at least the end of the middle ages.

Value

When the saying originated, a penny was worth a lot more than it is in the 21st Century. Therefore, a “penny for your thoughts” likely indicated the thoughts were more valuable to those imploring the listener to give them than they are by today's standards. The phrase is usually meant as a symbolic gesture and the actual value should typically not be considered. This loss of value can be used derisively, however, often implied through tone of voice; someone can use this phrase in a sarcastic way to indicate that someone's idea is bad or worth a penny in modern value.



Similar Expressions

Another phrase similar to “penny for your thoughts” is offering “your two cents” after making a statement. Someone might give his or her opinion and then say “that's my two cents” to indicate the value of his or her idea. While much like a penny “two cents” is relatively low in value now, it would have been more valuable at one time and the expression is used in much the same way.

CASH BACK ON TAKING OUT A MORTGAGE

If a client, who owns a rental property, gets cash back at the time of arranging a mortgage, the amount received will be taxable under the financial arrangement rules to the extent it is not specifically designated to be for a non deductible item.



E.g. Legal expenses where for some reason \$10,000 de Minimis rule is not applicable to the legal fees for purchasing the property and they have to be capitalised.

DUE DILIGENCE

“A comprehensive appraisal of a business undertaken by a prospective buyer especially to establish its assets and liabilities and evaluate its commercial potential” - Oxford Dictionary.

“Caveat Emptor” - let the buyer beware.

Aspects involved:

- Financial
- Tax
- Commercial
- Legal
- Information Technology



FASHION—DIG OUT YOUR 80'S

The first question you need to ask is how many Accountant's newsletters contain some content on fashion? Not many I'd say, and so that is why ours does. It's never just about the numbers.

From what I have read this year it is a return to your 80's wardrobe.

In brief the 80's were an era for bright colours, oversized clothes and accessorised outfits due to the pop culture boom.

But that's not all. In the 80's many Accountants still wore those “engaging” walk shorts. Since the 80's the suit and tie is sparse, work dress codes are now much more casual and for this reason I can't see any reason why the “walk-short” can not make a timely return and what, with “global warming” it may even be a health and safety requirement.



STAFFROOM—PERRIAM & PARTNERS

Florina

After several years with us Florina has made a decision to take a slightly different path in Accounting with a focus on Management Accounting and so has left with our blessing to pursue this.

We will miss her enthusiasm, bubbly nature and good character.

Stuart Hailes

On 16 January 2017 Stuart started with us as an Intermediate Accountant.

Stuart left St Bedes College in 2005 and after a stint at Lincoln University on a scholarship he moved to Australia where he obtained his Accounting Degree and for the past 10 years has worked over there in two Accounting firms.

It is really exciting for us to have Stuart on board the team and his knowledge of Australian tax law and property is going to be a great asset for us.

Please go to our website to find out what else Stuart “Hailes” from.

NEW WAY TO CALCULATE MILEAGE RATES

The new system, which comes in from the start of the 2018 tax year, is going to be two-tiered. There'll be a higher rate for say the first 10,000 km and a lower rate thereafter. Tax payers are going to have to keep a logbook for three months every three years and base their business running claim on this. Inland Revenue says the new method is optional, which presumably means we are going to be able to make our claim as usual up to the limit of 5,000km for the self employed, if we choose this option.

