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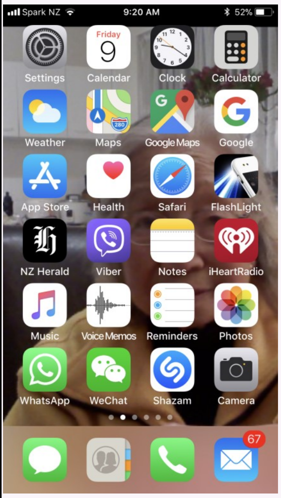
INTERNET OF THINGS

You may have heard the term 'internet of things' (IoT) bandied about recently, but what exactly is it?



IoT is the name given to interconnected devices that can communicate with each other via the internet, through the sending and receiving of data. The IoT is rapidly changing the world in which we live, albeit somewhat behind the scenes. It affects how we work, communicate, drive, make plans, shop and even how our homes are run.

The IoT works through sensors embedded in various objects that transmit signals to an online platform. Sensors are in almost everything. Location sensors in your smartphone, car, tablet or watch mean someone can locate you with ease and this generates valuable data about how things work and work together. These sensors are taking information from the world and uploading it to the internet, possibly without us noticing or without our permission. For example, after visiting a website, adverts for that same website suddenly pop up on your Facebook news feed. And when you arrive in a new location your smartphone preferences are automatically updated. That's the IoT.

Although we are aware of this with smartphones and laptops, an increasing number of everyday devices can connect to the internet, such as air conditioning, lighting and even fridges. It is estimated that by 2020 50 billion objects will be connected to the internet. With a global population of 7.6 billion that equates to 6.6 objects connected to the internet per person. 328 million new devices are being connected each month, so in the time you've taken to read this paragraph, an estimated 4,000 new devices will have been connected to the internet.

A common complaint is that we are now inundated with so much data that we don't know what to do with it or what is important. IoT allows companies to capture data to learn more about customer's behaviours and model services to fit their needs. Real time data collection takes the guesswork away and allows businesses to tailor their services to deliver customers something of real value.

As an example, the car industry increasingly exploits IoT to their advantage. In many new vehicles, cars can be connected to the manufacturer's server. Every time the car is turned on, an alert is sent to the server which can perform an analysis of the data and send text alerts to the driver if something is wrong with the engine. This can detail how serious the fault is, the closest dealer to get it fixed, directions to get there, a discount voucher for the service, and an indication of whether the service is under warranty or not. An additional advantage to the manufacturer is that they can quickly identify any trends with faults. IoT allows them to easily identify cars made at the same factory, or with common parts, and send warnings to drivers of other vehicles that may be affected, much like Subaru and Mazda did last year. This leads to streamlined inventory management for the dealer, a better and safer car, and means the driver can get back on the road faster.

It is clear that IoT will impact all industries, and businesses need to be aware of it to ensure they aren't left behind.

FOOD ACT DEADLINE

If you are involved in the food business, the deadline of 31 March is looming for you to register under the Food Act 2014. The Act is to enhance food safety in all aspects of food storage, handling and processing. This will require written managing food safety plans for high risk businesses or minimum recording standards for the low risk businesses. The main businesses that must register by 31 March are:

a) Food service businesses without alcohol licence
b) Retailers that prepare or manufacture and sell food
c) Retailers that handle food
d) Retailers of pre-packaged chilled and frozen food
e) Manufacturer of meals and prepared foods
f) Bakeries that make bread products
g) Bakers - wholesale
h) Manufacturers of confectionery
i) Manufacturer of dairy products
j) Manufacturers of meat, poultry or fish products

If you are required to register but have yet to do so, time is running out. There are some useful tools at *www.mpi.govt.nz/food-safety/food-act-2014/* to check out.

MINI-BUDGET - FAMILIES PACKAGE

The Labour coalition made immediate changes when they were elected into government, starting with repealing National's planned tax bracket changes. Labours new 'mini-budget' is intended to benefit low-income earners, middle-income families with children and lift children out of poverty.

The package entails:

- Increasing the Family tax credit by between $575 to $1,400 per year.
- Increasing the Working for Families tax credit abatement threshold from $36,350 to $42,700.
- Increasing the Working for Families abatement rate from 22.5% to 25%.
- Reinstating the Independent Earner tax credit (IETC) of $520 annually to individuals with incomes of $24,000 to $48,000.
- Introducing a $60 per week per child Best Start tax credit for families with children under 3 (if born on or after July 1, 2018).
- Implementing the Accommodation Supplement and Accommodation Benefit increases.

The Government is also introducing a new winter energy payment for recipients of benefits, superannuation and veteran's pensions. The payment will comprise $450 per year for single individuals without dependent children and $700 for couples and singles living with

dependent children. Orphaned and unsupported children will also receive an increased allowance of $20.31 per week.

The changes are aimed at bringing many New Zealanders out of hardship. However, higher income earners, especially those without children, will not be seeing any direct financial benefits from the changes.

Other Government commitments are also set to take a big slice of the budget. The KiwiBuild programme, aiming to deliver 100,000 homes for Kiwi families over the next ten years, and the first year of free tertiary education, will leave the Government with a slim margin for fiscal error. Furthermore, they have placed long-term fiscal focus on the reduction of net government debt to between 0 and 20 per cent of GDP, along with keeping government expenses below 30 per cent of GDP.

While current Treasury forecasts are positive, economic outlook can change quickly with budget shocks such as natural disasters. Another large earthquake could spell the end to the Governments current forecasted cost buffer. Only time will tell whether or not the Government has budgeted correctly.

MIXED USE ASSETS

When an asset, such as a bach or a boat, is used both privately and to generate income, prescriptive rules exist within the Income Tax Act that determine the extent to which a tax deduction is available.

Expenses broadly fall into three categories: fully deductible, non-deductible and apportioned. An expense is fully deductible if it is incurred solely to generate taxable income. Non-deductible expenses arise directly from any private use of the asset. Finally, apportioned expenses arise when an expense relates to both income-earning and private use of the asset, with a tax deduction available based on the number of days the asset is used to derive income, as a proportion of the total number of days the asset is used for either purpose.

Private use is defined as the owner's personal or family use of the asset, and any other person who pays less than 80% of the market value for the use of the asset. For example, if a bach is rented to your sister for full market rent and a friend for 70% of the market rent, both instances qualify as private use and the income is exempt from tax. Similarly, expenses relating to this use of the asset are non-deductible.

Keeping a bach in mind, an example of a fully deductible expense would be advertising costs. Conversely, if the owner of the bach purchased a kayak that was unavailable for tenant's use, the cost would be non-deductible. While general holding costs such as rates, general repairs and insurance are apportioned based on the proportion of days the asset is used to derive income.

If a net loss arises from the asset, that loss is typically ring-fenced and cannot be offset against other income. Instead, the loss must be transferred forward and offset against future profits from the asset.

In addition to Income Tax, there are separate GST rules that apply to mixed-used assets. GST recovery is broadly based on the anticipated split of private / income use. However, unlike the income tax rules summarised above, GST can be recovered on use by the owners and their family, providing market value is paid for use of the asset. Hence, different recovery percentages can arise between income tax versus GST.

Before you consider putting the bach up for rent, it is worth checking whether the mixed use asset rules will apply and what records you need to keep to ensure you can correctly apply the rules .

LOSS OFFSETS & SUBVENTIONS

The loss offset (and subvention payment) mechanism allows a 'profit' company to reduce its taxable income by utilising the tax losses of a 'loss company'. The mechanism is a great tool that is commonly used.

Before a loss offset can be made, the following key requirements must be satisfied:

The loss company must have maintained shareholder continuity of 49% from the time the loss was incurred, until the time it is utilised.

The two companies must have maintained shareholder commonality of at least 66% during the period in which the losses were incurred and the profits derived (against which the losses will be offset).

The loss company must carry on a business through a fixed establishment in New Zealand and cannot be a dual resident company.

The amount of the loss offset cannot exceed the taxable income of the profit company.

As with most tax issues, the devil is in the detail, and prescribed legislation exists to govern the use of the loss offset mechanism. To assist taxpayer's with ensuring the rules are correctly applied, Inland Revenue has recently issued an updated standard practice statement (SPS) setting out its view on how the legislation is to be interpreted.

The new statement is useful because it clarifies an ambiguous matter that had existed after a previous statement made by Inland Revenue. In previous guidance, Inland Revenue had advised that it is possible to complete a subvention payment by way of journal. However, no detail was provided on what the form of those journals should be to ensure they were technically correct. The problem lies in the fact the legislation requires the profit company to bear the loss of the loss company; this ordinarily occurs through the physical payment of cash. However, it is not possible for a profit company to bear another companies loss, solely by way of journal.

Inland Revenue have now advised that journals can be used if they cause a genuine crediting in a payee's account or off-set of a pre-existing obligation. For example, if the profit company had previously loaned cash to the loss company and the two companies agreed that the profit company will make a subvention payment to the loss company, that could be completed by journal. The journals would reflect that the loan is eliminated, allowing the loss company to keep the cash.

The SPS also covers a number of other scenarios such as:

how to make a valid election, part period loss offsets due to a change in shareholding, the effect of amended assessments, and late elections.

Reference to the SPS is recommended if any of the above situations are encountered.

The update is a timely reminder to ensure the rules are applied correctly, especially for those who might be thinking about transferring some losses this coming tax year.

AFTER WORK DRINKS

A recent study found that up to one in five office workers enjoy going for a drink with co-workers at least once a month.

This begs the questions as to whether after-work drinks are good for a person's career. Although there is clearly no direct link, there can be undeniable benefits to socialising with co-workers outside work hours. Although it may seem like an extension of the work day, do not underestimate the value of staying for a drink, even if just one.

The study found 82% of people relished the chance to bond with teammates, whilst 11% of those questioned stated that their reason for attending was to spend time with and get to know their boss in a not so serious environment.

Not a drinker? Well, that's fine! There are no rules that say you have to drink alcohol, grab a non-alcoholic drink and enjoy the time spent with co-workers.

A more casual atmosphere can allow colleagues to get to know each other better. But remember to **keep it professional**, you do not want to be the talk of the office for the wrong reason. Have fun but know your limits. It can be your chance to make an impression on co-workers, but make sure it is a positive one.

AUCKLAND TRANSPORT

Filling up the tank in Auckland will soon cost more than the rest of the country.

A 10 cent per litre petrol tax is expected to be in place by July 1st. The tax will be added to the price of petrol and is hoped to contribute 10% towards Labour's $15 billion 10-year Auckland transport programme.

It is intended that the money raised will fund a rail link from Auckland CBD to the airport, West Auckland and along other key Auckland roads, as well as new busways, bike paths and roads. It will also contribute to the cost of a rail network between Hamilton and Auckland. In addition to improving transport, it is hoped that the anticipated traffic decongestion will allow for more intensive housing development around transport hubs, bringing economics benefits to those areas.

Most people agree that change is needed to fix Auckland's traffic problems and a fuel tax is a straightforward way to raise the much needed funds. The tax might help decrease congestion and make Auckland's dire public transport move into the 21st century, which is long overdue.

TAXABLE GOLD

Can an investment in gold bullion create a tax liability? Inland Revenue (IRD) has recently released a statement on this specific point.

IRD consider that gold bullion purchased as an investment has been acquired with the purpose of eventual disposal, i.e. a purpose or intention of resale exists. Consequently, any gain that arises on its future sale is income and taxable. In IRD's view, a commodity such as gold does not provide any annual return or income for the period of ownership, so it is hard to argue that the investment was for any purposes other than eventual disposal.

The IRD considers the 'reason' for acquiring gold is irrelevant. Whether it has been purchased as an investment, or a hedge, this does not counter the underlying purpose of a future disposal. In comparison with other investments such as shares in a company, which may be held on capital account for the purpose of a deriving a dividend stream, gold has none of these features.

Now what would the IRD think about crypto-currencies?

EXCESSIVE SALARIES

It is very common for family owned companies to employ members of the family in the business on a permanent or casual basis. There is no problem with this per se, however income tax rules seek to prevent 'excessive salaries' being paid to family members.

Inland Revenue has recently been focusing on this issue and has been scrutinising the type of work completed, the amount paid, the way in which it was calculated, and what a third party might be paid for the same work.

There is no precise measurement as to what constitutes 'excessive', as each case is different. What is most important is that business owners determine the value of a relatives remuneration based on the service provided to the business. The relative should be paid the same amount as an unrelated employee performing similar duties.

IR has the ability to intervene and reallocate remuneration, income or losses if it considers the amount is not reflective of the value contributed. If an amount is deemed to be excessive, the excess may be recharacterised as a dividend and therefore non-deductible to the payer. Where salaries to family members are paid it is important to ensure the employment and the amount paid is calculated and documented on an arms-length basis.

IMPORTANT TAX DATES

20 March - PAYE, RWT, NRWT, FBT Returns are due

28 March - GST due for period-end February

28 March - Provisional tax due for October (P1) and June Balance Dates (P2)

31 March - Final date to file March 2017 Tax Returns

5 April - PAYE due for large employers

7 April - Terminal tax and terminal student loan repayments due

20 April - PAYE, RWT, NRWT, FBT Returns are due

5 May - PAYE due for large employers

7 May - GST due for period-end March

7 May - Provisional tax due for July (P2) and March Balance Dates (P3). P2 is due for 6-monthly GST filers

20 May - PAYE, RWT, NRWT, FBT Returns are due