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What businesses need to know about the new R&D Tax Incentive

The Taxation (Research and Development Tax Credits) Act 2019 has received the Royal Assent and was passed into law on 7 May 2019.

The R&D Tax Incentive will apply to eligible R&D activities conducted by businesses from the 2019/20 income year. Here is what eligible businesses need to know about the recent legislation.

The aim of the tax incentive is to raise New Zealand's expenditure on research and development to 2% of GDP over the next 10 years. This is in the hope that it will create a more productive and sustainable economy. However, in order to reach this target, more businesses will need to increase their expenditure on R&D. The main features of the incentive are:

- A credit rate of 15% applied against income tax liability.
- A minimum expenditure threshold of \$50,000 per year, with a \$120 million cap.
- Limited form of refunds for the first year of the scheme that is similar to the R&D tax-loss cash-out scheme run by IRD.

- A definition of R&D to mean that credit can be more easily accessible by all sectors, including technology.
- Eligible internal software expenditure capped at \$25 million.
- The inclusion of state-owned enterprises, industry research cooperatives, and levy bodies.

Core R&D activities are defined as having a material purpose of creating new knowledge or new and improved processes or to resolve technological or scientific uncertainty. If incurred for the purpose of undertaking an R&D activity, eligible expenditure can include wages and salaries, depreciation loss on assets, or direct expenditure on consumables and other materials.

For most businesses, expenditure on eligible R&D activities that are undertaken from 1 April 2019 will qualify for the tax incentive. These businesses will be eligible to transition into the new regime at the start of their 2019-20 income year and should start recording their R&D expenditure now to ensure that their records are ready to file.

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Making prescribed investor rates easier to understand

The Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill contains proposals to simplify and modernise the administration of KiwiSaver.

The Bill proposes a number of changes to improve the administration of the KiwiSaver scheme, facilitating faster transfers of funds, improving the administrative efficiency and enhance members' experience with the scheme.

Fairer tax measures pass into law

Tax reforms designed to ensure greater fairness in retail trade and residential investment have now passed into law.

The Taxation (Annual Rates for 2019-20, GST Offshore Supplier Registration, and Remedial Matters) Act 2019 received the Royal Assent on 26 June, with elements of the bill coming into effect throughout the year.

One of the biggest changes is that offshore businesses who supply low-value goods to New Zealand will now be required to collect GST. From 1 December 2019, offshore businesses who supply more than \$60,000 of services and low-value goods per year will pass on GST directly to the IRD. This means larger, offshore companies now have to collect GST on their sales on the same level as smaller, domestic retailers.

Another change the Bill has introduced is that residential property investors no longer get a tax break by using losses from rental properties to offset tax on other sources of income, such as salary and wages. Those losses will now be ring-fenced to the property portfolio. The new laws also provide greater oversight of land transfers to ensure those buying and selling properties are complying with tax rules on property speculation. This will require most people who buy and sell properties to supply their IRD number on transfer documentation.

The implementation of a new information technology project known as Business Transformation (BT) has allowed Inland Revenue (IRD) to detect more clearly what rate of tax that people should be paying on their KiwiSaver accounts and other investment savings.

Though the New Zealand tax system has a broad-base, low-rate framework, the IRD has identified that approximately 1.5 million people have been paying the wrong prescribed investor rate (PIR) on their KiwiSaver accounts and other managed funds.

Currently, KiwiSaver investors and others with savings in Portfolio Investment Entities must be the ones to notify savings providers of their appropriate PIR tax rate. As many individuals do not do this step, they are charged the default rate of 28%. The tax paid is final and any overpayment cannot be refunded.

An estimated 550,000 people are on rates that are too low, underpaying their tax by an average of \$80-90 per year while a further 950,000 people are estimated to be on a PIR that is too high, having overpaid tax by an average of \$44 per year. The

prescribed guideline rates are 10.5% for those earning a taxable income of below \$14,000, 17.5% for those earning between \$14,000 and \$48,000, and 28% for those earning over \$48,000.

The proposed law will allow for the IRD to notify the provider to correct the PIR from 1 April 2020. The IRD has also announced that from mid-July it will begin contacting taxpayers who are on the wrong rate.



Defining your audience

Defining your target market is the key to shaping your entire marketing strategy.

Knowing who you intend to assist can help to differentiate your business from the competition, tailor your marketing efforts to better meet customer needs and potentially boost sales. Taking the time to identify and understand your particular niche audience can help you dominate it.

A broad target market that tries to appeal to everybody can get lost amongst the crowd. Demographics, such as age, gender, income and occupation, do not necessarily provide enough insight into the attributes of your target customer.

When constructing your market profile, narrow down the typical customer by looking closely at the psychographic, geographic and behavioural characteristics. This can help further develop the vision of your target market.

Psychographics:

Categorising your target market through psychographics uses personality and interests to define your target customer. Psychographics analyses variables such as lifestyle, attitude, values, personality traits, social class, activities and opinions. This

explains the “why” element of why your customers want your product. Often closely related to demographics, combining the two forms of data collection can build a complete, sophisticated profile of consumers based on a more detailed picture of who they really are.

Geographics:

Segmenting your target customer through geographics involves considering what continent, country, city or town they may live in. It can also further studies by looking into specific neighbourhoods, the size of that area and even the climate. Geographics require far less personal data and can be performed simply with a map of the area in question. This form of analysis is quite general so it is best when used in conjunction with other methods.

Behavioural:

Behavioural segmentation involves your target customer's behaviour towards your products or services. This format looks at customers based on what benefits they desire, how often they will use your product or service, loyalty to your brand, readiness to buy your products/services, or if your products/services are used for a specific occasion such as a holiday or an event.

Perfecting your pitch

The sales pitch of a product or service can make or break a prospective sale. An effective sales process is essential to any business.

When planning a pitch to a potential client, don't treat the meeting as if you have already made the sale. Instead, take a moment to focus on the client and what you can do for them, how you can actually help them and how to convey this through your pitch.

What do they want?

Approach the potential client with questions about what their desires, concerns and challenges are. Find out what is important to them and what their expectations are. You can then go on to demonstrate how your product or service is suitable by clearly outlining their advantages. Benefits, such as saving time, money or effort, can help to demonstrate why you are best equipped to help them.

Remove agendas:

Prospects can often identify when a sales pitch is running off an agenda. The seller can come across as pushy, they don't match the prospect's concerns with the product or service on offer, and they don't give the prospect much time to talk. This approach can appear insincere and impersonal, thereby creating the opposite effect and driving the prospect away.

Highlight value:

Value is a critical factor in a prospect's purchasing behaviour. Using value-based selling can be helpful at generating more sales as it focuses on addressing the prospect's problems by showing them the benefits of your product/service. An emotional appeal in your campaigns also helps to better connect with your customers and ultimately

drive sales. If your products or services aren't a solution for them, provide alternatives or come to a compromise to ensure that both parties are happy.

Give evidence:

Sharing positive feedback from existing customers is a great way to demonstrate credibility and gain the trust of prospective customers. Asking for a referral or feedback, or using customer satisfaction surveys can help to boost your business' reputation and also provide insight into what's working and what needs to be improved. Creating a referral program where the referring customer gains a discount or reward is a good way to boost your word-of-mouth marketing. Not only do you benefit from the new customer but it gives your existing customer an incentive to spread the word.

The legal obligations of marketing

Businesses must be mindful of the relevant regulations when setting prices and advertising products or services to ensure they aren't misleading their customers.

Like many other areas of business, marketing efforts are regulated and need to comply with the legal requirements. Under the Fair Trading Act, businesses in New Zealand can't mislead clients or prospects with false information in advertising or about pricing.

Advertising:

When promoting products or services, businesses must ensure that any branding, statement, quote or other representation is not false or misleading. There are some tactics businesses use to try to advertise products that make them more appealing but don't necessarily give the full picture, such as:

- Component pricing; when the price of a product or service is advertised or displayed in separate parts. When advertising uses component pricing, companies must also provide the full price inclusive of additional costs in a prominent way.
- Bait advertising; where a product is advertised at a certain price without a reasonable supply. Bait advertising is illegal if a business sells the product knowing that they cannot meet expected demand.

Being aware of advertising regulations is an important aspect of running a business to its full potential.

Email marketing:

There are specific New Zealand email marketing laws and standards of practice that must be adhered to when developing an email marketing service for your business. The 2007 Unsolicited Electronic Messages Act governs email marketing and messages sent via SMS, MMS and instant message in New Zealand. The Act covers three main areas:

- Consent; you must have consent from the recipient in order to send a commercial electronic message that offers, advertises or promotes the supply of goods or services. Consent can either be expressed (the recipient has deliberately opted-in to receive emails) or inferred consent (refers to the relationship between the sender and the recipient, e.g. subscriptions).
- Identification; communications must clearly show the senders' contact information. This not only means the inclusion of a working contact address, but it must also name the person that authorised the sending of the email. This individual must be physically in New Zealand, or a business that acts within New Zealand at the time of use.

- Unsubscribe options; there must be an unsubscribe option for emails or an option to opt-out of other electronic messages.

Factual messages such as emails that provide a price, product description or quote to a customer are exempt from the Spam Act as their purpose is not promotional.

Public signage:

Before you place a sign, you need to provide local or regional authorities with a diagram of your proposed sign showing the colours, dimensions/lettering height and the height/width when mounted, a legal description of your property or the property where you wish for the sign to be placed and a description of the proposed activity you wish to advertise.



This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your tax planning.

Feel free to consult us for help in taking advantage of tax-saving opportunities and tax efficient investments.

Simplifying provisional tax for small businesses

Inland Revenue is making provisional tax simpler for New Zealand small businesses through the Accounting Income Method (AIM).

Now in its second year, AIM allows business owners to pay a tax bill only when they're making a profit. Under the previous rules of provisional tax, payments must be made three times a year and in equal amounts. As most businesses don't earn their income equally across the year, this can cause strain on the business's cash flow if taxes are paid earlier than profit is made.

AIM does not replace existing methods but is available alongside previous ways of paying provisional tax. It is currently provided through three accounting software providers and aims to take the guesswork out of

provisional tax by using a business's real-time account information. This can then provide them with more certainty that they are paying the right amount of tax at the correct time. AIM also reduces a business's exposure to penalties and interest on provisional tax.

The method is already being used in a wide variety of industries, including hospitality, construction, and rural services. Businesses with an annual turnover of less than \$5 million and AIM-compatible software are eligible.

In the second year of the new method, IRD has made some revisions to the platform that makes it easier for businesses to use. New features include the ability to opt-in to AIM at any time of the year, the ability to pay GST and provisional tax in the same payment, and a reduction in the stream of notifications that businesses were receiving.

AIM is currently provided as part of software accounting packages from MYOB, Reckon and Xero. To find out whether AIM will assist your business, speak with your accountant or tax agent.



The art of effective negotiation

Effective negotiation strategies leave all parties satisfied while improving and maintaining personal relationships.

The key to success is remembering that everything is negotiable, and to get a deal you must ask for one. Negotiating is not always a straightforward process, with many people even finding it uncomfortable. It doesn't have to be this way, as there are many different styles of negotiating you can use to find a solution. In order to effectively negotiate and improve your chances of maintaining positive relationships, the key is to focus on three main areas.

People:

Separating people from the issues benefits your negotiation strategies. Ensure that each party understands the other's perception of what is involved, and what each person expects from the negotiation. Identify the underlying emotions on both sides, and acknowledge them in your discussion. Listen actively and speak to be understood, not merely to argue a position.

Options:

Work with the other party to come up with a variety of options. You may look for areas of agreement by identifying shared interests. Think of ways that you can compromise these differing interests by exploring options that are of low cost to you and high benefit to the other party, or vice versa.

Criteria:

Insist on negotiating within a mutually agreed upon standard of fairness in order to avoid conflict. By developing an objective criteria prior to negotiation, it will allow you to come to an equitable final agreement. The criteria may involve historic precedent, industry best practices, market value or legal rulings. Negotiating within these standards can help to eliminate emotional bias, and is crucial to establishing a foundation of trust on which you can then build a relationship.



Important tax dates

30 September

GST return and payment due.

21 October

Quarterly FBT return and payment due.

29 October

GST return and payment due.

Provisional tax instalments due for people and organisations who file GST on a monthly or two-monthly basis, or aren't registered for GST.

Provisional tax instalments due for people and organisations who file GST on a six-monthly basis.

Provisional tax instalments due for people and organisations who use the ratio method.