

CRYPTOCURRENCY

The buzzword of the digital age

Cryptocurrency is the new buzzword for trading and investment in the digital age.

It's gained fame – and some notoriety – in recent years as a form of money that's designed to be secure and anonymous.

In this article, we look at the history of money and explain the basics of cryptocurrency. It's a complex subject, so we'll explain more in later articles.

For thousands of years, people have used objects of value to carry out transactions. The Chinese and Indians used cowry shells as an early medium of exchange. In other parts of the world, gold and silver became legal tender and coins were made from these precious metals. Later, paper money was produced. Anything of value, of course, has been used for trading, relying on trust to determine its worth.

Gold in the 19th century became a standard currency. The “gold standard” adopted by many countries held that “fiat currency” (paper money) could be converted to gold at a set rate.

Wealthy countries accumulated gold, but other countries lost it as they paid off debt. The First World War created new political alliances and government finances deteriorated. A new, more



flexible system was required. The British pound and US dollar became standard currencies and smaller countries began holding these currencies instead of gold.

At the end of World War Two, the Bretton Woods agreement meant the United States dollar became the international standard, itself being valued against gold valued at \$35 an ounce. In 1971, the US dropped the gold standard and the world entered the flexible world of “fiat” money, the value of which is determined by governments.

Fiat money has held sway since, as the international means of exchange, but we're now entering the age of cryptocurrency.

As its name suggests, cryptocurrency uses web-based cryptography, which converts traditional data into code to track purchases and transfers. The

same sort of code is widespread on the internet to protect private information.

Cryptocurrencies such as Bitcoin allow users to buy things of any value electronically and store money anonymously without going through a traditional bank. No money is ever printed, no coins minted.

There are no fees nor government control, making it an attractive proposition for people tired of bank fees and wary of market manipulation. It's the decentralised nature of cryptocurrency that sets it apart from traditional banking. No one controls the network on which it runs.

This lack of control worries many central banks, though most admit cryptocurrency won't go away soon and might well be the future of money. All are studying its implications for the global financial system. Some countries, such as South Korea, have banned bitcoin trading via exchanges in their nation. What are the implications for taxes, inflation, GDP, trading in illegal goods etc?

So how do you buy cryptocurrency? You can buy units or “coins” from brokers

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TAX TIPS, TRAPS & TROUBLES

Get organised for annual accounts

The 31st of March is rapidly approaching. Now is a good time to think about getting organised for your annual accounts to minimise hassles.

The following comments are based on a 31 March balance date. If yours is different, please adjust accordingly.

- If you have bad debts, write them off before you get to 31 March or you'll have to include the amount owing to you in your sales for the year.
- If you have invoicing to do in April for work done in March, remember these sales belong to the past financial year and must be included in your accounts receivable (sundry debtors). We find some professionals, particularly if they have only one invoice to issue, overlook this.
- If you have to count stock, think about how you can minimise the effort at balance date. Can you get rid of obsolete stock? Have you organised people to count the stock?
- It's unlikely your stocktake can be done after you close for business on the last day of the financial year and before you reopen the next day. You will, therefore, need to take a record of transactions occurring after the stocktake and before the year end and deduct these from the stocktake. If your stocktake occurs after balance date, you will need to keep a record of sales from balance date until stock is counted and add these back to stock. If any deliveries occur around stocktaking time, you may also have to adjust for these. Some people refuse to accept deliveries at such a time, to keep things as simple as possible.
- Money owing by you at the end of the year (accounts payable or sundry creditors) needs to be listed so we can claim the expenditure for tax purposes. Some accounts, such as power, are

easily overlooked. The easiest way of getting this list is to go through all your April payments and decide which ones relate to the previous financial year. We're assuming you pay all your bills promptly.

- If you have an investment in a PIE, you will need to provide your PIR, (prescribed investor rate), which is your tax rate. You get this rate by looking at your income for the previous financial year and your income for the current year. For example, your taxable income for the year ended 31 March 2017 was \$43,000 and you anticipate your income for the year ending 31 March 2018 to be \$49,000. The tax rate applicable to the \$43,000 is 17.5% and the tax rate applicable to the \$49,000 is 28%. You are entitled to use the 17.5% for the year ending 31 March 2019, being the lower of those two. If you accidentally choose too high a rate, you can't get the overpaid tax back. If you go too low, you have to put the PIE income in your tax return and pay the extra tax.
- It might be a good idea to get some maintenance work done before the end of the year, so you can get a tax deduction for it.
- Some people think if they change their motor vehicle before balance date, it could save tax. It's probably better to make your decision based on good business rather than on tax. If you're going to change the vehicle shortly, have a look at the book value you would anticipate at 31 March 2018 and compare this with the market value. If you're going to make a loss, change your vehicle before balance date. If you're going to make a profit you can defer the tax on that profit for a year by changing the vehicle after balance date.

IRD seeking more data, quicker

Inland Revenue is aiming to get as much data from you, in electronic format, as it can.

It also wants to get this data much more quickly so it can make regular adjustments to the tax rates to cater for the Working for Families tax credit etc. More and quicker data would also enable the Government to get rid of secondary tax. Most of these changes will occur on 1 April 2019 or 2020.

You're going to have to file PAYE information electronically if your PAYE and ESCT deductions are \$50,000 a year or more. This information will be required within seven working days of making the wage payment.

The department also wants details of interest and dividends reported monthly. It's going to require this information to be filed electronically, unless to do so would cause great hardship.

If you don't supply your IRD number to a payer of interest or dividends, there will be a non-declaration rate of 45% applied to the payment you get.

The banks will no longer be required to send out certificates of annual interest as these will be available on the Inland Revenue website and taxpayers will be able to access them through MyIR.

AIM could be helpful

If you have seasonal income or will pay more than \$60,000 of tax in the year, the new Accounting Income Method (AIM) could be good for you.

From 1 April 2018 you're going to be offered another opportunity to avoid the interest charge on the shortfall of your provisional tax. If you use accounting software approved by Inland Revenue, you may be able to calculate and pay your tax on a two-monthly basis in tandem with GST. Provisional tax will no longer apply to you. If you don't pay GST, you can still use AIM.

You will need to make several adjustments, but these are not difficult. Those who wish to use the new system will need to notify Inland Revenue before the beginning of the financial year for which they wish to use it. We recommend checking with us, first.

The following adjustments will

be required for each return:

- Private expenditure included in business payments.
- The stock adjustment is perfectly easy. We won't detail it here.
- If you're on a payments basis or not registered for GST, you don't need to adjust for money owing to you and money owing by you (accounts receivable and accounts payable).
- If you make losses, these are adjusted period by period so you don't have to pay any income tax until they are used up.
- You can choose whether or not to adjust for depreciation, but you must conform with the IRD depreciation rules if you decide to claim a deduction for depreciation.
- There are special rules for livestock.

Be generous in business

People come to you because they know, like and trust you. Be generous. It helps people to like you.

An elderly couple regularly visit a cafe and share a meal. They ask for two knives and forks. They get two plates, half a pie each and some salad on each plate, together with relish.

A home-stay proprietor, (admittedly at an expensive hotel) invites his guests to phone anywhere in the world for as long as they like.

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with traditional money or cryptocurrency. Your coins are stored in a virtual wallet from which you can spend them. You can also earn cryptocurrency by "mining", which involves solving complicated online maths problems. All transactions are updated and held on a public ledger called a blockchain.

Bitcoin was the first major cryptocurrency and is the best known. It was created in 2009 and last year rocketed in value before diving 30 percent by year end. Even so, it's a big player that financial authorities have to take seriously as the possible future for transactions of all kinds, including stocks and bonds.

Bitcoin's market capitalisation was more than NZ\$300 billion at the end of 2017. About 17 million "bitcoins" are in circulation.

- In New Zealand, Inland Revenue is considering whether profits from Bitcoin and other cryptocurrencies should be taxed just as it taxes trading in conventional currency.

More on cryptocurrency in the next issue.

MORE TAX TIPS, TRAPS & TROUBLES

Attention landlords

At present you must hold a residential property (that isn't your main home) for at least two years to avoid paying income tax on any capital gain. Labour has firmly stated they intend to increase this period to five years and also because it's just tweaking legislation already there it will be sooner rather than later. The good news is they are not planning on making the legislation retrospective so it will only apply to properties purchased after the law is changed. The Government also plans to abolish the tax benefits of negative gearing but has provided no specifics yet. One scenario is to only allow rental property losses to be offset against rental property profits. Also, we don't know yet whether the law change will apply to residential rental only, or whether it will include commercial property.

New ideas

The new Government has introduced Best Start, a \$60 a week payment for a year following paid parental leave. If your household income is less than \$79,000, the payment will continue until the child is three years old. It has also enacted a "winter energy" payment of \$450 a year spread over five months for people receiving superannuation or a main benefit. These payments will not be means tested. Couples will get \$700 between them to spend how they wish.

Backdated holiday pay

If you back pay an employee or ex-employee for holiday pay, tax this as a lump sum.

Programs check grammar

Proofreading is a great example of how technology is replacing humans.

Programs such as Grammarly are being relied on to check not only grammar and spelling, but also plagiarism. Does it supersede professional proof-readers? Not yet, and maybe never.

While Grammarly uses artificial intelligence (AI), it will arguably never replace the instinct and experience of someone who's spent years looking at how words work to communicate to specific audiences.

However, in an age when technology is relatively cheap, the perception might well be that it's worth using instead of humans, despite the risks.

Grammarly is certainly smart. It's a big step up from the old spell checker that wouldn't detect whether "practice" or "practise" was used correctly. It



can be used to check messages, documents and social media posts.

Grammarly says it makes communications clear, mistake-free and effective by detecting mistakes in grammar, punctuation, spelling, word choice and even style (style being a preference for words or phrases which might both be correct, for example, "percent" or "per cent").

Grammarly offers an online text editor and an extension for most web browsers. It explains the rationale for each correction so you can decide whether, and how, to correct an issue. Many people will find that time-consuming and even annoying.

- See www.grammarly.com



TAX CALENDAR

9 April 2018

2017 Terminal Tax
(March balance date)

7 May 2018

3rd instalment of 2017
Provisional Tax
(March balance date)
GST for March 2018

28 May 2018

1st Instalment 2019
Provisional Tax
(December balance date)
GST for April 2018

31 May 2018

Deadline for Fringe
Benefits Tax returns

The magic of property leverage

If you're using rental properties for your nest egg, consider adding value by making alterations to your property worth more than their cost. For example, you buy a house for \$500,000. You subdivide it into two flats for \$100,000 and, because of the increased rent, the property becomes worth \$670,000. This is called leverage. It increases your equity. You should keep money aside, when you buy, and leverage at the beginning. Pick locations which lend themselves to subdivision into flats or rooms such as near a hospital or university.

Another plea from IRD

When paying withholding tax on dividends the payment account type is DWT. When paying withholding tax on interest the account type is IPS. Please ensure you use the correct payment account types.

Marketing is an ongoing process

Now is an excellent time to prepare your plans for the coming financial year. Your marketing plan should usually be your first consideration.

- Can you sell more to your existing customers? Maybe all you have to do is a little staff training. Everyone should ask the classic upselling question: "Will you have fries with that?"

- Your existing customers are often a good source of new customers. An electrician who has a reputation for excellent work (and substantial prices), sends a notepad and business card with his invoices. Notepads are a great way of constantly reminding your customers you are around. They

are too substantial and useful to throw away, unlike most other advertising material.

- Involve as many people as you can in thinking about how you can go about your marketing. If yours is a small business, look for low-cost and no-cost ways to get more customers. Try looking up guerrilla marketing on the internet.

- Marketing is not a one-off exercise. If you put flyers in people's letterboxes, for example, you are not going to get much of a response if you do it just once. Repetition increases your chance enormously of converting a prospect to a customer. Real estate agents are good at this.

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