PERSONAL INVESTMENT CENTRE
FINANCIAL PLANNERS AND INVESTMENT ADVISERS

May/ June 2019

From Pete's Desk

I cannot believe that we are into the sixth month of the year. I must be getting older if the years are going by this fast!!

We thought we should put a newsletter out to cover off on the IRD MyIR website—you will see this covered under an article on page 3.

We have also included an article on The Bank of Mum & Dad, something we are seeing more and more of as the price of housing goes up and the banks are demanding more of a deposit—something that may get worse if the Reserve Bank increases capital requirements for banks.

Stephen and I have attended a couple of conferences of late. We were over in Sydney at the Portfolio Construction Conference—always worthwhile.
We have also attended a SiFA Conference in Wellington. It is always good to get amongst your peers and hear what they are doing in these markets, if only to reaffirm our own thoughts.

Andrea, next door to us at TaxLink, is semi-retiring and moving into our offices. Andrea has sold her main business but is keeping on some of her clients who have simple tax situations. So don't be surprised if next time you pop into the office, especially if it is a Tuesday, and you see Andrea on our side of the wall!

We have been busy in the office, especially now with interest rates even lower. People are looking for better income—diversification is some of the answer.

I find my relaxation with my choir and on the back page you will see our next round of concerts—I hope some of you can make it, it is shaping up quite nicely and I am sure you will find some songs to sing along to. Lynne has also had me busy in the yard trying to get it easier to manage. I enjoy a good project and she has had me on quite a few of late!

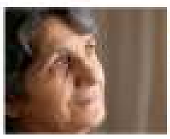
The budget was a fizzer for anyone looking for tax cuts, Stephen was hopeful that they would adjust the PIE tax to encourage more saving but alas this was not to be. Definitely a good move to put funds into mental health but I do hope it doesn't all go to "middle management"!. With a son in the education sector I would like to see the teachers get resolution—it is definitely a sector under extreme pressure

"…It is always good to get amongst your peers…"

"To be absolutely certain about something, one must know everything or nothing about it."

Henry Kissinger

Inside this issue:








The Bank of Mum and Dad
From an article in Trust eSpeaking—NZ Law Ltd

Contributions by family members to the purchase of a property and how this is recorded can affect property ownership.

NZ Houses have never been more unaffordable : in the 1950s to 1980s a house cost two to three times the average household income. In the 1990s it was four times the average, and by the 2000s it was up to six times the average household income. In Auckland it can be up to nine times. When you add in the fact that households are now far more likely to have two incomes (compared with the single income norm of the 1950s) housing looks even less affordable.

Unaffordability has led Kiwi families to get creative when it comes to purchasing and financing the purchase of real estate. Many parents undertake to:

- Gift money to children
- Lend their children money
- Lend the children money but then sign a gifting certificate to their child's lender.
- Buy a property with children (with or without the expectation they would live there), or
- Buy the property but the children pay all the outgoings, sometimes in lieu of rent, but often in the expectation that the property is "theirs".

All of these options add a layer of complexity to property ownership that, if not clearly agreed and recorded in writing, can cause problems later on. One example is parents who jointly contribute to a multi-unit property with their child and that child's partner. Both couples live in the property but the parents do not have any interest recorded on the title to the property, nor any underlying documentation recording the arrangement. If the child's relationship breaks down years later and the lender's records from the joint purchase are long gone, the parents are very vulnerable to a claim by their child's partner that the contribution was a gift—that the partner is entitled under relationship property law to an interest in one half of the property.

Another common example is where parents loan a young couple a capital sum to assist with the deposit on their first home on the understanding that it is a loan. However, nothing is recorded because the purchase can be more complicated if the lender knows the purchasers are borrowing money from more than one source. If the child's relationship breaks down, the law assumes (in the absence of evidence to the contrary) that the money is a gift and the child's partner may take the benefit of half of that gift.

The reason for these seemingly unfair outcomes is that the law creates a presumption that where a parent transfers money or property to a child then, in the absence of evidence to the contrary, the transfer will be presumed to be a gift. This is of course directly opposite to the presumption in non-family circumstances where a similar advance is presumed to be a loan.

Questions to ask yourselves:

You need to be extremely careful when helping your children to purchase a home. If you are thinking of helping your children to buy property, ask yourselves the following:

- Is the money a gift or a loan?
- Is it interest payable?
- If it is a loan, when is it repayable? On death? On the sale of the home?
- Do you expect to share in the value of the home?
- What will happen if you want your money back?
- What will happen if the recipients are in a relationship or marriage and they separate?

It is critical that you, your children and their partners discuss and agree the basis for the advance, and that agreement is recorded in writing. If you don't go through the process above, you all could be facing completely unexpected and distressing consequences

Stephen's Ponderings

It has been a very busy five months since the beginning of the year, both for us at PIC and personally. Both of the kids started new schools this year, which is a big change for them and for us. Between uniforms, school fees and sports activities, it has also left us with a bit of a hole in the wallet! They are enjoying the new opportunities though and have made some good friends.

Peter and I have been to two conferences this year, the first in Sydney in February and more recently to an independent adviser conference in Wellington a fortnight ago. Hearing from advisers in Australia about the industry changes happening over there was interesting and made me think that we in NZ have a better balance between necessary regulation and common sense. The lack of client focus by the large institutions has once again impacted on everyone and created a minefield of compliance, which is driving many small adviser practices out of business. This is not going to help the general public access the financial advice they need and will probably have the opposite effect, pushing people back to the banks and institutions who will continue to operate on a "sales" (rather than "advice") culture.

It's also good to hear the views of commentators, investment analysts and others about the state of investment markets and the key issues going forward. Although there is always a wide range of views, there are common themes which keep coming through. In most cases these support our own ideas and thoughts (which is reassuring!), but I find the most useful presentations to be those that raise ideas that I haven't thought about.

I can't say that I'm looking forward to winter – every year I seem to feel the cold more!

> *"A computer beat me at chess, but it was no match for me at kickboxing."*
>
> Emo Philips

Tax Returns

For those of you that complete your own tax return, either on the MyIR site or by paper/post, you will find this a challenge this year.

The IRD will not be supplying a Personal Tax Summary (PTS), there are no 2019 worksheets available either. Instead the IRD will complete your tax return for you and supply you with a tax assessment.

We have been in touch with staff members at the IRD and they assure us that they are receiving all the required information from the likes of wrap providers, banks etc. and all information will be extracted over time. We know that they are looking to see that everyone is on the correct PIR rate—something we have always endeavoured to have correct in the system. They are therefore including the Portfolio Investment Entities under the Optional (NZD) on your Aegis tax summary, which we have not advised you to include in the past.

For those of you who use a MyIR log-in you may note that only some of your information is populated currently. It is a wait and see game at the moment whilst the IRD work their way through all information. One of their problems is that in the past only one IRD number was required to be loaded against the portfolio; this then means that the IRD has to go looking for the partner to match this and apply some of the income to them.

If you log in and see that you are tax assessment ready and you are single—make sure you have your correct figures to hand and alter the figures and re-submit. If you are part of a couple, we would suggest that you both check your MyIR accounts (you may well find that all the figures are loaded against only one of you). If you aren't both "tax assessment ready" we would suggest that you wait until both are showing ready. You have until 4th July to confirm in the system that the figures are correct so plenty of time to wait. Again; ensure you have worked out your tax figures so you can make alterations and re-submit.

For those of you that have always posted in your return you will probably have to wait for your assessment in the post so you can get your income figures, then write to the IRD to have your figures adjusted if assessment is incorrect.

We have put together a step by step guide to entering figures from the portfolio tax summary and ensuring that your MyIR figures are correct. If you prepare your own return and would like a copy of this document emailed to you, please contact: admin@investcentre.co.nz

Personal Changes

Don't forget….

It is important that you advise us if you:

⇒ **Change your bank account**

⇒ **Change your address**

⇒ **Change your Will or set up POA's**

⇒ **Change your Trustee**

⇒ **Change your email address**

⇒ **Have any other changes in your life that may relate to ownership structure or strategy**

Bank account and address/email changes are obviously important to ensure that withdrawals and correspondence get to the right place but it is also important if you change your Will or Estate structure. This could mean that your investments may need to be set up differently e.g. if you set up a Tenants in Common structure or a Trust structure. Our recommendation would be "if in doubt—give us a call" to ensure your portfolio is in alignment.

You Must Remember This CONCERTS

Saturday 22nd June @ 2pm
Julia Wallace Retirement Village
Dogwood Way, Clearview Park, Palm Nth

Saturday 29th June @ 2pm
Summerset Retirement Village
180 Ruapehu Drive, Palmerston North

Sunday 30th June @ 2pm
Feilding Baptist Church
42 Bowen Street, FEILDING
Gold Coin Entry

Come along and hear the Decibelles, Tenors & Divas, Troublesome Troubadours and soloists.

Out of the Office

Peter out of the office

Thursday 6th June
Friday 14th June

PERSONAL INVESTMENT CENTRE

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