2021 ISSUE TWO

STUART·CARLYON

Financial advisers for your lifetime goals

It's Complicated

Welcome to our world of complexity. A generation ago the advice we dispensed as financial advisers was much simpler. In those days there was an overwhelming desire by clients to simply reduce their exposure to tax. In the mid-1980s the top income tax rate was a disheartening 66 cents in the dollar and so New Zealand investors took what few options were available to reduce their tax.

Among the popular options were the insurance-linked superannuation schemes, which by today's standards were poor performers and bloated with commissions. Yes, but they provided a tax break. For similar reasons, millions of investors' dollars poured into such notorious tax shelters as film partnerships or bizarre, badly researched start-ups like ostrich farming. Rogernomics may have been liberating the capital markets, but by the time of the 1987 crash, the share market and financial markets were still crude, simplistic, dangerous and unregulated.

Anything that promised reduced tax was a Klondike, but in recent decades the focus has gone into offering better investment options, robust risk management and a financial landscape that is heavily audited and regulated. And complicated. Today's investment market now offers a bewildering array of choices and decisions.

Changing technology has also driven volatility. With the internet has come amazing innovation, rapid change, new services, sudden wealth and, just when the going looks good for investors, a gaping new opportunity for hackers and cyber-criminals to do their worst.

Many people are choosing to help the next generation into the housing market

And let's be honest. Our rising lifestyle expectations have also played a part in the complexity. If the theme in the mid-80s was "where can I reduce tax exposure?" today's theme appears to be Great Expectations. We want it all. A flash house. Travel. A holiday home. A great job. We work harder and harder, trying to fit the good life into a 7-day week.

In our work as financial planners we have also seen the emergence of more inter-generational planning. Baby boomers have accumulated a lot of wealth compared to their parents, and subsequent generations are now keeping an eye on their potential inheritance. There's a whole new field of planning around the prevention of ugly family squabbles.

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To give you an idea of the breadth of advice and guidance we provide to our clients, the following are some of the issues we have been involved with over the last six months alone.

- Downsizing. Selling up in Auckland and moving out of town.
- Helping the next generation to buy into the property market.
- Renovations. Prompted by increasing property values and the ability to borrow at low interest rates.
- Substitution spending. Put back those travel plans and instead renew the kitchen, or bathroom.
- Retraining or study. Allocating time and setting aside money.
- US citizen renunciations – unshackling onerous tax and compliance transactions.
- Winding up trusts – new legislation has made these less attractive.
- Setting up new trusts – protecting assets when forging new relationships.
- Modifying investment strategies due to lower interest rates, volatility, a change in tax rates.
- Selling rental properties. Triggered by increasingly burdensome obligations.
- Moving to a retirement village. An unexpected solution arising from health issues or a desire to simplify life.
- Starting up a business.
- Replacing cars. A quiet incentivised switch to electric vehicles?
- Expats returning or contemplating a return to NZ. Dealing with sometimes unexpected tax implications.

- Deciding how best to deal with overseas pensions.
- Kiwis moving to Australia. Taking advantage of some tax benefits of being a temporary Australian resident.
- Changing bank arrangements brought about by cheques not being accepted anymore, and bank branches closing.

Gone are the days of a 'career for life' or the relatively 'set and forget' financial plans that were the hallmark of the early days of our profession. Change is the watchword, and clients are reviewing their objectives and their plans.

The end of an era in banking as cheques are discontinued in NZ

Unexpected events may impact your investment strategy, your financial and tax arrangements, and in many cases require working with a lawyer, accountant, banker or mortgage broker to come up with the best outcome.

Here are two examples of issues that made a surprisingly widespread impact

1. Earlier this year cheque books were invalidated by banks thus landing tens of thousands of senior New Zealanders (at least 170,000 New Zealanders are aged 80+) into a world where transactions are overwhelmingly conducted by phone or by computer. Good luck if you've got arthritis, or are not computer literate, or if you find using a keyboard or ATM or difficult due to conditions such as Parkinson's. A mistyped number might send precious funds to a stranger's account. For people experiencing difficulty with online use, there needs to be careful thought as to how they will pay their bills.

2. The double whammy of low interest rates and mega property price increases puts hundreds of thousands of New Zealanders into riskier territory. New home buyers in particular are running a red light and could easily be caught out by increasing mortgage rates. Our advice is to plan for this scenario, reduce lifestyle expenses and consider mortgage protection insurance in case you lose your job.

The solutions or strategies to deal with changes to circumstances or risks require scoping out and planning ahead. It is worthwhile seeking advice from your adviser who can provide a bird's eye view of your situation and give you some guidance. A brainstorming session often yields some options that have not been considered.

Every financial plan we create is unique, but a lot of the circumstances people face are common. In this newsletter we have touched on two issues – the evolving bank-scape, and the impact of interest rate rises – and in future newsletters, we'll cover some of the other issues.

Hold that music! Automated tax filing

The IRD seldom gets praise from the general public but, surely, they deserve a pat on the back for developing a simpler system for people to file their income.

They have automated tax return filing, which is great. But it does take some getting used to, and there are times when the IRD isn't working with the full picture. Still, is this the end of music on hold?

The on-line system is straightforward for those who are simply an employee and have bank interest earnings and a KiwiSaver fund. For you, the IRD's assessment of your tax position is straight forward.

For others, IRD's assessment will not be adequate. If you own a multitude of investments, or have business income or rental income from properties, then the IRD will require further information.

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Yes, they capture interest, and dividends from NZ shares, and NZ PIEs (Portfolio Investment Entities), but not all the information regarding foreign investment funds. Neither do they have a simple box to claim expenses that you have incurred such as income protection policy premiums or our portfolio fees which are tax deductible.

If you are using an accountant, they will do the reconciliation between what the IRD has in their system and what your actual tax position is and file your return as normal.

However, if you do your own tax filing, you can correct the IRD assessment online, filling in the gaps and then re-submitting their assessment. Good Luck!