HC PARTNERS LP
chartered accountants

December 2018 Newsletter

Wishing you a safe and happy Christmas and a wonderful new year ahead!

Our office will close from 12 noon on **Friday 21st December 2018**

& reopen in the

New Year at 8 am on **Monday 7th January 2019.**

Thank you for all your support this year. From the team at HC Partners LP.

Checklist: Can your business survive the holiday period?

While the Christmas/New Year period is traditionally a slow time of year for business, you still need to meet your expenses.

Ensure your bases are covered before you clock off for the year.

1. Plan ahead

Do a budget to figure out how much you are going to need to cover your overheads. This is especially important if it's going to be several weeks before you start earning a crust again.

A cashflow forecast will help you identify any issues before they become problems.

2. Get your cashflow in order

You can achieve this by:

- Prioritising jobs you can complete quickly so you can invoice clients straightaway.
- Incentivising early payment for completed work by offering a discount.
- Chasing outstanding invoices.
- Seeing if you can re-negotiate payment terms with suppliers.
- Reducing unnecessary spending.

3. Don't forget taxes

IRD expects GST and provisional tax payments to be made on January 15. Interest of 8.22% and late payment penalties apply if you don't.

Here's a tip: If paying both is going to hurt the bank account, prioritise paying the GST. You can utilise the services of an IRD-approved tax pooling provider such as Tax Management NZ to pay the provisional tax later. They reduce IRD interest by up to 30% and eliminate late payment penalties.

As always, we're happy to work with you so you have nothing to worry about while you enjoy your summer break.

Watch out for Spam!

With the recent increase in spam emails supposedly from the IRD, keep an eye out for the subject heading "GST returns due in 5 days". If you get one, delete it.

HOW TO ENJOY ALL THE BELLS AND WHISTLES WITHOUT THE TAX HEADACHE

Parties and gifts are all part of the festive fun but they can cost a small fortune. Here's a list of the rules around entertainment expenses so you know what's deductible and non-deductible before you fork out for your staff and customers.

1. To claim 100% of your customer gifts, keep it non-food or drink related. Book vouchers, tickets to a sports match or a personalised calendar can be claimed in full.
2. Got a staff party planned? Half your food, drink, entertainment and venue hire can be claimed in your GST and income tax returns.
3. You don't need to pay Fringe Benefit Tax on entertainment expenses (that come under the 50% deductibility rules) unless it's being enjoyed by staff outside of their work duties.
4. Heading to Aussie for a fun-filled weekend with your staff? It's 100% deductible (and they'll love you for it!).
5. If you're giving customers and staff food and wine for their efforts you can claim 50% as a business expense.
6. Donating to charity this Christmas? You can deduct 100% of the cost of entertainment you provide to members of the public for charitable purposes.
7. If you're taking your family (who don't work for you) out for brunch to thank them for putting up with your long hours… it's not deductible because it's not related to generating income for your business.
8. Taking the team out for lunch? Ordering in a Christmas feast? You can claim 50% as a business expense whether you're out of the office or on-site.
9. Top tip: If you run out of time to organise Christmas gifts for customers, why not surprise them with a 'Welcome back to work' prezzie in the New Year?

Remember to keep your invoices and receipts for business entertainment expenses and if you have any questions about what's deductible and non-deductible, give us a call.

How cyber-secure are you?

Blackmail, extortion and identity theft might sound like something straight out of a blockbuster movie but cyber crime is not only a reality, it's on the rise and research shows the average Kiwi business isn't prepared.

Is New Zealand really under threat, we're so far away!

Unfortunately 'out of sight, out of mind' doesn't apply to cyber criminals. More than a quarter of Kiwi businesses surveyed by Grant Thornton in 2017 faced a cyber-attack in the previous year, placing us eighth in the league table of 37 countries surveyed.

What can happen if I'm attacked?

Cyber security threats, which include data breach, insider threat, cyber bullying and more, can mean facing larger financial loss from reputational damage, theft of customer details and intellectual property, and infrastructural damage.

How much protection do I need?

It can be as simple as switching on two-step verification on your email but if you rely on sensitive data or store personal information about staff and customers, you'll need to do more. Being proactive could mean software updates, setting up logs, using cloud services (if you're not already) and securing devices.

Unfortunately, it's not a question of 'if' but 'when' your business will be attacked, so take action to protect your business. To find out the best way to keep your business safe in 2019, give us a call.

Holiday cashflow blues

Many businesses start to worry about their bank balance around now. The holidays looming recall unpleasant memories of last year. All the regular expenses (wages, rent, suppliers etc) are still due, but the people who pay you are either away on holiday or slow payers awaiting payment themselves.

Instead of a relaxing break the holidays can be filled with stress. The brutal facts are that December/January are the worst months for slow paying clients.

These are “holiday cashflow blues”.

The classic symptoms:

1. The staff who monitor and manage cashflow take holidays, leaving you feeling you are flying blind.
2. You don’t receive expected in-bound cash but must cover regular outbound monthly payments.
3. Your overdraft isn’t enough to cover all your payments but key bank staff are also unavailable to negotiate an increase.

A clear and concise cashflow strategy is so important to keep your head above water these holidays. It may also improve your business’ cashflow for the whole year ahead.

5 steps from smartAR.com:

- Issue new invoices early. Some businesses only invoice at end of month. Instead, during Nov/Dec/Jan, try invoicing on a weekly or even daily basis.
- Offer flexible payment options, including fee funding if possible.
- Early payment discounts may be cheaper and less hassle than an “unarranged” bank overdraft or high interest credit cards.
- Call all your debtors. If no one in your business does this (or does it well), consider outsourcing to a dedicated accounts receivable specialist to improve payment speeds.
- Prepare a 3-month budget before the holidays. If it indicates a cash shortfall, talk to your suppliers and other creditors in advance. They will appreciate the communication instead of unreturned calls and avoidance behaviour.

And… enjoy the beach!

Get up to speed - new rules for motor vehicles

Did you know the mileage rate we’ve been referring to for years is now the kilometre rate?

If you’re a sole trader or in a partnership (and use your own vehicle for business), you can claim your running costs as an income tax deduction. Traditionally, if you own a company you’re liable for FBT any time you provide non-cash benefits (like motor vehicles) to your staff. Recent amendments to the income tax legislation, however, now allow close companies to use the kilometre rate (where one or two motor vehicles are provided to shareholder employees for their own use) to calculate deductions for motor vehicles instead of paying FBT.

We’d love to talk you through these changes over coffee, but in the meantime, here’s a summary.

You can now claim a deduction based on a kilometre rate method. This method uses set rates, which are divided into two tiers:

- First tier - recovery of both the vehicle's fixed costs and its per kilometre running costs, for the first 14,000 kms.
- Second tier - recovery of the vehicle’s per kilometre running costs only, after 14,000 kms.

The following rates per kilometre will apply for the 2017/2018 income year:

Vehicle type	First 14,000 kms	After 14,000 kms
Petrol or diesel	76 cents	26 cents
Petrol hybrid	76 cents	18 cents
Electric	76 cents	9 cents

As an aside, note where employees are reimbursed for work travel using their own vehicle, a transitional rate of 76c / km is available for the 2018/2019 income year to calculate their tax-free reimbursement amount.

The legislation can be tricky, but with a little advice from an expert (like us!) you can rest assured you’re paying the correct amount of tax and staying onside with the IRD.

Business Health Check

Do your Christmas housekeeping!

- Chase up unpaid invoices to encourage payment before Christmas to get cashflow off to a good start for the New Year.
- Make sure your voicemail message and website mention closing date info and emergency contact details. Who's responding to work related emails while you're on holiday?
- Is payroll all set up for the holidays? Don't leave it till the last minute and double check your calculations.
- Shutting the doors over Christmas? Remember to give staff 14 days' notice.
- Back up your client and financial data on all IT systems and run any anti-virus updates.
- Feeling hectic? Make the workplace more relaxed in the lead up to Christmas by decorating the office, organising a Secret Santa, playing festive music or letting staff dress more casually in the final few days.

KEY TAX DATES - DEC 2018 & JAN 2019

Date	Category	Description
5 December	PAYE	Large employers returns and payments
20 December	PAYE	Small employers return and payment Large employers return and payment
	RWT	RWT return and payment due for November
	NRWT / Approved Issuer Levy	Payment and return for November
15 January	PAYE	Large employers returns and payments
	Provisional Tax	Instalment due (for taxpayers with March balance dates)
	GST	Return and payment due for November
21 January	PAYE	Small employers return and payment Large employers return and payment
	FBT	Third Quarter return and payment due
	RWT	RWT return and payment due for December
	NRWT / Approved Issuer Levy	Payment and return for December
28 January	GST	Return and payment due for December

Disclaimer

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.

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Submission Time

The Timaru District Council is contemplating the sale of their 47.5% of the shares in Alpine Energy Ltd.

As a firm we feel strongly that the ownership and control of our lines network should be retained by the people of South Canterbury.

We have attached our submission for your bedtime reading!

Alpine Energy Submission

HC Partners LP, are totally opposed to the proposed sale of Timaru District Holdings Ltd's ("TDHL") interest in Alpine Energy for the following reasons:

We have endeavoured to summarise our position in the following 10 bullet points with supporting information detailed in points (i) to (vi) following these 10 bullet points:

1. The maintenance and growth of South Canterbury's electricity distribution network is vital to the prosperity of all South Canterbury ratepayers.

   To pass ownership and therefore potential control to private ownership would be irresponsible and extremely short-sighted. **(i)**

2. The reliance on central government regulation to ensure private owners will maintain and grow the network in the best interests of ratepayers is incredibly naïve and shows a lack of understanding of the drivers of private enterprise. It also ignores the examples experienced elsewhere in New Zealand. **(ii)**

3. Furthermore to relinquish the ability to control this key infrastructure asset completely contravenes one of the Timaru District Council's four strategic priorities. **(iii)**

4. The mayor and directors of TDHL appear to have formed the view that the Alpine return is insufficient. We suggest that this view reflects a shallow financial analysis. Based on the suggested value of $110m the before tax return paid by Alpine equates to just shy of 6%. This return is before the calculation of capital gain realised from this asset. **(iv)**

5. The mayor and directors who oversee this asset on behalf of the ratepayer suggest in the discussion document that they should be able to achieve a return of between 5% and 10% from alternative investments. These alternatives are both before tax and inclusive of capital gains.

   Wake up guys, you are already achieving more than this now! **(v)**

6. We can only presume that the council are disappointed at the "paltry" dividend from TDHL of $2.65m. The solution to this is simple - transfer the Alpine asset back to the Council and the Council would receive the full $4.7m after tax cash dividend!

7. In a further attempt to convince the community of the TDHL's intentions it is suggested that the electricity industry is risky.

   This "risky" investment consistently produces an excellent return as evidenced by the last 15 years of financial statements on Alpine's web-site. The company operates in a monopolistic environment and has invested well into future technologies. **(vi)**

8. It is also suggested that it is not wise to invest so much of TDHL's investment funds in one asset.

   If the directors are genuinely concerned regarding the exposure to one sector then simply sell a portion of the shares. This option appears to have been brushed aside on the basis that it will not achieve sufficient funds from a sale.

9. The directors have already provided an indicative price and the Lines Trust appear to be a willing buyer at that price (subject to sourcing funding).

   Surely the Council have an obligation to the ratepayers to provide the Lines Trust with the opportunity to increase their stake above 50%.

   It is obvious to all parties that it will be difficult for the Lines Trust to purchase TDHL's entire stake if that ends up being the only option.

   We strongly suggest that the TDHL should offer to dispose of, say 20%, of Alpine's shares to the Lines Trust and/or other councils which would logically be achievable for the Lines Trust with bank support. This should also alleviate the concern of the TDHL directors.

10. Finally and importantly there should be no panic to reach a decision on what is such an important issue.

    All timelines have been self-created and can be easily changed or deferred

    It is complete nonsense to create a timeline and then bully everyone into believing that the timeline cannot be altered or changed.

    We would like to see the debate deferred until after the next Timaru District Council elections to enable the ratepayers and true owner of the asset to elect the Councillors and mayor who most closely align with their views.

(i) Retention of Key Infrastructure

The electricity lines network is clearly critical infrastructure as everyone who has suffered a power shortage will attest to. Without power the South Canterbury district would grind to a halt.

The Councillors have a responsibility to the ratepayers of South Canterbury to ensure this critical infrastructure is well maintained and available to ratepayers at a reasonable price. This is achieved through joint ownership with other Councils and the Lines Trust all of whom have the same goal and objectives.

In our opinion it is not appropriate for the Council to pass this responsibility over to the party with the biggest cheque book.

The lines network was transferred to the Councils and Lines Trust to administer on behalf of their communities

The Timaru District Council as a major shareholder in Alpine Energy Ltd is in the unique position of holding joint control together with the Lines Trust. It would be unrealistic and naïve to assume the other two smaller Councils would not wish to sell out at some stage.

The growth of our district relies on a lines company being prepared to provide the infrastructure necessary to grow whether that is residential subdivision, business parks, irrigation developments on farm etc.

It should be a major concern for all ratepayers that the continued growth of our district can be stymied by an externally owned lines company.

A purely profit driven owner is also unlikely to continue to distribute in excess of $300,000 per annum in local sponsorships ($365,000 in the 2018 year).

(ii) Private Ownership

We also contend that government regulation will not ensure a new owner will satisfactorily maintain the network at a reasonable cost to ratepayers.

Private ownership will focus firstly on profit with concern for the ratepayers and maintenance coming a distant second. The legislation regulating the industry is open to wide interpretation as experienced by the varying states of the different networks throughout the country and the variance in price charged to ratepayers in different regions.

The Wellington Experience

The Wellington District Council hatched a plan to sell their lines network in 1992.

After much opposition it was decided to sell a minority 49% to TransAlta Utilities Corp of Canada for $120m in January 1995.

The Council in their wisdom were then convinced to sell the balance shortly after in 1996 for $123m also to

TransAlta.

In 1998 UnitedNetworks a listed company 79% owned by an American entity purchased the lines network for $590m (a gain of some $347m made by the Canadians over and above the price that the Wellington Council had been prepared to accept).

Vector (the 75% Auckland Energy Consumer Trust owned entity) then embarked on a successful takeover bid for UnitedNetworks at a value close to $800m but they subsequently experienced debt issues and eventually sold the lines network to a Chinese company Cheung Kong Infrastructure Holdings Ltd for $785m.

The Wellington Lines network is now owned by a Hong Kong based Chinese billionaire. The Wellington Councillors sold one of their crown jewels for a mere $243m giving up the huge increase in value of $553m to predominantly overseas interests.

Why are we feeling a sense of deja vu?

(iii) Council's Strategic Priorities

The Council acknowledged in their 2017 annual report that the provision of critical infrastructure is one of their four strategic priorities.

To quote from the report

> *"one of the Council's core roles is in the provision of infrastructure, both below and above ground that enables communities to survive and prosper. Infrastructure connects our communities together and is critical to our social, economic, cultural and environmental wellbeing. Continuously planning and acting to meet future needs through maintenance and development of infrastructure is a foundation for Timaru District's future."*

(iv) Analysis of return on Alpine Investment

Over the last five years that TDHL have owned their stake in Alpine Energy Ltd they have received an average return on investment well in excess of 10% before tax per annum

This is derived from:

a) A cash dividend of $4.7m (equivalent to $6.5m before tax at a 28% tax rate). Based on a value of $110m this equates to a before tax return of 5.9%.

b) Capital gain between July 2013 and June 2018 (5 years) from $82.7m to $110m being $27.3m or a gain of 33%. Averaging this gain over 5 years results in a capital gain return per annum of 6.6%*****

(v) Comparative returns

The consultation document relies on the position that a much greater return could be achieved by selling the Alpine shareholding and reinvesting in a diversified investment portfolio.

We strongly dispute this contention and believe the financial analysis of the current investment is seriously flawed.

Ironically the investment in Alpine Energy Ltd in the last 5 years has achieved more than the growth the writers of the discussion document hope to achieve over the next 10 years.

Put simply Alpine has been a much better investment for the Council than the diversified fund they now wish to invest in.

The example provided at 8.1.1 of the discussion document suggests that the initial $88m of funds available for investment will increase to between $106m and $154m over a ten year period while also providing for the current level of dividends being provided to Council.

The discussion document fails to recognise that the investment in Alpine Energy Ltd over the last 5 years has grown from a value of $82.7m at 30 June 2013 (as stated in TDHL's Annual report) to a purported value now of $110m while obviously also providing for the current level of dividends.

The discussion document at 8.1.1 assumes a range of investment returns for the proposed diversified investment portfolio at 5%, 8% and 10%.

Embarrassingly the current investment in Alpine over the last 5 years has achieved a better return than the top of

this range. The numbers above recording a total return of 12.5%!

*** Valuation Irregularities**

We are somewhat sceptical regarding the valuation methodology approaches taken by TDHL. We note that the TDHL annual reports in both the 2016 and 2017 financial years record that Deloitte, a multi-national accountancy practice, assessed a fair value of TDHL's holding at $181m and $186.7m respectively.

It is unclear why the directors of TDHL sought a rival accountancy practice Ernst Young, to undertake a new valuation. It is even more unclear why the value obtained has plummeted to a figure of between $87.6m and $97.9m (mid-point $92.7m) as noted in the small print at page 25 of the Council's Consultation document. We have asked the Council this question directly but have not been given the benefit of a logical explanation.

Despite these valuations TDHL's expectation is to receive a value of $110m which

a) Is more than the recently obtained valuation; but

b) Significantly below the previous valuations applied

A conspiracy theorist could conclude that TDHL have already arranged some sort of back room deal where they have already found a prospective purchaser at $110m.

The community would be much easier to placate if the asset is sold for $17m more than the recent valuation than if the asset is sold for $76m less than the prior year valuation!

As a minimum Deloitte should be asked to explain their previous valuations and their comments released to the community to assist the Community to understand why their asset has plummeted so much in value.

Notwithstanding these comments we note that the dividend paid by Alpine has increased between July 2013 and June 2018 from 18.3c per share to the current 24c per share. This represents an increase of 31.15% which offers support for the increased share value over that time.

(vi) Exposure to one investment

The consultation document suggests that TDHL would prefer not to be exposed to one sector and frequently quotes concern about the risk from being exposed to one sector.

Alpine Energy Ltd operates in a monopoly environment and regulations entitle the company to make a reasonable return on investment.

Ironically the regulatory environment that the directors apparently fear enables Alpine to generate a very good return and in fact protects this position for Alpine.

The Company has a diverse range of customers compelled to utilise its services.

An investment of this nature arguably carries less risk than exposure to diversified funds which inevitably are heavily focused on share market investments.

Industry Risk

In terms of industry risk we quote the current Chairman of Alpine, Steve Thompson, who states in the 2018 annual report

> **"***Emerging and cost effective technologies continue to feature as the main disruptor of the future electricity market. Our investment in Infratec puts us at the leading edge of these technologies and this provides Alpine with valuable insights into the viability and application of new solutions"*