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NZ CA

An Association of Independent Chartered Accountants

In this Issue

"Apologise first. The person with the highest self-esteem apologises first."

Plan, plan, plan to stay in business

Running a small business can be time consuming. You've got enough to do to fill orders, buy stock, invoice customers and so on without all those other jobs like management, planning, marketing and finance.

Most small business owners just want to get on with the job!

But wait. This is why you are in business – to run a business. This, in fact, must be your first priority if you want your business to survive and move forward. Neglecting these important activities can do more to erode the business' base than anything else.

You need to find the time to devote to planning and steering the business rather than being the all-rounder who does everything.

You need to allocate quality time on a daily basis for :

- Planning where the business is going.
- Developing customer relations.
- Team training and development.
- Reviewing actual results.
- Planning effective delegation.

Research in Australia found that more than 50% of new businesses fail within the first year and after three years over 80% had failed. The results – which would be similar for new business start-ups in New Zealand – found that 80% of these failures were the result of managerial incompetence and inexperience.

If you made a business plan before you started your business – congratulations! But that is not the end of it. Planning does not stop once the business is up and running. You need to keep at it. You need to look ahead one year, maybe three. You need to constantly know where you are heading and what your goals are.

Think of it as a step by step process in which you need to focus on the actual steps. The critical part of any planning is in the planning , not the finished plan.

The step-by-step process also makes the business planning exercise much less daunting. People get put off the idea of business planning because it sounds difficult. Don't think the task is insurmountable. It is simply a method of analysing your business using simple concepts that you may already be using without realising it.

There are many useful books on this subject, which provide easy-to-follow steps. Your accountant can also help you get started and answer any questions you may have. The important thing is to start now if you haven't already.

Deposits and GST – some guidelines

GST arises at the earlier of a payment or an invoice being issued. If you receive a deposit by way of a progress payment, you are required to pay GST on it. Those on a payments basis will not have a problem, but if you are using the invoice or hybrid basis, it will be different. Using these systems, you bring into account the total money owing to you when you do your GST return. If you have received such a deposit and this is showing as a credit in your debtors ledger balance because an invoice has not been raised, you would need to add this back on to get the full amount of money owing to you from that progress payment. You will already have paid GST on the deposit, so don't forget to adjust back again once you have raised an invoice.

Residential care subsidies and abolition of gift duty

The Taxation (Tax Administration and Remedial Matters) Bill has been passed by Parliament and was given the Royal Assent on 29 August 2011. The Act contains the provisions for the abolition of gift duty.

Some commentators have suggested that now gift duty is abolished consideration should be given to forgiving all remaining debt in one go. However, if this is done it may affect a person's entitlement to residential care subsidies in the future.

If a person requires residential care, they are subject to a means assessment to determine their entitlement to a subsidy for the cost of the care.

The means assessment looks at the assets and income the person has available to them to meet the cost of their care. If the person who requires care, or their spouse or partner, has 'deprived' themselves of any income or property, the means assessment can be completed as though the deprivation had not occurred. The result of this is that the amount which it is considered the person has deprived themselves of will be added back in the means assessment, and may affect a person's entitlement to the subsidy.

The term "deprivation of property and income" is defined in the Social Security (Long-term Residential Care) Regulations 2005 and includes:

- Any gifts made in any 12 month period, which is more than 5 years before the date of means assessment, to the extent the total value of gifts in each period exceeds $27,000.
- Any gifts made in any 12 month period, that is within 5 years of the means assessment, to the extent the total value of gifts in each period exceeds $6,000.
- The disposal of any property within 5 years of the means assessment, for no consideration or a consideration less than market value.
- A failure at any time to exercise any right or entitlement to demand a payment.
- A waiver of a right at any time to receive any entitlement of payment.
- An investment at any time in non-income earning assets.

Therefore, a couple, where only one of them ends up in care, can gift up to $27,000 ($13,500 each) in total in any 12 month period, which is more than 5 years before the means assessment, without it affecting their entitlement to the residential care subsidy. Furthermore, a couple, where only one of them ends up in care, can gift up to $6,000 ($3,000 each) in total in any 12 month period which is within 5 years of the means assessment, without it affecting their entitlement to the residential care subsidy. Any gifting over these amounts can affect a person's entitlement to the residential care subsidy.

When assessing the value of property and income that has been deprived, it is the deprivation by both the person who requires the care, and their spouse or partner, that is counted. For example, if the person requiring the care, and their spouse or partner, have each gifted $27,000 in each 12 month period within 5 years of the means assessment, the person requiring the care will have deprived themselves of $240,000 ($54,000 - $6,000 x 5 years). This $240,000 will be treated as if it was still available to the person. This could cause serious difficulty among family members. If, for example, parents had gifted this $240,000 to their children but were now still considered to have access to this sum to pay for their residential care, where is the money going to come from?

The important point is that if a person gifts the remaining debt they are owed in one go, as suggested by some commentators, this can affect their entitlement to a residential care subsidy in the future. Those persons who do not want their gifting to affect their entitlement to residential care subsidies should continue with their existing annual gifting programmes making sure that they keep within the above limits. This will require a couple to gift only $13,500 each per annum. It has been common to gift $27,000 each per annum. This was because gift duty did not apply to gifts totalling $27,000 or less per annum. However, for rest home subsidy purposes, couples are assessed jointly so this $27,000 limit applies to the couple, not each individual.

The Social Security Act gives Work and Income New Zealand (WINZ) broad powers in assessing a persons entitlement to a residential care subsidy. Exactly how these powers will be exercised going forward remains to be seen, however with the abolition of gift duty, WINZ has become much more active in the enforcement of the powers they have.

Source : McIntyre Dick & Partners

Use of money interest (UOMI)

Previously UOMI had only been an expense when you had business income. Now, if you're charged or have received UOMI, it's an expense whether or not you have business income. You will need to :

- Claim UOMI as an expense in the year you pay it.
- Show UOMI as income in the year you received it.

This is effective from the 1997-98 and later income years, subject to certain rules.

Tips for better brainstorming

Creative thinking, innovative solutions, new products and services, even completely new business models – one of the keys to continued success in business is a flow of good ideas (followed by the effective business execution of the ideas we choose to take action on).

Many firms gather a group of their key people for an offsite meeting and engage in "brainstorming" in an effort to come up with these good ideas. However, in most brainstorming sessions there is no real structure. An external facilitator going around the room asking everyone for ideas, "The more ideas the better," and asking people to suspend their judgment, "There is no such thing as a bad idea", and then helping the group to choose their favourite ideas has proven to be an inferior approach.

If you want better results from your brainstorming efforts, an article in McKinsey Quarterly proposes a more efficient structure. Here is our take.

Ask the Right Questions.

Prepare a series of questions in advance that will force people to think from unfamiliar perspectives (to jolt them out of their old thinking patterns), and provide the boundary conditions without being so restrictive that it forces any particular outcome. E.g. "What is the biggest frustration our customers put up with, that we could fix within the next 12 months?"

Choose the Right People

It sounds obvious, but assemble the people who can actually answer the questions you're asking. It does not matter where they sit on the organisation chart. If your questions are asking people to think from the customer's perspective, your frontline staff are better qualified to discuss such matters – not the leaders who are stuck in their office all day divorced from reality.

State the Boundaries Upfront

It is pointless to come up with wonderful ideas that the company would not even consider implementing. What criteria will the company use to make the final decision? Are there any restrictions or parameters? (e.g. We cannot change our current IT system, and the idea must be able to be implemented within 12 months at no more than a cost of $X).

Everyone Writes their own Ideas down first

This tip wasn't in the McKinsey list, but research suggests that posing the questions and getting people to go away in isolation and write down their individual answers first, and then present their written ideas back to the group encourages everyone to contribute more fully – even the introverts.

Divide and Conquer

Smaller sub-groups of 3-5 people encourage full participation – there is nowhere to hide. Rather than the typical approach of having 1 person from each functional area in each sub-group, it is better to identify all the "idea crushers" (bosses, loud people, subject matter experts) and put them all in the same group so they can work together.

Time Limit

To keep people focused, have each sub-group focus on one question at a time for no more than 30 minutes per question. No other questions or ideas outside the scope of that question are allowed. If anyone thinks of a wonderful idea that's outside the scope of the question, they should write it down and share it later. A good outcome to aim for in 30 minutes would be two or three worthy ideas, which they then share with the full group.

Closure

Do not have the full group choose the winning ideas from the pile at the end of the day, as is common in traditional brainstorming. The group won't always understand the tradeoffs that the CEO needs to consider when prioritising which ideas to invest in. It can be demotivating if the "real" decision maker overrules the group's favorite choices. Instead, describe exactly what further research needs to be done, who will choose the winning ideas, and how the final decisions will be announced.

Source: Results

Flowers reveal missed opportunity

Amy is a widow in her early 70s. She lost her husband about a year ago. Four or five months ago a real estate agent contacted her and said she had a client who would very much like to see her house. She wanted to know if the owner would mind showing it to her customer. It is a beautiful house and would appeal enormously to someone with $1 million or more to spend. As it is on several levels and big, it is likely the owner is going to sell sooner, rather than later.

She therefore agreed to allow the real estate agent and her client to view the house. They came back two or three times and each time the owner warned the real estate agent she was not yet ready to sell.

Eventually the client gave up but sent a large bunch of flowers and a thank you note to the widow. I asked Amy if the flowers really came from the client or the real estate agent. Surely, a bright real estate agent would realise the time would come when Amy would be ready to sell. If the agent had sent her a present, who would get the call when Amy wanted to put her house on the market?

This is known as WOW. Never miss an opportunity to give your customers or clients a really pleasant surprise – make them say "WOW". After all, it was the agent who had asked for favours, so some form of thank you would surely have been appropriate AND be likely to promote customer loyalty. We think the agent missed a good opportunity.

Fill in "To" last for emails

A businessman with a bit of a temper sometimes writes to people who have irritated him in rather blunt terms. Knowing he has this fault, he puts the email aside until the next morning and usually moderates it before he sends it off.

Unfortunately, on one occasion, he accidentally pressed the send button too soon.

Another client, working from home, was visited by his two year old grandson. He was partly through an email and the little boy got on the computer when no one was looking. He pressed the send button and off went the partly finished message.

Pressing "send" is so easy (it's child's play!) and is so final. Why not put in the address of the recipient last? That way, the email can't be sent until the address has been filled in.

Late payment fees

Traders who charge late payment fees will be required to account for GST on them from 1 April 2012.

Talk to us about shareholding changes

We've recently experienced two cases where clients have decided to make shareholding changes in their companies, have gone online to the Companies Office website and Bob's your Uncle, shareholding changes updated!

Actually, it wasn't such a smart idea as it turns out. Changing shareholding in your company without talking to us first can have dire tax consequences. These consequences can be far reaching. Continuity of losses carried forward can be affected, imputation tax credits can be lost forever, and under the new Look Through Company regime the flow of losses will be affected.

Moral of the story? Talk to us when you're contemplating share changes. Even better, get us to be your Registered Office. In fact, we do this for most of our clients. We'll file your annual return for you, and we'll make sure you comply with all of your statutory records requirements under the Companies Act.

"If the grass is greener on the other side - water your own lawn!"

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Changes in Particulars

Please remember to let us know of any changes in:
* Physical address * E-mail address * Phone and/or fax numbers * Shareholdings * Directorships * Trustees
Or anything else that may be relevant.