trialbalance

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The official newsletter of NZ CA Limited

In this Issue

"On time.

Always be on time for meetings (and other appointments) as if you depended on it … because you do!"

Overseas income must be declared

New Zealand residents have to declare all income they receive from anywhere in the world.

'Income' now has a very strange meaning. For example, if you hold shares in a United States company which does not generate any dividends, you have income. This is because your income is calculated based on the value of those shares.

Overseas life insurance policies and superannuation funds can also be classed as a source of income, even though you might not receive any money from them. Be sure to tell us if you have one of these. If a policy is taken out in New Zealand with an overseas insurance company, there's no tax problem.

The IRD has been making agreements with a large number of overseas countries to swap information, so don't rely on not being caught.

Some people think they need to declare income only if they bring money back to New Zealand. This is not correct, even if they have paid tax overseas. New Zealand residents are taxed on their worldwide income. Usually, there is a credit for some or all of the foreign tax paid. There can be special tax rules, in regard to declaring overseas income, for people coming to live here from overseas. They last for four years. If you think you qualify, contact us.

Examples of overseas income include:

Salaries from overseas companies, interest from overseas bank accounts, shareholding in foreign companies/unit trusts, rentals from overseas properties, share trading income from overseas, tax paid/payable overseas, distributions (capital or beneficiary income) from overseas trusts, details of any trusts settled outside New Zealand, superannuation funds interest held and whether they are employment related or not, life insurance policies owned, business income from outside New Zealand, Royalty/knowhow income.

This list is summarised and is not exhaustive and the calculation of taxable overseas income can be complicated. With tax revenue reduced world wide, tax authorities are actively searching for all undisclosed income.

We urge you to contact your accountant to verify that you have accounted for all income.

Source: RSM Prince

Budget update

The tax changes announced by the National Party in the latest budget were designed to close existing tax loopholes. It is estimated they will enable the Government to save $410 million over the next four years.

The following tax changes were announced:

- New rules for deductibility of assets rented for income such as holiday homes, bachs, boats and helicopters. The new rules will require mixed-use asset owners to apportion their deductions based on the actual income earned and private use of the asset.
- Rules for livestock valuation were changed to negate the ability of farmers to get unintended tax breaks by changing valuation schemes.
- The under $9,880 income credit, the childcare and housekeeper credit and the tax credit for the active income of children are to be removed from the beginning of the 2012/13 income tax year. The three tax credits are to be removed as the Government considers that they either no longer serve the purpose for which they were intended or have been superseded by other Government support.

Source : RSM Prince

Keep your expensive car and save FBT

It's nice to update your company car from time to time. However, if you hang on to it for more than five years, there's a reward. There are two options for calculating fringe benefits tax (FBT).

- 20% of the original cost.
- 36% of the reducing book value shown in your annual accounts, assuming you use tax rates to calculate this. The minimum figure is $8,333. Say my car cost $42,000. Fringe benefits tax calculated at @20% is $8,400 a year. This works out better, in total, than the 36% book value option over a five-year period.

At the end of five years, I may switch from the 20% cost option to the 36% book value option and save FBT. In my case I'll be paying the tax on $3,000 a year instead of $8,400.

Make a will and save others extra grief

From time to time we hear a sad tale about someone who has died and failed to make a will. If there is no will, the Administration Act 1969 takes over and the result can be most unsatisfactory. Often people delay making a decision because they have a difficult situation to resolve and cannot find a solution. What should they do?

It will cost you, but the sensible thing to do is to sort it out with a qualified, independent third person such as your solicitor. You never know, perhaps a family trust would work.

You don't have to leave your possessions and assets directly to a person. An entity such as a trust can sometimes be a good solution.

Don't procrastinate over making your will. You can always change it. If you are going to remarry or enter a de facto relationship, renew your will because your old will is revoked on starting the new relationship.

Do you have an end game?

You've grown your business gradually and now your mind turns to collecting your reward from your investment of capital, know-how, and years of effort. Achieving the most money for your business requires the same diligence it took to grow it. So, how can you ensure you receive a return for your efforts?

Effective Succession Planning is the key to protecting, growing and realising the maximum value for your business. It is a strategic process that allows you to smoothly transition the ownership and/or management of your business.

Research shows that business value can be impacted by a number of issues, including;

- Complacency of business owners in addressing succession.
- Business owners often being unaware of all their succession options.
- Generation Y lacking the aspiration to be a business owner.
- Increased house prices restricting the funding options for successors.

Why is Succession Planning a key-issue now?

Do you remember what you paid for petrol when you started in business? Maybe 39 cents a litre? Times change, markets change and so does the business environment. Not long ago, business entry costs and competitive forces were lower and business growth could be funded by borrowing against increasing house prices. Business success demands focus by you on the operation, but ultimately, issues of succession and retirement will creep up. By then getting the price you need could be elusive.

The next generation of business owners, Generation Y, face a completely different business environment. Start-up and acquisition costs are higher, regulatory barriers are higher, and competition has increased. Business funding opportunities are also more limited in comparison.

You're a business owner and you understand the driving forces behind competition, supply and demand. So when:

- More businesses are for sale – lower prices result.
- With fewer qualified buyers – it becomes a Buyer's market.
- In a Buyer's market – they can be selective and value driven.

Thus, it is important for you to start planning your succession now.

Succeeding in tough times

For business owners, running a successful business is often challenging enough, but succeeding in business in the current tough times for many has become a real nightmare.

However, there is good news: you can implement simple measures to improve the probability that your business succeeds even in these tough times. Here are three examples :

1. Protect and grow your revenue

Contact your key customers and ask them how their business is faring. Meet regularly with high value customers and offer your support. Understanding their situation means you will be better informed about what you can do to assist them and thus protect and potentially grow your business's revenue. To grow your own revenue, invest in new innovative (low cost) sales strategies, increase (low cost) sales and marketing programs and show leadership by spending more time with your customers and sales team.

2. Reduce your costs

A reduction in revenue and/or profit means you will need to examine your cost structure to maintain your profitability. Be prepared to make some hard decisions. Low fixed and high variable costs is the ideal cost structure for doing business in tough times.

- Non Trading Costs – try to reduce or eliminate non trading costs. For example, examine wage productivity reports and restructure non productive roles or encourage multi-skilling to maximise your employee return per hour. Staff reduction is not necessarily a given in tough times!
- Variable Costs - examine all your expenses and investigate ways to transfer your business's fixed costs to variable costs. Outsourcing is a variable cost strategy.

3. Collect your cash

Collecting cash from your customers may become more difficult. Watch your cash flow. Consider amending your policies for debtor collection and stock management.

- Debtors Collection - place tighter limits on the amount of credit you extend to your customers. If you have exposure to large customers, seek assurances and guarantees on how they will pay their account. Enter repayment schedules and offer 'cash only' terms until your customer accounts are in order. If the decision is between being flexible and survival there is really only one choice.
- Stock Management - don't over invest in stock. Place strict controls over stock ordering and management. If customer sales slow down so should your ordering.

Minimise your Risks

It is important you move quickly to minimise your business risk. The first step is to re-examine or prepare a new Business Plan to review and assess your current situation and plan the future. When preparing your Business Plan obtain independent and objective advice. Your Accountant or Financial Planner is best positioned to provide this advice.

Seeking advice early will mean the difference between your business thriving or simply surviving.

Entertainment

A summary table of different entertainment expenses and their deductibility is set out below:

	Entertainment Expenses Table	50% deductible	100% deductible
1.	Friday night drinks for team members or clients in the office.	✔	
2.	Friday night drinks for team members or clients in the pub.	✔	
3.	Hire of a launch to entertain clients.	✔	
4.	Restaurants providing food and drinks to team members at a social function in their restaurant.	✔	
5.	Sponsoring local sports teams and receiving tickets to their corporate box in return. 50% of the value of the tickets would be deducted from the total sponsorship.	✔	
6.	Sponsoring a sports team by providing a meal for the team at their grounds after each game.	✔	
7.	Staff Christmas party on or off the business premises.	✔	
8.	Taking a client out to dinner while you are out of town on business in New Zealand.	✔	
9.	Taking a client out to dinner.	✔	
10.	Dinner for Sales Rep while out of town selling and no client present.		✔
11.	Donating food to a Christmas party in a children's hospital.		✔
12.	Employee's salary package includes a taxable allowance for entertaining clients.		✔
13.	Golf club subscription for business owner paid by the Company.		✔
14.	Gym membership for team member paid by employer.		✔
15.	Providing a meal for a journalist while reviewing your business for their column.		✔
16.	Providing morning and afternoon tea for your team.		✔
17.	Sandwiches provided at a lunchtime meeting of supervisors.		✔
18.	Sponsoring a local sports team.		✔
19.	Taking a client out to dinner while you are out of town on business outside New Zealand.		✔

Can you afford to sell?

A "Business Value Gap" is the difference between the value of your business today and what you need it to be at time of sale. A shortfall can have a significant impact on your retirement plans and may force you to reassess your desired standard of living in retirement. Worst case – it can mean you can't afford to sell.

Retirement should be the best years of your life – the time for you to reap the rewards of your labour. As you approach retirement you need to determine your business value gap.

Business value gap analysis

Do you know:

- What your business value needs to be at time of sale?
- How many years it is until you can afford to sell?
- A future profit target that guarantees you a desired standard of living?

Business value gap analysis is a simple process of determining your retirement income and assets, business value (current and future) and strategies to improve business profit and wealth.

Grow before you go

If your business value gap analysis reveals a shortfall in business value then you will need to implement business strategies to improve your profit before you sell. For example, improving your average sale per customer will increase sales, gross margin and net profit. Knowing what your business value needs to be means you can calculate your future profit, gross margin and sales targets.

Value gap analysis provides business owners and managers with peace of mind from understanding the nexus between a future standard of living at retirement and business value.

Gifts

Many expenses incurred for business purposes can be deducted. In general you can claim the costs of any gifts you give to your employees, clients and suppliers, or prospective clients and suppliers, so long as they don't fit within the criteria of an entertainment expense. However, you may have to pay FBT on any gifts you give your employees.

Source : RSM Prince

Reminders

Loss Attributing Qualifying Company (LAQC) to Look Through Company (LTC) Transition – 30 September 2012 is the last date for election to transition your existing LAQC company to a LTC, Sole Trader or Partnership without incurring any tax cost. In order to do so the relevant election form must be completed (IR 862 for LTCs or IR 891 for sole traderships, partnership).

Accident Compensation Levies – The timing of the deduction is based on when the levy is due and payable and not necessarily with reference to the year to which the levy relates.

Source: RSM Prince

*"Change is the law of life.
And those who look only to the past or present are certain to miss the future."*
John F. Kennedy

MARTIN WAKEFIELD LTD
CHARTERED ACCOUNTANTS

Directors
William R Baillie
Hamish T Moorhead
Mark A McMullan

Christchurch
4/29 Acheron Drive
PO Box 9404
Christchurch 8149
Phone 03 343 4012
Fax 03 961 1727

Timaru
26 Canon Street
PO Box 58
Timaru
Phone: (03) 687 7122
Fax: (03) 684 8558

NZ CA
An Association of Independent Chartered Accountants

Email: reception@martinwakefield.co.nz

Members of NZ CA Limited

Accountants Hawkes Bay Limited	Napier	(06) 843-4868
Barnes Mossman Limited	Hastings	(06) 876-7159
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Bavage Chapman Knight Ltd	Warkworth	(09) 425-9836
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Candy Gillespie	Matamata	(050) 888-7089
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Focus Chartered Accountants	Whakatane	(07) 307-1141
Frasers Limited	Tauranga	(07) 578-7133
Gambitsis Crombie Ltd	Lower Hutt	(04) 939-1975
G S McLauchlan & Co	Dunedin	(03) 477-8192
	Queenstown	(03) 477-8192
Gyde Wansbone Chartered Accountants Ltd	Te Awamutu	(07) 872-0585
Harris Taylor Ltd	Hawera	(06) 278-5058
Iles Casey	Rotorua	(07) 348-7066
Marshall Heaphy Ltd	Greymouth	(03) 768-7186
Martin Wakefield Ltd	Christchurch	(03) 343 4012
	Timaru	(03) 687-7122
McIntyre Dick & Partners Limited	Invercargill	(03) 211-0801
McDonald Vague	Auckland	(09) 303 0506
Midgley Partners	Christchurch	(03) 365-6900
Naylor Lawrence	Palmerston North	(06) 357-0640
nsaTax Limited	Auckland	(09) 309-6505
RHB Chartered Accountants Limited	Tauranga	(07) 571-6280
	Te Puke	(07) 571-6280
	Auckland	(07) 571-6280
	Rotorua	(07) 571-6280
RSM Prince	Auckland	(09) 379-5324
	East Tamaki	(09) 271-4527
	North Harbour	(09) 414-6262
Strettons	Taupo	(07) 376-1700
Sudburys Limited	Whangarei	(09) 430-4888
Tararua Chartered Accountants Ltd	Pahiatua	(06) 376-7476
Vazey Child	Hamilton	(07) 838-2169
Whitelaw Weber Limited	Kaikohe	(09) 401-0991
	Kerikeri	(09) 407-7117
	Mangonui	(09) 406-2173
Winstanley Kerridge	Blenheim	(03) 578-0180

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.