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NZ CA

An Association of Independent Chartered Accountants

In this Issue

"Show you care. Clients don't care how much you know until they know how much you care."

Marketing Expertise – 10 Tips for a Well Run Business

You've got to be business savvy to run a successful business these days. And small business-owners, who often do not have the support of skilled consultants, have to call on their own experience, knowledge and common-sense. That's why, just for starters, they need to have good leadership skills, establish good systems, ensure staff understand about product knowledge and have great rapport with customers.

Another useful characteristic for any business owner to have is the ability to recognise and assess opportunities in the market place.

Here are ten tips to keep in mind:

1. Understand and monitor the prevailing economic and industry conditions – look for opportunities.
2. Analyse the demographics of your customer base and customer profiles: what are their needs, disposable income?
3. Determine what pricing strategies can be implemented.
4. Know what your competitors are doing.
5. Determine promotional strategies to suit your target customers, e.g. media, word-of-mouth referrals; and plan promotional schedules around specific activities that will affect your customer base.
6. Develop a budget for each promotional activity prior to commencing, highlighting what you hope to achieve, what it is going to cost to promote and then analyse the performance against the budget expectation at the conclusion of the activity.
7. Measure the success of media advertising or promotion.
8. Checklist for maintaining sales:
   - Increasing the number of customers can be affected by : location, effective advertising, in store displays, demonstrations and special events
   - Exterior appearance is important
   - Effective hardworking employees are vital assets to a business.
9. Hints on increasing average sales;
   - Companion selling
   - Selling higher quality
   - Merchandising / display / in-store signs
   - Stock mix.
10. Increasing repeat visits by customers:
    - Staff attitude
    - Staff product / service knowledge.
    - Staff sales ability
    - Stock range
    - Business image / appearance / housekeeping
    - Direct mail
    - Birthday and Christmas cards.
    - Newsletter
    - Customer clubs, outings etc.

Calculating Holiday Pay for Commission Staff

The Holiday Act 2003 clearly defines how to calculate payment for staff on annual leave. This can be very straight forward for staff that are on a fixed salary with payment never changing from pay to pay. However for staff on commission with or without a retainer the calculation can be trickier. The key is to understand the entitlement and apply that to the person's earnings.

The Act states that payment for annual holidays is at the greater of the ordinary weekly pay at the time the holiday is taken or the employee's average weekly earnings over the 12 month period before the annual holiday is taken.

For a staff member whose earnings change from pay to pay due to commission or other payments it is difficult to ascertain an "ordinary weekly pay". The Act provides us with a formula for these circumstances. Go to the last pay period and add up the gross earnings for the previous four weeks including any commission or overtime payments. Then divide the result by four. This will give you an ordinary weekly pay.

The above then needs to be compared to the average earnings over the previous 12 months. When you do this calculation it is important to include the entire gross earnings for the year. This should always include commission and overtime payments not just retainers.

If a bonus is a part of someone's expected remuneration package, the payment forms a part of the gross earnings when calculating the average. If a bonus payment is truly "gratuitous" then it should not be included in this calculation. A gratuitous bonus is unexpected payment that is generally to say thanks for a job well done.

Source : Sudburys Limited

Low Value Assets

When an asset with a useful life of more than one year is purchased or created, the usual treatment is to capitalise the item and depreciate it using the rates prescribed by the Inland Revenue Department.

However, it is useful to remember an "exception to the rule" in regard to low value assets. Assets costing $500 or less (GST exclusive if the taxpayer is GST registered or GST inclusive if the taxpayer is not GST registered) are fully deductible in the year they are acquired, as long as the following criteria are met:

1. They are not purchased from the same supplier at the same time as other assets to which the same depreciation rate applies (unless the entire purchase costs $500 or less).
2. They are of a separate nature and will not be integrated to become part of an asset that is depreciable.
3. They are purchased on or after 19 May 2005 (the threshold before 19 May 2005 was $200).

Source: RSM Prince

Directors Must Authorise Payments

Any payments taken out of your company for your wages, including a salary subject to PAYE, must be authorised by directors. It has to include reasons why the payments are fair to the company. If your company fails and you do not have the appropriate directors' minute, a liquidator could (and probably would) insist you repay the money you have taken. Putting yourself on PAYE does not protect you.

Insolvent Trading

It is imperative that directors ensure the company does not trade while it is insolvent. Insolvent trading means that the company continues to trade with the public and continues to incur further debts, while it is unable to meet its existing debts or will be unable to pay the current debts being incurred. The test of solvency is – can the company pay all its debts as and when they become due and payable?

There are numerous reasons for businesses incurring financial difficulties. Directors need to be aware of these so they can ensure appropriate action is taken to prevent the company trading whilst insolvent.

Reasons may include:

- Low operating profits or losses being incurred.
- Problems with paying creditors in accordance with the negotiated payment terms.
- Problems with meeting loan repayments to banks, financial institutions and other lenders.
- Problems with paying income tax instalments.
- Suppliers refusing to give the company credit.
- Legal action being instigated against the company by any supplier for the non-payment of goods or services.
- High debtors' amounts owing above the amount for which the company has budgeted.
- High stock or work in progress investments above the amount for which the company has budgeted.
- Excessive investment in capital expenditure, especially if it was not budgeted for.
- Departure from the budget or cash flow forecast prepared for the business.

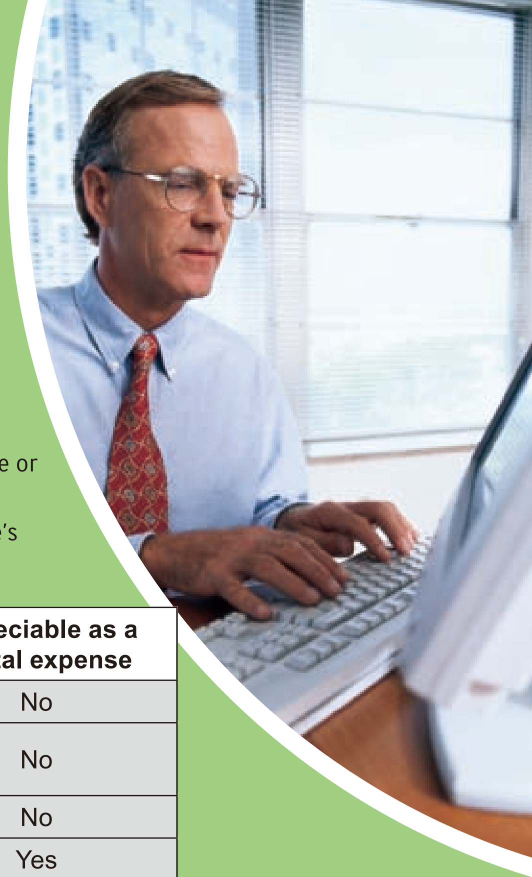
Deductibility of Website Costs

In this day and age, it is common for businesses to have their own website. There are various costs involved with owning a website, from the initial purchase or development to the ongoing annual charges, and there can be some confusion as to the tax treatment of these costs.

In general, costs of a one-off nature that give rise to an enduring benefit will be considered capital, such as the cost of obtaining a domain name, designing and developing a website and any substantial improvements to the site (e.g. adding new pages or features, such as a Shopping Cart). The domain name is not considered depreciable property but the cost of website design and improvements are depreciable at the same rate as other computer software.

Annual renewal fees for domain name registration and charges for web hosting are deductible expenses, as are costs incurred to update the website (e.g. updating or adding content to a web page or making minor corrections or changes).

A helpful summary of the Inland Revenue's position is provided below:



Cost	Deductible as an expense	Depreciable as a capital expense
Initial registration or purchase of domain name	No	No
Annual renewal fee for domain name registration	Yes	No
Renting space on an ISP server / Web hosting	Yes	No
Site design costs	No	Yes
Site update costs	Yes	No
Reconstruction, upgrading or functional improvement to website	No	Yes

Source : RSM Prince

Business Plan

Have you got one? How long since it was reviewed?

If you do not have a business plan, or if yours is out of date, it may be time to consider drafting a new business plan.

Benefits of Business Planning:

- The process focuses the team on looking at future developments.
- The process focuses the team on enhancing services to customers, which often results in profit improvement.
- Staff involvement results in more effective implementation as they "own the ideas' and are therefore more willing to implement the plan. Morale often lifts due to this teamwork.
- The process enables clear communication of business development direction and focus.
- The process makes you stop and review the whole business (the 'big picture' in its entirety), rather than a 'piece-meal' approach of decision making forced by crisis.
- A plan based on who will do what and by when creates an action orientation in the business.

Some practical Suggestions regarding the preparation of a Business Plan:

- Go through the process annually.
- Involve staff.
- Treat yourself to somewhere special to do it away from work (the 'retreat' concept).
- Have staff and management put their thoughts down on paper before the meeting so that people are prepared.
- Use a business plan questionnaire as a guide.

April/May is a good time to undertake a Business Planning Review.

Budget/Financial Projections

Incorporated in the business plan will be financial budgets (Budgeted Profit and Loss, Cash Flow and Balance Sheet). These budgets will usually be for a one year period with a longer 5 year plan available as a supplement. It is essential that all businesses have at least this component of the business plan. Now is the time to be preparing your 2009 Budget.

Changes to the KiwiSaver Regime

The new Government has introduced some changes to the KiwiSaver regime, effective from 1 April 2009. A summary of these changes is provided below:

- The minimum employee contribution will reduce from 4% to 2% of gross pay.
- The compulsory employer contribution (CEC) will increase to 2% of gross pay and will be capped at this level.
- The employer tax credit (ETC) will be removed.
- The employer superannuation contribution tax (ESCT) exemption will be capped at the 2% compulsory employer contribution.
- The $40 annual fee subsidy will be removed.
- The legislation will be amended so that the gross pay of any employee can not be reduced due to them joining KiwiSaver.

Existing KiwiSaver members will continue to contribute at their current rate (4% or 8%) from 1 April 2009 onwards, unless they advise their employer in writing that they wish to adopt the 2% minimum rate.

Please contact your accountant if you wish to discuss how these changes could affect you.

Source : RSM Prince

Research and Development (R & D) Tax Credit Repealed

The R&D tax credit has been repealed, effective from the 2009/10 income year.

The credit can still be claimed for eligible expenditure carried out in the 2008/09 income year, being the only year to which this credit applies.

The R&D tax credit was originally introduced by the previous Government, in order to encourage New Zealand businesses to put more focus on R&D and become more competitive through the development of new and improved products and processes.

However, the new Government believes that the R&D tax credit is not the most effective way to achieve this result and that, given the current economic climate, the money needed to finance this credit would be better used to fund personal tax cuts.

Source : RSM Prince

Further Changes to Personal Income Tax Rates

The Taxation (Urgent Measures and Annual Rates) Act was introduced by the new Government in December 2008. This legislation has brought about further changes to the personal income tax rates and thresholds, with only the tax cuts applying from 1 October 2008 being retained from the previous Government (as shown in the "Current rates" table below).

The first stage of these new changes will take effect from 1 April 2009, with more changes being phased in over the next few years, as shown in the tables below:

Current rates		New rates from 1 April 2009	
Income to $14,000	12.5%	Income to $14,000	12.5%
$14,001 - $40,000	21%	$14,001 - $48,000	21%
$40,001 - $70,000	33%	$48,001 - $70,000	33%
$70,001 and over	39%	$70,001 and over	38%

From 1 April 2010		From 1 April 2011	
Income to $14,000	12.5%	Income to $14,000	12.5%
$14,001 - $50,000	21%	$14,001 - $50,000	20%
$50,001 - $70,000	33%	$50,001 - $70,000	33%
$70,001 and over	37%	$70,001 and over	37%

These new rates and thresholds will apply to all individuals and will affect various aspects of the tax system, including the calculation of PAYE deductions and provisional tax payments. Please contact your accountant if you wish to discuss the impact these changes could have on you.

Source: RSM Prince

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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.