

Editorial

WELCOME all to our July Newsletter, I hope you enjoy it. I think there is something in it for everyone. Particularly important is the new holidays act and the effect it has on both employers and employees.

The newsletter will be a constantly evolving thing. If there is anything that you would like to see more or less of in the future, then please let me know, or if you have any queries with regards to any of the articles in this newsletter, then please don't hesitate to contact a member of the team at Taylor Associates.

There is seemingly never a constant in business – except taxes of course.

As most of you know, we have had our fair share of changes over the last couple of months and those changes continue with Helen Jones, Eyleen Sheil and David Shaw leaving us. We have also hired two new graduates, Jonathan Davis and Hayden Burgess, you can learn more about them in our team section of this website.

Ray Wilson is away on the trip of a lifetime around the world and will be out of the office until mid August. Anyone needing to talk to some one at Taylor Associates can call me at anytime.

Along with the two new graduates, we have hired a couple of experienced Chartered Accounting Contractors to ensure that work is completed in a timely fashion.

If there are any issues please don't hesitate to make contact with me.

Cheers,
Todrick Taylor

The emotional bank account

IN our last newsletter we told you briefly about four habits outlined in Stephen Covey's *Seven Habits of Highly Effective People*.

Before Stephen discusses the other three habits, he introduces a concept called the emotional bank account.

As people react with each other they tend to either increase or decrease the quality of their relationship. For example, if I fail to keep my promise, it is like me making a withdrawal from another person's bank account. Instead, money is substituted with emotion.

Now imagine the other person is my daughter. She has a high opinion of me and I have just let her down. I have made a drawing on her emotional bank account. Since I have a big credit balance, I will be forgiven. Do it again, however, and I could find she has lost trust in me and the emotional bank account is overdrawn.

The same thing applies in business. There is an emotional bank account between you and those who work for you. Tittle-tattle behind people's backs and you will cause a loss of trust and respect. If you upset one of your staff, expect a withdrawal from that person's emotional bank account.

Unfortunately, if you have erred, there is no quick fix. It takes time to rebuild a relationship.

The strange thing about the emotional bank account is little things often have a big effect. Thus a little kindness can ensure the other person will be delighted to discover he or she really matters.

If you can lay your hands on a copy of this book, we recommend you read this section. Get a clear understanding of the emotional bank account and improve relationships both at home and at work. We will talk more above Stephen Covey's contribution to business thought in our next newsletter.

The Holidays Act 2003

THE following is a summary of the main points of the new Holidays Act.

Annual Leave

- Three weeks annual leave is increased to four from 1 April 2007.
- An employee becomes entitled to holidays at the conclusion of one year's service.
- Regular wage payments cannot include holiday pay. Exceptions exist for a fixed term contract of less than 12 months or for those whose work is intermittent.

Public holidays

An employee may be required to work on a public holiday if:

- it falls on a day which would normally be a working day for the employee; and
- the employment agreement requires the employee to work on the public holiday.

Employees who work on any public holiday are entitled to time and a half for hours worked. They are also entitled to a day in lieu unless they are employed to work only on public holidays.

Sick Leave

- Minimum annual entitlement is five days a year, after the first six months employment.
- Maximum right to accumulate sick leave is 20 days.
- An employer may call for a medical certificate when the employee has been absent for three consecutive days. Weekends and holidays are included in the calculation of the three days.
- Sick leave is not pro-rated for part time employees - they have the full five days a year.
- It can be used for sick or injured family requiring care.
- An employee can choose to use sick leave for unpaid first week due to a non-work accident, but is not required to use sick leave for this.

Bereavement Leave

The amount of leave is three days if the relative is a spouse, parent, child, brother, sister, grandparent, grandchild, or a spouse's parent.

It is one day for anyone else having regard to:

- the closeness of the association between the employee and the deceased person;
- whether the employee has to take significant responsibility for all or any of the arrangements for the ceremonies relating to the death; and
- any cultural responsibilities of the employee in relation to the death.

Laws applicable to both sick and bereavement leave

- Employee has no entitlement until six months have elapsed since starting the job.
- An employer and employee may agree that the employee may take sick leave or bereavement leave in advance.
- In the case of sick leave taken in advance, the amount is to be deducted from the employee's entitlement.
- An employee who intends to take sick or bereavement leave must notify the employer as early as possible before the employee is due to start work or, if that is not practicable, as early as possible after that time.

Contact Us

Please use the following information to get in touch, should you have any enquiries:

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Is your will what you really want?

BE sure to make a will. If you die without one, your estate will be divided between your spouse and children. Is that what you want?

Just as there is no such thing as a free lunch, there is no such thing as a free will. Would you regularly offer your services without charge, unless you stood to recoup this cost at some later date? Firms which do not charge for wills expect to get the job of distributing your assets after you die. The small cost of drawing up your will will be amply recouped when they later charge their professional fees for administration.

It is worth paying to have your will drawn up. Choose your own executor and set fees, if any, to be paid. Some folk who have a family trust leave everything to it. One reason is protection against the reintroduction of estate duty. Another is the very reason for having a trust; protection of the family assets.

Be sure to give a copy of your will to your executors now, and tell them where the original has been placed.

Why is our questionnaire so important?

RECENTLY, a client (of another practice) understated his income. He failed to answer one of the questions in the questionnaire he was given.

He accepted responsibility but this did not save him from IRD penalties.

Be sure to answer the questions carefully. If you don't, we may not know of some tax adjustment we should be making. If in doubt, please ask.

A rough idea is better than none

MANY businesses should be preparing accounts more than once a year, even if the result is only an approximation. It is better to have a rough idea of how you are going than no idea. From time to time we see a client turn in a poor result for the year and not know it has happened until well into the following year. Often thousands of dollars could have been saved if the business had been monitored regularly. What should you look for in your accounts? Here are two of those things:

Net profit

This is the most important figure, so it is odd it should appear at the bottom of the accounting report. Ensure owners have been fairly paid for their efforts. The amount left over is the net profit before tax. For many small businesses this is negative and the owners would be financially better to work for someone else.

You now need to have enough profit remaining to provide a reasonable return on your investment in the business. Allowing for risk, 25 percent after tax would often not be unreasonable.

Gross profit percentage

For many businesses the ratio of Gross Profit to Sales should be reasonably constant. What is Gross Profit? It is the amount left over after deducting direct costs (like the food and other goods in a supermarket) from sales. Sometimes, particularly in a manufacturing business, where wages also vary with sales, it is appropriate to deduct these as well. Constantly monitor your gross profit percentage. To improve this ratio, look for:

- wastage of materials and/or time;
- theft of goods or cash;
- the proportion of high to low profit margin sales (sales mix).
- Quoting errors
- Under pricing

Using the internet to pay your taxes

IF you are using internet banking you can set up payments to IRD from most of the major trading banks. You can nominate the type of tax, period etc. You will need to provide an explanation for each payment. Here are some guidelines. The types of payments are:

INC = Income Tax
PAY = PAYE
GST = GST
FBT = FBT

NOTE: INC covers all income tax payments. IRD works out whether you are making a provisional tax payment or a terminal tax payment (the wash up payment for last year) by your telling it which year you are paying for. Here is how it works.

Provisional tax is paid in advance. You therefore look at the next annual balance date. If you have a March annual balance date, as most people do, then your 7 July 2004, 7 November 2004 and 7 March 2005 provisional tax payments are for the year ending 31 March 2005. You therefore enter tax year "2005".

When we have worked out your balance of tax to pay (if any) for the year ended 31 March 2004, you will have to pay this tax by 7 April 2005. Since it is for the year ended 31 March 2004, the year number to use is "2004".

We hope these few tips will make you comfortable using the internet for paying your tax.

By paying tax via the internet you can enter the figure, in advance, ready for payment on the final day and eliminate the risk of forgetting to post your payment to IRD. Also, the money stays in your bank account until the last minute.

If you make all your payments via the internet, you can readily calculate your available funds and have a tight control over your cash flow.

Tax traps

Books giving tax advice

BEWARE books providing tax and trust advice. Some have significant errors. We found this statement in a recent publication: "A LAQC is a company that must allocate its profit or loss for each year in proportion to each shareholder's voting rights". Profits are not allocated by LAQCs based on voting rights. We counted about a dozen mistakes in the book.

If you buy any of these publications, be sure to check with us before taking advice from them. Simply because the author claims to have come from a big firm of chartered accountants does not mean the words he or she writes are accurate.

It's the thinking that counts

THE two most important parts of a business plan are determining your products and deciding who your customers will be.

A client created a particularly successful business. He said "My business plan was written on one page. This was no reflection on the amount of time and energy put into thinking. I had spent a number of months trying to sort out where I should be focusing my attention. What products should I be selling and to whom should I be selling them? Where were the opportunities and where were the threats? Much of this churned in the back of my mind for months.

"Eventually, I simply wrote down the products I was going to sell, my targets and my strategies for reaching them. The hours of thinking behind this plan were considerable; the number of words were few. Targets were set and a budget added. I focused on a small range of products to a limited market."

As they say, it's the thought that counts!