

Editorial

Hi,

Welcome to this edition of the Taylor Associates newsletter.

I particularly want to welcome any new clients to the firm and reiterate to everyone that if there are articles in the newsletter that you have questions on, then please do not hesitate to call or email me or any one in the team.

We are now fully into preparing 2008 financial reports and tax returns. In the letter sent to you detailing our end of year process, we indicated the month we had scheduled to do your work. If this doesn't fit in with your plans, then be assured that we will work in with whatever suits you – please just let us know.

You will have been aware from previous newsletters that there are changes to provisional tax dates. Just remember, that there will be no longer provisional tax payable on 7 July 2008, so please don't be worried if you don't hear from us.

Also there seems to be some confusion over the latest GST returns issued by the IRD that appear to ask for provisional tax payments at the same time. For the April/May and June/July GST returns there will be no provisional tax payable at the time GST is payable unless you make a voluntary payment, so please leave this area of the return blank.

Cheers,
Todrick

Government proposes to reduce compliance costs

THE Government plans to introduce measures to reduce the costs of tax compliance as part of its 2008 Budget.

Proposals include:

- Raising thresholds for bi-monthly PAYE returns and annual FBT returns.
- Increasing the threshold for 6-monthly GST returns to \$500,000 of sales.
- Increasing the threshold for low-value trading stock to \$10,000.

It also looks as though the \$50,000 threshold for shares etc in foreign companies might be raised, but we have seen no mention of applying similar relief to family trusts.

The proposals are also silent about raising the use of money interest threshold for companies and trusts, which at present is stuck at a measly \$2500. The equivalent in the United Kingdom is \$500,000. In view of the extraordinarily high interest rate the department can charge for use of money interest, a more realistic threshold should be set. This is a big cost to small businesses, which are not equipped to monitor their profitability in the same way as major corporations. Is it a fair burden on small business?

There is no mention of adjusting mileage rates, which have not been reviewed since 1996. While employees have been given some relief, the self-employed are still stuck on the old rates.

Proposals to make the entertainment expenses and deductibility of legal costs more taxpayer-friendly will be an improvement. The Government is also looking at easing the rules on FBT as it affects motor vehicles. It also proposes to reduce the time you have to keep your records – a most welcome relief.

Deposit can help cash flow

AS A builder, plumber, electrician or any other skilled trades person who buys large amounts of material, are you in the habit of asking your clients for a deposit? Hopefully, the answer is "yes", because a deposit can help your cashflow. In our experience most trades people get deposits ranging up to 50 percent. If your business is in any trouble, be careful about accepting a deposit and then using some of it for your personal costs. If your business fails, you will be liable for the debts to your customers.

If you are a limited liability company, you have protection only if you had first checked, before accepting any deposit (each time), to make sure your business was technically solvent. If you do not keep documentation to show the company was solvent at the time you received a deposit, the directors of the company can be personally liable for the debt to the customer, regardless of limited liability.

If you are wearing the hat of a customer, avoid giving a deposit. Some suggested points to raise with the trades person are:

- 1 Why should I take the risk of your business failing?
- 2 You can check out my credit worthiness.
- 3 Here is a list of references. Please feel free to ring any of them.
- 4 I do not wish to pay you directly, but I would be happy to lodge the money in your solicitor's trust account on the basis it would be paid to you when I have confirmed the job is complete.
- 5 If you are getting some building done and, for example, your kitchen joinery supplier wants a deposit, try getting the bill charged through the builder's account. This often works as the builder is known to the supplier.
- 6 Try a token deposit as a compromise, with the balance of the deposit payable when goods are delivered to the site.

Important

If you pay a deposit and the supplier goes broke, you rank as an ordinary creditor and might never see your money again.

Source deduction payment means FBT as an employee

ANYONE who receives source deduction payments is an employee for Fringe Benefit Tax purposes. This can possibly include self-employed people from whom your firm is deducting withholding tax.

Providing a vehicle to contractors can be the same, for FBT purposes, as it would be if they were employees. When the employee is also an owner of the company, it is wise to have a directors' minute agreeing to prohibit the private use of a vehicle, in addition to the standard letter from the firm to the employee as recommended by the IRD. Get the minute signed by the employee confirming acceptance.

The quarterly check to see the employee is not using the motor vehicle is an idea generated by the IRD. It is not backed by case law. Nevertheless, you should document enough evidence to show you have confirmed the employee is following the instructions. You could check on petrol consumption, for example.

Employee contribution

You can have a vehicle partly owned by an employee and partly owned by the employer.

Based on a quarterly adjustment of 5 percent of vehicle cost, if the employee has paid for a third of the vehicle, the fringe benefit liability is reduced by one-third of 2.5 percent of the cost of the vehicle. So a vehicle costing \$12,000 is subject to FBT for the quarter on only two-thirds of 2.5 percent of the cost of the vehicle (to account for the employee contribution), plus 2.5 percent of the cost of the vehicle.

Contractor employee

What happens if a contractor is subsequently ruled to be an employee, but the employer has not taken KiwiSaver contributions? Answer: The employer will be liable for KiwiSaver contributions as well as PAYE, holidays, etc.

Are storm clouds on the horizon?

IF YOU see black clouds on the business horizon, now is the time to prepare for a storm. Hopefully, it will never come, but there is no better time than now to prepare for the possibility.

Borrowing

A major cause of financial distress is too much borrowing. Calculate the percentage of your borrowed money to the true or slightly reduced worth of what you own. Be like the punter on the sharemarket and knock something off the calculated value of your assets, just in case. If bad times come and revenue falls, consider how you would be placed.

Control

To steer your business through rough seas, it helps to know where you are going. Some costs vary with sales. An accountant's biggest variable cost is wages, but many tradesmen with a small business, for example, will find it is mostly materials. You can monitor your business by adding up your sales, deducting your variable costs and arriving at, what we term, gross profit.

You will find most of the costs of running your business are pretty well out of your control. Examples include rent, telephone costs, insurance and so on. We call these the fixed costs of the business.

If the fixed costs of your business are going to be \$20,000 per year, add what you need to take out of the business for living costs, then you'll know how much gross profit you will have to make.

You can also calculate the cost of the materials you use as a percentage of your sales. If you are running a shop you will need to take account of the change in your stock level. In difficult times you will be under pressure to cut your profit margin in an attempt to increase sales. This means the amount of gross profit expressed as a percentage of sales falls. We call this the gross profit percentage.

Monitor your gross profit percentage regularly and set yourself realistic targets, so you can discipline yourself not to give too much away.

Conclusion

This article has been written not because we are pessimists, but to alert you to the power of accountancy. We have many measures of business performance and we can help you to keep control of your business and its profitability. Implement your systems and get used to using them – and if the storm never breaks you will still be better off.

Remember, when politicians talk of a technical recession, there is a fair chance the outcome will be more than merely "technical". When the 1918 flu epidemic was rampant, the authorities deliberately understated the true situation.

Check your KiwiSaver statements

The KiwiSaver scheme is new and the IRD had trouble coping with the task of sending contributors' money to the KiwiSaver fund managers. Most changes like this take a while to settle down and for mistakes to be fixed. We suggest you tell your staff to check their statements from fund managers, when they receive them, and make sure all the money they and their employer have contributed has been paid in. KiwiSaver's year-end is 30 June, so fund managers should be accounting to contributors after that date.

Contribution rate

The KiwiSaver CEC (compulsory employer contribution) rate for a year applies only if the whole pay period is in the year specified. For example, if a pay period for an employee spans 1 April 2009, the 1 percent rate will apply for the employer contributions for the whole period starting before midnight on 31 March 2009 and the 2 percent rate will apply to the next pay period.

Ensure you sign your GST return

THE new GST 103H form does not provide for signing on the front. This is because the back of the form has parts two and three, which for some clients will not be applicable.

Be careful to sign the back of the form even if parts two and three do not apply to you.

An unsigned form can be treated as not having been received and leave you exposed to future risks. Sometimes mistakes are made and perpetuated. The Inland Revenue Department is entitled to recover unpaid tax, in these circumstances, for a little over four years.

Anything beyond that time cannot be recovered as long as you have been honest with the IRD.

First home buyers

If a couple want to buy their first home and claim the KiwiSaver incentives, both should be enrolled in KiwiSaver for a minimum of three years. To get the maximum benefit it may pay to stay longer as it is \$1000 per annum with a maximum of \$5000 per person.

Contact Us

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