

## Editorial

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Hi all.

Welcome to our March 2007 newsletter, once again I hope it contains articles that are of interest to you.

Since our last newsletter, we have had Jonathan Davis leave us to do his OE to Canada. Since Christmas, we have been searching for his replacement and I am happy to advise we have recruited Tom Naylor under our graduate scheme. Tom did his accounting degree in Otago, but hails from Palmerston North and will be a great addition to the team.

The end of the tax year is rolling around again and we are in the process of updating our workflow management system for the coming year. Some of you have already let us know that you would like to have your end of year returns started in a different month to this tax year. If you haven't and would like a different month, then please don't hesitate to contact us.

Also the checklists for 2007 will be shortly appearing on our website for you to download and complete.

There are few things happening on the tax front at the moment, such as foreign investment tax rule changes, Depreciation rate changes and Kiwi Saver. We are working through our database at the moment, to ensure that those affected by these issues are properly briefed. However, we are planning to run a seminar for employers, or anyone interested in Kiwi Saver, which will be run in conjunction with Cameron Chote Financial Services. We will let you know when this seminar will be held shortly.

Finally, I came across what I thought was a great scheme the other day that I thought would be worth sharing with you. A company has recently been setup in New Zealand to cater for busy people looking to purchase vehicles. Basically, you tell this company what sort of car you are after and they source it for you (legitimately!) and then broker a deal with the car dealer, which should get you a lower price than you would otherwise get if you went directly to a dealer and

it doesn't cost you anything! – I have put the company's (NZ Automobile Buying Services) details on the website under useful links, just in case you are interested – and no I am not getting commission!

Anyway, I must get back to the world of accounting.

Cheers,  
Todrick

## Tax Tips & Traps

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### **FBT and cars**

IF your company owns a car costing more than \$15,000 and it is available for your private use, base Fringe Benefits Tax on the original cost, not Tax Book Value. After five years you may change to Tax Book Value. It pays to do this. If you keep cars a long time, make a diary note to remind you to switch. If you have already been paying FBT on your car for five years, you can switch now.

Tax Book Value is the value of the vehicle as shown in your financial statements. If it appears as a GST exclusive amount, you will have to add 1/8th (to allow for GST) for the FBT calculation. There is a minimum figure of \$8333 including GST.

### **Repairs after bad tenants**

If you rent out a property and have to make repairs, do so before the rental ceases. Remember this when changing from rental to private use. If you want a tax deduction, it is no use doing the repairs after the tenant has gone, unless you are going to continue to let the property.

## Move methodically into the fast lane

**"YOU can do anything but you can't do everything"** says motivational business speaker Debbie Mayo-Smith.

Decide what you honestly want, she says. "Any goal can be achieved! It's a question of being methodical." Other ideas, some of which are also from Debbie, include:

- 1. Be specific about your goal.** It must be done within a time and measurable, for example, you wish to double earnings within 12 months.
- 2. Understand what you must do to accomplish your goal.** Write it down. How much business can you generate from existing customers? How many new ones will you need and how much do you need to earn from each?
- 3. Chop up the goal into bite-sized pieces.** If you need 50 new customers averaging \$2000 each, that is about four clients a month.
- 4. Now work out,** using thinking techniques such as brainstorming, all the ways you could get four new customers a month and then choose the best ideas to achieve this. What will you do each month (or other time interval)?
- 5. Create time.** Write down every activity you have in a week, preferably using a spreadsheet. Examples might be washing the car, preparing dinner, reading bedtime stories to children or mowing the lawn. Could you delegate any of them? How about washing the car and mowing the lawn? Could you pay someone, and make more money for your business with the freed-up time? Look at your business and make a similar list. What is the worst that can happen if you delegate and someone makes a mistake?

**6. Arrange all your activities – business and private – with the most important at the top of the list.** This is where the spreadsheet can be useful. Some might be important to you even though someone else could do them. To retain them, put them high on your list.

**7. Start culling from the bottom.** Either stop the activity or get someone else to do it.

**8. Learn how to get the most out of your software and save yourself and your staff time.** "By taking the time to learn my MS Office software (no matter how busy I was), and hiring literate people and training them with the shortcuts, I (and never more than one part time administrator) have been able to run a lean office doing the equivalent work of six or seven staff members in one quarter of the time they would take," Debbie writes. "Additionally automation gives you increased business development, customer service and sales prowess. Truly."

### Conclusion

It is time to complete your business plan for your next financial year. We hope these comments will help you.

## Do you own overseas shares?

NEW tax laws apply from 1 April 2007 to people owning less than 10 per cent of the share capital of overseas companies. If you have a portfolio of overseas shares which cost you more than \$50,000, the change will affect you. The same applies to a very limited number of family trusts, but for companies there is no relief for a low-cost portfolio. Few clients are expected to be affected and the new rules are complex, so we do not intend to explain the details here.

## Becoming a KiwiSaver

The scheme commences on 1 July 2007. It will apply to all new employees between the age of 18 and 65 except:

- Casual employees e.g. casual agricultural workers and temporary employees (with a contract for 28 days or less)
- ACC recipients, receivers of paid parental leave, election-day workers or private domestic workers.

Here is a list of employer responsibilities and other information about the scheme. The first few bullet points need to be actioned within 20 days of a new staff member starting work:

1. Start deducting contributions from the first pay at the rate of four per cent of gross salary.
2. Give a KiwiSaver information pack to the new employee within 7 days of the employee starting work.
3. If the employer has chosen a preferred savings scheme give the new employee a copy of the investment statement and advise the employee they can choose their own scheme if they wish.
4. Give Inland Revenue the name, address, and tax file number and tell them whether the new employee is already a member of a KiwiSaver scheme. Notify IRD if the employee is on a contribution holiday.
5. Inland Revenue will hold the contributions for an initial three-month period while the employee seeks financial advice and chooses a KiwiSaver scheme.
6. Employees have 8 weeks to opt out. If they do, the deductions are refunded to them.
7. An employee can elect to make 8% contributions.
8. Employees can change their minds and opt into the scheme, later.
9. The employer may receive a notice from the IRD if an employee has elected to take a contribution holiday in which case stop deductions. On further notice from the IRD recommence deductions.

10. The employer can contribute to the employee's 4 percent. This will be tax free to the employee, subject to the contribution being no more than that of the employee. Some employees with larger incomes may prefer this to a salary increase.
11. Existing employees may elect to join KiwiSaver.
12. Self-employed people can also join but they need to make payments directly to Inland Revenue or their scheme.
13. Savers may exit the scheme when they become eligible for National Super or after five years, whichever is the longer period of time. Working National Superannuitants may be interested.
14. Savers, after 12 months in the scheme, may take a contribution holiday of up to five years.
15. Significant financial hardship, serious illness and permanent emigration are reasons for withdrawal from the scheme.
16. Each new saver will get a government contribution of \$1,000, locked in until age of eligibility.
17. After three years KiwiSavers may make a one-off withdrawal to pay a deposit on their first home.
18. After three years of savings, the Government will pay \$1,000 per year, up to five years, as a contribution to a first home subject to the employee meeting the eligibility criteria.
19. Up to half of contributions can be diverted to pay off a home mortgage, subject to the mortgage company and the KiwiSaver fund manager being willing to agree to the arrangement.
20. The Government will subsidise the administration costs of KiwiSaver schemes.
21. KiwiSavers can also make one-off lump sum contributions.
22. Employees can belong to only one scheme. Funds can be moved from scheme to scheme.

## More holidays

**DO you know how the new four-weeks holiday is calculated?** Find out the date each of your employees started working for you. They are entitled to the extra week from the anniversary of commencement with you. Instead of calculating holiday pay at 6 per cent, use 8 per cent from that date.

## He wrote it down

OTTO LOEWI had an amazing dream. He woke in the middle of the night and immediately wrote a description of his vision. In the morning he could not read his writing and spent all day trying to decipher it. Luck was with him. The dream came again the next night, but this time instead of trying to record the event he went straight to his laboratory and did the experiment.

He had discovered that chemicals are responsible for transferring information between nerve endings. He was awarded the 1936 Nobel Prize. If you have a good idea, write it down NOW. But make sure you can read it. You might not have the luck of Otto Loewi.

## Aligning GST and provisional tax

FROM 1 April 2007, GST return dates will be progressively aligned with business balance dates as the year proceeds. People who complete returns to 28 February and have a 31 March income tax balance date will have to do a one-month return some time during the year.

This is in preparation for changing the dates for provisional tax payments starting 1 April 2008 so businesses can pay income tax and GST at the same time. Some small businesses will be able to avoid paying Use of Money Interest.

We will tell you more in a later newsletter. Also from 1 April 2007, GST will become payable by the 28th of the month instead of the end of the month. April is

difficult for GST because it includes Anzac day near the end and Easter often falls in April. We have heard of a proposal to make the GST payment date 7 May but, at the time of writing, no change has been announced.

## Come back tomorrow

A SEASONAL business, requiring an on-going supply of temporary staff, spent a lot of money advertising, asking for interested people to telephone for an appointment. When potential employees dropped in, the receptionist asked them to "telephone and make an appointment to come back tomorrow". The person who would be doing the interviews was in the office and available.

How many of those sent away never telephoned or returned but sought employment elsewhere? How many advertising dollars were being wasted by a badly organised business? As the interview work needed to be done it might as well be now.

The firm counted the telephone responses to each advertisement but was measuring the wrong thing. It should also have been assessing the number of responses to the advertisement and people employed. When measuring, keep the right statistics.

### *Contact Us*

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

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