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CHARTERED ACCOUNTANTS

Newsletter
October 2005

Editorial

Welcome to our latest newsletter which I hope you will find both interesting and informative.

Over the last two years you would be aware we have been implementing accountants tool box, a workflow allocation system, that smoothes out the workflow during the year so that we achieve a quicker turnaround on jobs. Nobody is perfect, and there have been times where we haven't been able to meet our targets, but we are working hard on getting better in an area where accountants have been notoriously bad.

We have had clients saying 'why should we bring our jobs in a timeframe that suits you'. That's a fair enough question and I just wanted to reiterate, that if you are allocated a month at the beginning of the year that doesn't suit you, then please liaise with us and we will try and put you into a month that both suits you and enables us to manage our workflows accordingly.

We recently became a member of a group called Professional Investments Services Limited. This is a group started by accountants in Australia that has just expanded into New Zealand. It is a group that supplies it's members with the tools to enable them to more effectively provide clients with better information and options in the investment and risk management sector. This is something we have become part of so that we can provide a more complete service to you.

Lastly our hearts go out to the victims and anyone you know who has been affected by the environmental disasters around the world. As a result, I have started looking at my options on how I can look after my staff, clients and family in the event of a civil defence emergency. Under useful links on the website are links to a couple of organisations that have helped me to be more prepared and may be able to help you.

Cheers,
Todrick

Adding 20% to bottom line

HOW many retailers remember the McDonald's suggestion "Will you have fries with that?"
It's a powerful marketing tool. We know of a retailer who has made a point of adopting the idea for his business.

He has a staff of eight. He ensures they all look for added-value sales by reciting a sales script, with variations for the different stock items they sell.
He keeps track of the add-on sales with computer software, measures employee performance and reports to each staff member monthly.

He has found that for every original sale, he is achieving an extra 40 percent for other sales made at the same time. His goal is to achieve a 75 percent add-on.
He rewards his staff, not individually, but as a team.
Our retailer is in a highly competitive industry. In spite of this, **he has lifted his profit by 20 percent in one year**.

We give you these real-life examples in our newsletter to show you the theory really does work for those who take the trouble to apply it.

How to delight a customer

A CLIENT contacted Amazon and purchased a book. It was to be sent by fast mail and would take two or three days. The book took two weeks to arrive. The client contacted Amazon. Without hesitation, the company apologised, cancelling all charges, including for the book. He thinks Amazon is wonderful and is telling as many people as he can about the excellent way they handled his complaint. If you mess things up, make sure your customer is delighted with the way you handle the situation. Be generous.

Investing in publicly listed companies

IF you are saving for retirement, there are only four ways to achieve this. They are:

1. Invest in real estate.
2. Invest in other people's businesses.
3. Lend your money for interest.
4. Collect valuable assets, such as antiques, paintings and postage stamps.

This article focuses on investing in other people's businesses, but only publicly listed companies. Here are some suggestions:

- Look for monopolies or semi-monopolies. These companies have some ability to control their market. We have only four or five power generating companies. Only Contact Energy is publicly listed. The others are government owned. Competition is limited. You might reasonably expect these companies to continue, subject to government intervention, to make above-average profits.

- Avoid companies which, to compete, must continue to invest heavily in expensive machinery. This absorbs their cash flow and affects their ability to pay dividends. The greater the competition the slimmer the profits.

- The days of putting your share scrips in your bottom drawer and forgetting about them have gone. Firstly, you don't get scrips any more. Even if you did, you should be continually monitoring your investments. Company directors can make unwise decisions. These may include take-overs for too high a price and venturing into new markets. For example, Michael Hill International started selling shoes. The venture was not particularly successful and the company withdrew from that market.

- Many investors take a short-term view. Capitalise on this. They will sell out of a good company just because of one piece of bad news. Contact Energy shares fell when Contact was looking at changing its cornerstone shareholder. Sky City suffered from the smoking ban. Ask yourself, is this a temporary or permanent setback? If temporary, you have a buying opportunity.

- Keep cash reserves, if you can, to take up opportunities.

- Beware of advice, even from experts. We know of a financial advisor who recommended Feltex shares. A client relied on the advisor's suggestion and bought some shares when the company floated. Ow!

- Sell your mistakes. We all make them. Get out early. The client referred to in the Feltex example bought the shares for $1.70 each and sold out at $1.63. After the dramatic fall in the share price, he feels rather good about his selling decision. He sold his mistake.

- Keep your successes. Resist the temptation to "take a profit". Good shares should carry on upwards.

- Invest in industries you understand. Warren Buffett avoided the Dot.Com companies.

- Research. The more you learn, the safer your investments will become. Warren Buffett is the second richest man in the world. He has achieved extraordinary success investing in shares. Books have been written about how he does it. Why not read some of them? Read newspapers, books about businesses and go to seminars. You'll reduce your mistakes.

Should you diversify? If you do, you increase the risk of making a bad investment!

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2005 Budget signalled tax changes

HERE are some highlights from the 2005 Budget. Parliament drops all Bills when there is a general election. However, we expect most of these changes will be implemented by the new administration.

FBT - on motor vehicles - a fairer deal

From 1 April 2006 the value of the benefit of having a company car is to be reduced from 24 percent of the GST inclusive cost to 20 percent. People have been complaining for many years about having to pay FBT on the original cost of a car, which may have been written down to next to nothing. The proposal will remedy this. It will allow you to calculate the benefit of the car at 36 percent of its reducing book value. You will pay more FBT to start but as the value of the vehicle reduces you will pay less. The minimum value of fringe benefit, under this scheme, is $8333.

Those with low value cars are likely to choose the 20 percent rate, particularly if they keep them a long time. Those with higher value vehicles may find the 36 percent rate more suitable. Will these changes make tax law more complex? Yes, but it will also be fairer. Each time you buy a vehicle you will need to make assumptions and do the arithmetic.

You can be more generous to your staff

If you provide fringe benefits to your staff, you do not pay Fringe Benefit Tax, so long as the cost for each employee is not more than $75 in any one quarter and the cost for all staff per quarter does not exceed $450. This is to be changed. The $75 will become $200 and the $450 per quarter will become $15,000 per year. There will not be a quarterly figure as such.

You may register for FBT on an annual basis if your annual PAYE deductions do not exceed $100,000. This permits you to put in only one FBT return per year. If you do this, you can provide annual benefits for any individual of up to $800. The $200 quarterly limit does not apply.

You can also be more generous to children

The child's tax exemption is to be lifted to $2340 per year. The rebate does not apply to interest and dividend income, but it does apply to rent.

Pay income tax and GST at the same time

If you are registered for GST you will be able to pay your income tax with your GST. Your net profit is roughly proportional to your sales. Therefore, provided you are paying your GST at least every two months, you will be allowed to pay your provisional income tax at the same time. It has one mighty plus. If you pay your income tax this way, Use of Money Interest will not be charged. The scheme has an upper limit. When your annual income tax exceeds $150,000 you will be back into the interest regime.

It all sounds magnificent. Regrettably, it will not apply to many businesses. Those who distribute all company income to shareholders will have no company income and therefore pay no provisional tax with their GST.

Government subsidy for preparing wages

If your payroll is prepared by a selected PAYE intermediary, the Government is expected to subsidise up to five employees.

Depreciation - meagre relief

The $200 threshold for capitalising assets is to be lifted to $500 (it is $1000 in Australia). This has been effective since 19 May 2005. Some increases to depreciation rates for short life assets, such as computers, are in the pipeline.

Employment contracts

It is a breach of the law to employ people without agreeing and writing down certain key terms of their employment, before they start work.

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Assignment of income

A CLIENT, taking the advice of his financial advisor, gave his wife a large sum to invest so she could derive the interest and the pair of them could save some tax. When we suggested this transaction amounted to an assignment of income, the financial advisor said she thought we were being pedantic. Be sure to take tax advice from those who know tax.

If you lend money to another person for investment, so the interest can be taxed at a lower rate than it would be in your own hands, you are assigning your income. This is not permitted.
You **can** do several things:-

1. If you are the bread-winner, get all your income paid into a joint account. This now becomes family money. When invested the income belongs to both partners and can be split equally between the two tax returns. Half a cake is better than no cake.
2. You can enter into a matrimonial settlement. You agree certain of your assets will, in future, belong to you jointly and in this way you can share the income. This choice could be useful if you own rental properties and you want the rent to be shared.
3. You could sell your investments to a family trust. Your spouse could be a beneficiary and all the income could be allocated just as you want it.
4. There are several other ways of achieving the desired result, such as having a company owned unevenly.

Your decision should not be tax motivated. For example, if you transfer your wealth to a family trust, your reason might be one or more of those listed earlier in this newsletter.

Back-up? But can you restore?

IF YOU lose computer data, it is difficult to get it back without back-ups. If you lose programs, you can usually restore them from somewhere. Therefore focus on how to retrieve data.
Things to watch out for:

- Does your firm back up **every day**?
- Are your back-ups taken off-site **every day**?
- What happens about your back-up if a key person goes on holiday?
- If you need to restore data, how do you retrieve your tapes or other back-up media quickly, if it is stored off-site?
- Can your system handle all data every day, or is your back-up capacity limited? What happens about data you don't back up daily?
- Have you ever tried restoring data held for more than 12 months? Data stored for some time can become corrupted. Often you can't restore it.
- How long do your back-up media last? Are you systematically culling them?
- What happens if your computer's hard drive packs it in?
    - Your staff lose time getting the system working
    - You pay for a technician to diagnose the problem and tell you it cannot be fixed.
    - You lose time getting a replacement.
    - You pay for a new unit.
    - You pay to have it installed.
    - The old tapes won't fit the new unit so you pay for new ones.

Focus on retrieving data rather than backing up.

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Depreciation clawback

WOULD you like an unpleasant surprise?
Try selling a rental property.

Some years ago the tax law was changed. Before this, it was assumed that when you sold your rental property, the depreciation you had claimed on the building was a fair expense, which did not require correcting at the time of sale. The rules changed. When you buy a rental property, we divide the cost into three parts - value of the land, value of the building and value of chattels.

When your rental property is sold, we calculate the proportion of the selling price which applies to the building. We compare this with its depreciated value. If this results in a gain, you will have to pay tax on the difference between the written down value and the amount you originally paid for the building. Clients often believe all the money they receive when they sell their rental property should be a non-taxable capital gain. If you sell a rental property, be sure to put some money aside for tax: if you want to know how much, call us.

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