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Welcome to our Winter Newsletter for 2009.

Welcome to our Winter Newsletter for 2009. We're now almost half way through 2009 and the challenges and uncertainty continues to unfold. Despite the general pessimism echoed in the popular media we have seen some positive trading from client businesses.

In troubled times, everyone in business should take stock and have a good look at what they are doing. Getting back to basics and looking for efficiencies should be on everyone's agenda and above all else "cash is king".

In this issue we look at some ways to hold on to your cash a bit longer, discuss current interest rates and review some tax changes including the small business package.

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01 Interest Rates

In April the Reserve Bank of New Zealand cut the official cash rate (OCR) to 2.5%, so we are getting close to the expected bottom.

If you are a borrower it is good news and you should be starting to think of taking action over the next six months when you think rates have bottomed out, to fix your loans for up to five years if you can get it. Anything around 6% is good for a long term loan.

Banks, however, responding to the demand from people wanting to fix long term, have pushed the interest rates for five year loans well over 6%. We suspect that is a knee jerk reaction and rates may settle lower over the months ahead. The financial crisis is not

going away any time soon, so there is no need for the Reserve Bank to put rates up.

If you are an investor, the lowering of the OCR is bad news as the term deposit interest rates are only about half of what they were 12 months ago.

There have been several companies issue bonds recently at rates of about 7.5% for five year terms. The question of whether to invest out for five years or for a shorter term, depends on what you think may happen to inflation over the next five years. If inflation stays low then 7.5% is a good rate, but if it gets up to double figures as a result of the stimulus the Government is putting into the economy, then 7.5% in five years will not

look so good. No one can know for sure so the best insurance is to "ladder" the maturity of your investments i.e. have something coming due every year for up to five years. If rates rise you will have something coming due to invest at the higher rates. If rates fall, you will still have a reasonable average, but you would think rates cannot go too much lower.

More important than the interest rate is the return of your capital. You need to satisfy yourself that whoever you invest with, will still be in business at the time of maturity. It is not worth risking the repayment of your capital for a fraction of a percent of interest.



02 Small Business Tax Assistance Package

The package of changes effective 1 April 2009 is aimed at easing the burden of tax on cash flow for smaller businesses and making it easier and less expensive. For example, changes to the provisional tax rules will allow smaller businesses to hold on to tax monies longer. Changes to various tax thresholds will lower costs for businesses by reducing the number of tax returns they have to fill in, calculations they have to perform and tax payments they have to make. All this can save them time and money.

The changes include:

- Provisional tax uplift rates have reduced for the 2009 and 2010 income years, reducing the size of provisional tax payments that businesses have to make. The 105% rate goes down to 100% and the 110% rate to 105%.
- Use of money interest (UOMI) rate for underpayments of tax has reduced from 14.24% to 9.73%.

- The GST payments basis threshold has raised from \$1.3million to \$2million.
- The GST registration threshold has raised from \$40,000 to \$60,000.
- Businesses with \$10,000 or less of business-related legal expenditure will be able to fully deduct the expense in the year it was incurred, regardless of whether it is capital in nature or not.
- The PAYE once-a-month filing and payment threshold has been raised from \$100,000 to \$500,000.
- The FBT annual filing threshold has raised from \$100,000 to \$500,000.
- The value of minor fringe benefits (such as chocolates and flowers) that can be provided to employees without attracting FBT has raised to \$300 per quarter per employee and \$22,500 a year per employer.

- The FBT prescribed interest rate applying to low-interest, employment-related loans has lowered from 10.90% to 8.05%.
- Some other thresholds relating to accrual expenditure adjustments (such as for certain prepaid advertising/travel/lease costs) have been raised.

03 Surviving the recession

The current economic conditions are creating challenges for everyone. How well we cope with these challenges will determine how our businesses fair during these times and how they will be positioned to hopefully come out at the other end.

The key is to focus on those things you can control. You also need to be focusing on the "now". It is no good looking into the future if your business cannot survive today.

Summarised below are some key areas to look at. This list is not exhaustive but is intended to raise some key issues:

It's not all doom and gloom. Difficult times do create opportunities, whether it's the opportunity for growth or expansion or simply the opportunity to critically review your own business and to make the changes necessary for its continuation.

The purpose of this article is to highlight some key areas for you to look at or at least be aware of. Unfortunately we have been unable to go into any great detail but hope this identifies some areas for you to look at in your own businesses. For a more in-depth review please contact us directly.

Improve working capital	<p>Monitor closely your cash, debtors, inventory and creditors. Managing these areas effectively can free up cash at a difficult time.</p> <p>Consider your products and services you offer. Can you reduce the focus on those products and services that aren't performing well and narrow your focus? This may help in managing inventory levels and under-performing areas.</p> <p>Consider the cost of providing these products and services against the cost of servicing different types of customers.</p>
Review supplier and customer relationships	<p>Make sure you are not dependent on one particular supplier for your products. If they face difficulties you will also. Conversely with your customers, how dependent are you on one particular customer? Consider diversifying your products into other slightly different markets.</p> <p>Ensure you have open communication with both suppliers and customers and ensure your key relationships are secure.</p>
Review staffing levels	<p>Review current staffing levels to ensure that these are at the required level to deliver your products and services.</p>
Don't be afraid to spend	<p>These economic times also create opportunities. Consider how your competitors are performing; is there an opportunity to take over a poorly performing competitor? Can an investment in technology improve your business efficiency?</p> <p>Look to capitalise on opportunities that the downturn creates.</p> <p>Review your marketing spend. Businesses typically look to cut back on their marketing budgets when times are tough. Review your marketing spend and determine what effect reducing your marketing will have. Should your marketing be more targeted towards specific customers or towards specific products and services?</p>
Don't leave things too late	<p>Some businesses have an attitude that "she'll be right". Don't assume that everything will be alright and leave things too long before you review your position.</p> <p>Don't be afraid to ask for help.</p>

Did you know?.....

Charitable donations

From 1 April 2008 there was no longer a limitation on the level of charitable donations you could claim. Previously, no matter how much you donated, a maximum refund of \$630 was available. From 1 April 2008:

- Individual donors can claim a 33.33% tax rebate on all charitable donations up to their taxable income; and
- Companies (including small close companies) can claim a tax deduction for charitable donations up to their net income.

This change therefore applies now for those of you completing your IR526 – Tax credit claim form.

04 Tax Changes

Market Salaries

In a recent case, two surgeons formed companies to trade through, and one effect was to shelter income at 33% instead of the 39% personal marginal rate. The IRD attempted to argue that the salaries the surgeons paid themselves was not commercially realistic and tried to allocate more income to them personally.

The Court however, effectively rejected that market salaries had to be paid, and stated that the transaction was not tax avoidance.

Because of the importance of the decision the IRD has already announced that it will appeal the decision, and that it still considers that the use of companies and trusts to avoid higher personal tax rates can be tax avoidance.

New Tax Rates

Income tax rates as from 1 April 2009 are:

Individuals	0 - \$14,000	12.5%
	\$14,001 - \$48,000	21%
	\$48,001 - \$70,000	33%
	Over \$70,001	38%
Companies	All Income	30%
Trusts	All Income	33%

Kiwisaver Changes

From 1 April 2009 some changes have been made to Kiwisaver:

- The compulsory employer contribution has increased to 2% and won't increase further in future years. Employers should have increased their contribution rate to 2% from the first full pay period after 1 April 2009.
- The minimum employee contribution rate has decreased to 2% of a members gross pay. Existing Kiwisaver members can reduce their contribution by advising their employer in writing. New employees who sign up after 1 April 2009 and don't indicate a deduction amount will have the new default rate of 2% applied.
- The \$40 annual fee subsidy was removed from 1 April 2009.
- The employer tax credit was removed. An employer will no longer be able to claim this from the first full pay period after 1 April 2009.
- Legislation will be changed to ensure that an employee's gross pay can't be reduced if they join Kiwisaver.

Associated Persons Changes

The proposed changes to the income tax associated persons provisions were originally due to be in force on 1 April 2009. However, the implementation date has been delayed as the legislation is still working its way through Parliament.

Peter Dunne has announced that the changes in relation to land transactions will now commence from the date the legislation is enacted (expected to be July or August 2009), while all other associated persons changes will commence from 1 April 2010.

This means that there is an extended window of opportunity for entities associated with property developers or builders to purchase non-tainted investment properties as long as they have an appropriate structure. Companies also have a longer period to complete any transfers of assets to associates as part of a restructure of their operations.

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