

## Director's Corner

### Don't Forget the Business Pages!

*The world of business is not all about high-profile mergers, takeovers, quarterly results and the economic outlook in China.*

Small business has a big part to play, and New Zealanders want to read about new innovations.

The business pages of daily newspapers should not be overlooked. Generally, if you've got a good story to tell they'll want to hear about it.

Some papers may reserve a specific day for profiling a small business which has done well. We're not talking about advertorials promoting run-of-the-mill new business start-ups. On the contrary, success and innovation are high on the agenda for these pages. For example, have you:

- Invented some highly innovative product or service, or business system, never before seen in New Zealand, or even the world?

- Turned customer-servicing on its head to offer an innovative shopping experience for customers?
- Taken a small business into global markets?  
Seen rapid success throughout the country from small-town roots?
- Created or invented something unique which in some small way makes a difference to New Zealand as a whole (e.g. in health or the environment)?

Innovation, difference, success despite the odds – these are makings of a great small business story. Small business abounds in New Zealand and successes need to be seen in the business pages of our dailies.

If there's something worth saying, tell the newspaper.

## Improvements for Small and Medium Sized Enterprises

In December 2007 the Government released a discussions document containing proposals aimed at reducing compliance costs for small and medium-sized enterprises. Two sets of proposals were included. The first looked at increasing various tax thresholds. The second involved changes that require greater pre-implementation work, such as proposals to:

- Introduce a 'de minimis' threshold under which all legal expenses and entertainment expenses will be deductible
- Create a Government database to simplify acquiring information from businesses
- Reduce the time for which business records must be held, and
- Make changes to GST invoicing.

Draft legislation introduced in July 2008 includes various threshold increases that are likely to take effect from 1 April 2009. The increases have resulted from the submission and discussion document process.

### The proposed new thresholds are:

- PAYE returns can be filed monthly, and FBT returns annually, where annual PAYE deductions are less than \$250,000 (formerly \$100,000).
- Closely-held businesses will be able to file their FBT returns annually if their FBT liability arises solely due to 1 or 2 vehicles being made available for private use, regardless of their annual PAYE deduction amount.
- The compulsory GST registration threshold is increasing from a turnover of \$40,000 to \$50,000.
- Currently, taxpayers may file their GST returns six monthly if their turnover is \$250,000 or less. This is being increased to \$500,000.
- The threshold enabling a person to use their opening stock valuation to value their closing stock is being increased from a stock value of \$5,000 to \$10,000.

These changes are likely to reduce compliance costs and are welcomed. Further changes, as proposed in this discussion document, are expected to be introduced in a Bill next year, and are likely to take effect from 1 April 2010.

## SNIPPETS

### personal tax rate change

A significant announcement made during this year's budget was the alteration to personal income tax rates.

The changes will be introduced progressively from the current income tax year through to the 2011-2012 year. Both the rates of tax and the thresholds, to which the rates apply, will change.

The changes are as follows:

Date applicable	Threshold (\$)	Rate (%)
Now	0 – 38,000	19.5
	38,001 – 60,000	33
	60,001 +	39
From 01/10/2008	0 - 14,000	12.5
	14,001 – 40,000	21
	40,001 – 70,000	33
	70,001 +	39
From 01/04/2010	0 – 17,500	12.5
	17,501 – 40,000	21
	40,001 – 75,000	33
	75,001 +	39
From 01/04/2011	0 – 20,000	12.5
	20,001 – 42,500	21
	42,501 – 80,000	33
	80,001 +	39

## HAVE YOU A PLAN IF A BUSINESS PARTNER DIES?

No one wants to dwell on what will happen in the event of a death. In business, however, the death of a business partner can have an enormous impact on continued day to day operations. Take a minute to jot down a few essentials which need to be in place for your business to continue running. Think about the steps you would take to smooth over the transition, in the event of death or severe incapacity or illness.

### What would happen if you or your business partner died suddenly?

Planning for the death of a partner in a business must be looked at from both sides of the equation. What are the needs and expectations of the survivors in the business and the members of the deceased estate?

Contingency plans for the death of a business partner can be incorporated into a Buy/Sell Agreement. A properly drafted Buy/Sell Agreement with appropriate insurance covers should ensure that there is sufficient cash to enable the deceased partner's estate to be paid out. What you need to do is periodically update the Buy/Sell Agreement. Make sure it reflects the current value of the business and try and get insurance covers on the partners that reflect the value of their share in the business. It is very important that a commercial solicitor drafts the Buy/Sell Agreement, checks the company documentation and Wills, to ensure that, in the unfortunate event of a premature death, the business will be able to survive and the deceased partner's estate to be paid out.

As part of forward planning, business people should consider making an Enduring Power of Attorney. An Enduring Power of Attorney provides the documentation relating to the appointment of a power of attorney to be enacted if the person subsequently loses their mental powers or is incapacitated. Normally, an enduring power of attorney is made in favour of a spouse, relative or friend, and gives the power to act for you if you can no longer act for yourself.

### How long is it since you reviewed your Will? Indeed, do you have a Will?

There is also some basic information that you should be summarising to assist in the administration of your affairs in the unfortunate event that administration is required. This would relate to trade secrets of the business and agreements reached with key suppliers that might not be fully documented. Writing down many of the business issues will assist the successor in running the business.

It is very important that business people implement proper plans to ensure that, if something does happen to them, due to death or permanent incapacity, there is a structure in place that will enable the business to continue. We recommend that you consult your commercial solicitor for a review on these matters as part of an annual legal check-up.

## Have you reviewed your insurances?

Recent floods, storms and power outages in various parts of New Zealand have highlighted the necessity for business operators to continually review their insurance covers to ensure that they have adequate insurance cover for the various disasters that can confront an SME. Can you afford to have a week (or more) of no business, just because of rain? Some of the issues that you need to consider include:

Have you got a detailed Asset Register? You can then check that all of your assets have been included on the Insurance Schedule

▶ Are you covered for replacement cost?

- ▶ Do you have Loss of Profit Insurance?
- ▶ Do you have Sickness and Accident Insurance?
- ▶ If you are in a partnership or a company, have you cross-insured your partner or co-shareholders?
- ▶ Have you got Public Liability, Product Liability or Professional Indemnity Insurance?
- ▶ If you are operating as a company, have you got Directors and Officers Liability Insurance?

Now is an ideal time to be conducting an annual review of your insurance covers.

## High interest rates

*watch your cashflow*

In an environment where interest rates are increasing, your business will be affected if you are operating your business with loan funds, bank overdrafts, credit cards etc. Now is an appropriate time to fully review all of the processes which can affect your cashflow including:

- Do you promptly dispatch invoices to clients?
- Do you have clients complete a credit application form?
- Do you obtain personal guarantees from company directors of customers?
- Do you promptly dispatch debtors' statements at the end of the month?
- Do you follow-up debtors who are not paying in accordance with your firm's payment terms?
- Have you clearly stated to your customers what your payment terms are?
- Have you analysed your work in progress to ensure that jobs are completed and billed as soon as possible?
- Have you analysed your stock turn? Are you trying to do something about slow-moving stock?
- Should you negotiate better terms or delayed payments with your creditors?

If you are experiencing delays in receipts and you are relying on loan funds, bank overdrafts and/or credit cards to finance your business then the increase in interest rates will start imposing greater burdens on your business.

The key thing for you to do is to be aware of the necessity to monitor your cashflow position on an on-going basis, particularly relating to work in progress, stock, debtors and creditors, to see whether any improvements can be made that would have the effect of reducing reliance on borrowings, therefore reducing interest cost.

We can assist you in reviewing your cashflow position.

## Everyone has 1440 minutes a day!

Time is one of those things that cannot be expanded, but it can be better managed. Every one of us has 24 hours or 1440 minutes a day. Some business people are better managers of their time than others. Business people need to allocate the number of hours per day that they are prepared to spend at work and then prioritise how they are going to spend that time.

### *Managers need to consider:*

- Technical Issues
- Sales
- Client/customer work

### *Management Issues:*

- Planning
- Controlling operations
- Administration
- Staff leadership
- Developing new products and services
- Training and development
- Conferences

### *So how do you better manage your time?*

#### *Here are some ideas:*

- Establish daily and weekly priority goals/to do list. Mark off the task when it is completed and periodically prepare a log sheet of the amount of time you have spent on various tasks.
- Control the telephone. Do not allow it to control you. Perhaps you should have messages taken during the day and have very specific return telephone time allocations: one in the morning, the other in the afternoon.
- Have a 'quiet period' each day so that you can use the 'quality time' to plan your business.
- Consider and analyse those persons or tasks that cause you to waste time. Can you change your management style to overcome these time wasters? For example, it might be better if you visited someone else's office or business premises rather than have them come to yours. The visitor can close the interview or meeting and basically leave.
- All meetings should have an agenda and a time limit and you should start and finish on time.
- At meetings, make sure someone takes minutes, distributes the minutes and follows these up at the next meeting. If this type of activity continues at all meetings it will speed up the meeting process.

Management of time is essential if you wish to be successful in business. It involves planning, delegation and elimination of bad time wasting practices. Remember, everyone is allocated the same amount of time each day. How you spend it will have a significant impact on how you perform as a business person!



# Introducing Spicers Premium Plus

Spicers has taken advantage of the October 2007 tax changes by offering advice on and access to a number of managed funds which are portfolio investment entities ("PIE's"). PIE funds are very tax efficient and offer a variety of options depending on the desired investment timeframe i.e. close to retirement vs. still have many more working years ahead.

We have taken this opportunity one step further and can offer access to a Cash PIE fund called Spicers Premium Plus, in which all income is now taxed at the maximum rate of 30%, resulting in a significant advantage to investors on 33% and 39% marginal tax rates.

Spicers Premium Plus will potentially play a very important role in an investment portfolio, by providing a tax effective investment with a competitive rate of return. It also features the added advantage of low risk and readily available access to funds.

Premium Plus is suited to all investors who want an alternative to bank deposits, ready access to their funds and easy switching to a full range of other investment options offered by Spicers.

## An example of how Spicers Premium Plus works:

The following example highlights how a \$100,000 investment at 8.25% over a one year period performs with a 33% or 39% tax rate and shows the benefits of investing in Spicers Premium Plus when compared to a traditional investment that is not a PIE.

SPICERS PREMIUM PLUS VS 39% TAX RATE		
	Investment taxed at 39%	Spicers Premium Plus
Taxable Income	\$8,5691	\$8,569
Tax	\$3,342 (39%)	\$2,571 (30%)
Net Income	\$5,227	\$5,998
Effective Rate (after tax)	5.23%	6.00% <sup>2</sup>

SPICERS PREMIUM PLUS VS 33% TAX RATE		
	Investment taxed at 33%	Spicers Premium Plus
Taxable Income	\$8,5691	\$8,569
Tax	\$2,828(33%)	\$2,571 (30%)
Net Income	\$5,741	\$5,998
Effective Rate (after tax)	5.74%	6.00% <sup>2</sup>

1. Examples compare investments being taxed at 39% and 33% against Spicers Premium Plus taxed at 30%. Both examples use a daily accrual of 8.25% and assume income is compounded monthly.
2. The example returns are given for illustration purposes only. The rate of return for Spicers Premium Plus will vary from time to time.
3. 9.42% p.a. is the gross rate needed for an investment taxed at 39% to achieve the same net return as a PIE taxed at 30%.
4. 8.61% p.a. is the gross rate needed for an investment taxed at 33% to achieve the same net return as a PIE taxed at 30%.

If the investor is on a 39% marginal tax rate, investing in Spicers Premium Plus will provide a net return of \$771 more per annum than an investment taxed at the marginal rate. To obtain the same return the investment taxed at 39% would need to be returning 9.42% p.a.<sup>3</sup>

If the investor is on a 33% marginal tax rate, investing in Spicers Premium Plus provides a net return of \$257 more per annum than an investment taxed at the marginal rate. Once again, to achieve the same return, the investment being taxed at 33% would need to be returning 8.61% p.a.<sup>4</sup>

Spicers Premium Plus is an ideal place to hold money while deciding on an on-going investment strategy, or as a cash investment which provides easy access to the investor's money as well as generating a competitive return.

To discuss any aspect of this article, please call Russell Quin at Clarke Craw Limited on 03 477 0032, or Spicers on 03 477 0004 for a free, no obligation discussion.