

CCL NEWS WINTER EDITION

Director's Corner

Dave McPhedran has announced his resignation from Clarke Crow Limited.

Dave has worked for the firm for over 32 years and has been a Partner /Director in the Clarke Crow structure for over 26 years.

In recent years, Dave has been focusing on the development of Financial Planning with Spicers and more recently on Business Advisory Services with Your Business Team Limited as well as his interests in Clarke Crow Limited – effectively “wearing 3 hats”.

In an effort to refine his area of focus, he has decided to concentrate more on the Business Advisory and Financial Planning area and consolidate his accounting client base into Your Business Team Limited with fellow Director, Carl Spruyt.

However, there will be little or no change for Clarke Crow clients as Your Business Team Limited remains based from the Clarke Crow Limited premises and the same professional service will be provided for all our clients under this new structure. Indeed we will still be seeing plenty of Dave in the coming years in our corridors!

The Directors and staff of Clarke Crow wish Dave all the very best with his plans for the future.



KiwiSaver

From 1 July employers will have obligations to new staff in relation to the KiwiSaver scheme.

Key points for Employers:

- **Enrolling new employees** – As from 1 July 2007 employers must give new employees (excluding casual and temporary employees) an Information Pack (to be supplied by IRD) within 7 days of their starting work. New employees will be automatically enrolled in KiwiSaver and have 8 weeks in which to opt out by telling their employer or IRD. Employers must give IRD the names, IRD numbers and addresses of all new employees and those existing employees who want to join KiwiSaver.
- **Choosing a KiwiSaver scheme provider** – Employers can select a preferred KiwiSaver provider which all employees will be allocated to, unless they nominate their own provider. If employers do not select a preferred provider they will be allocated a default provider.
- **Making deductions** – Employers will be required to deduct KiwiSaver contributions from those employers who join KiwiSaver or are automatically enrolled. Employees may make deductions of either 4% or 8% of gross salary. Contributions must be forwarded to IRD on a monthly basis along with PAYE payments.
- **Employer contributions** – Employers have no obligation to make employer contributions. Employer contributions of up to 4% (matching employee contributions of up to 4%) are exempt from tax.
- **Existing superannuation schemes** – If an Employer already operates a superannuation scheme for employees that employer will have a number of options; including converting its existing scheme to KiwiSaver, adding KiwiSaver to its current scheme, or applying for an exemption from the automatic enrolment requirements of KiwiSaver.

Now that you can see what KiwiSaver entails, do you think you have the right payroll system? We have a wide range of knowledge in ACE and MYOB payrolls. These software systems are the leaders in the payroll industry and will make administering your payroll a breeze! If you would like more information, please do not hesitate to give Pam Deans a call on 03 477 0032.

For more information on KiwiSaver visit our website www.clarkecrow.co.nz

Update on repairs and maintenance

The tax deductibility of repairs and maintenance is likely to be affected by a change in IRD policy towards depreciation.

The department wants to treat lino, for example, as being part of the cost of a building. Therefore replacing lino should be a repair. Carpet is to be treated as a separate asset so we can expect replacement carpet to be an asset and not repairs. If a property is purchased, outstanding repairs are deductible so long as immediate work is not required to put the building into use and the purchase price is not affected by the work needing attention. Thus where major repair work is carried out shortly after a property is purchased, it becomes more difficult to argue that the lack of repair did not affect the selling price. Where a project is partly for new work and partly repairs, the whole project can possibly be considered to be a non tax deductible cost. It may pay to carry out the repairs separately, if possible. Warning: the interpretation of tax law in this area does change / develop.

Another look at residential rental depreciation

To fore warn you:-

IRD wants to treat all assets which form part of the building as having the building depreciation rate. IRD would like to see assets separately depreciated only if they perform a separate function independent of the building. The department has recently released a draft statement on the issue. They contend that the following examples can be depreciated separately. Wardrobes and cupboards not built in, carpets, curtains, blinds, water heaters and hot water cylinders.

Is it FBT or entertainment?

If you give a case of wine to a member of your staff, it is a fringe benefit unless no fringe benefit tax is payable, in which case it becomes entertainment. Thus if the wine costs \$150 and this is below the \$200 threshold for the quarter, the gift is subject to the 50% entertainment tax adjustment. If the cost is \$250 then FBT applies!

Review prices regularly to optimise profitability

Price setting is a moving target. You have to be careful not to undersell, as this will reduce profits, and by overpricing you could lose customers.

The important thing to remember is pricing is a complex strategy and needs to be reviewed regularly to optimise profits.

Ultimately you'll price your goods and services at what the market will bear, but there are lots of variables to take into account.

Inflation is an important variable, but you can't raise prices on inflation alone. You also need to know what your competitors are doing. And what are the variable production costs or importing costs? At the end of the day, what is the customer prepared to pay?

Price is definitely a big part of a customer's buying decision, but it is not the only thing they consider. It would help enormously if you understood why your customers choose to buy from you and not your competitors.

Competitive Advantage

For example, can you offer uninterrupted supply, back-up service, high quality, convenience, fast-turnaround or easy ordering? These may be critical factors for the customer in choosing to buy from you, even if you do charge more for the goods or services than your competitors.

If you can offer a competitive advantage – that something extra that nobody else is doing – then having to increase prices to maintain profitability is unlikely to cause major disruption to these customers.

As customers we're likely to be accepting of price increases if the business has a track-record of fair and honest trading, fantastic customer service and consistently high quality goods or services.



Tax changes – one down, one to go!

Major changes are being made this year to the way investments are taxed, with the introduction of the Fair Dividend Rate for international shares and the Portfolio Investment Entity regime.

The Fair Dividend Rate regime:

Most managed fund and direct investments in international shares are now being taxed under the Fair Dividend Rate (FDR) regime, which came into effect from 1 April. Under FDR, taxable income on the international shares component (excluding most listed Australian companies) in managed funds is now assessed at 5% of the market value of the portfolio less any costs to run the funds. Most Unit Trusts containing international shares have adopted the new rules to ensure clients invested in international shares benefit from the significant reduction in the amount of taxable income for portfolios over time.

Adopting FDR for our portfolios was quite an achievement as many of our competitors elected to defer application of the new regime on 1 April.

The issues around FDR are more complicated for direct investments and we recommend you contact your adviser to discuss these.

So it's one down and one to go.

The Portfolio Investment Entity regime:

The next major deadline is 1 October, when the Portfolio Investment Entity (PIE) rules come into effect. Managed funds that meet certain criteria will qualify as PIEs.

PIEs offer investors two key benefits:

- A capital gains tax exemption for most listed Australasian shares;
- Investment income potentially being taxed at a lower rate than it is currently, and potentially lower than your marginal tax rate.

All Spicers Unit Trusts are in the process of being converted into PIEs for the 1 October start date, so your PIE income will be taxed at what is known as a Prescribed Investor Rate (PIR).

Working out your Prescribed Investor Rate:

There are three possible PIR rates, depending on how you own your investments: 0%, 19.5% and 33%. This is great news for PIE investors on a 39% marginal tax rate as the top PIR rate is currently 33%, and will reduce to 30% from April 2008.

For individuals:

Your PIR until 1 April 2008 may be 19.5% or 33% depending on your gross income over the last two financial years. If your gross income for either 2006 or 2007 was less than \$38,000, then your PIR for 2008 will be 19.5%. If it was \$38,000 or more, your PIR will be 33% (until April 2008, when it becomes 30%).

For joint ownership:

If an investment is owned by more than one person, then the highest PIR rate applying to them will apply. A 19.5% PIR can only apply if

all owners of a particular PIE investment are being taxed at that rate. Each individual needs to review their gross income over the last two years as per the above.

For non-residents:

A PIR rate of 33% applies for non-residents, although they will still benefit from the tax-free capital gains on most Australasian shares.

For trusts:

Under the new rules, trustees can now elect to have tax deducted at either 0% or 33%. For many family trusts, the option to elect the 0% option will be attractive as trustees will have greater flexibility in managing the trust's income distributions.

What are the implications of both options?

By electing 33% the PIE will pay tax on your behalf and so you do not have to include this in your tax return.

- PIE tax is a final tax, so once year-end is passed, distributions to trust beneficiaries on marginal tax rates of 19.5% will not get the benefit of their lower tax rate.
- Where trust beneficiaries have a marginal tax rate of 39%, there is some attraction in adopting the 33% option.

By electing 0% no tax will be deducted, although the trust will still be liable for tax on the income. After year-end, the trust can elect to either distribute the PIE income to beneficiaries (who will pay tax at their individual marginal tax rates) or retain the income in the trust where the trust will be taxed at the trust rate of 33%.

- If the trust has tax losses from another source, then income can be offset against these losses.
- This option is attractive where beneficiaries have marginal tax rates of 19.5%.
- There will potentially be provisional tax and use of money interest considerations to take into account as well.

For companies and charities:

The PIR rate for both companies and charities is 0%, although this income needs to be included in your tax return. You will be responsible for meeting your own tax obligations in respect to this income, so you may need to discuss this with your adviser or your accountant at Clarke Craw Ltd.

If you qualify for an individual PIR rate...you may need to gather any relevant material to ascertain your income over the last two financial years.

If you are investing through a trust or company...we are happy to assist you in discussing the implications of these tax changes.

For more information on these changes contact Russell Quin at Spicers through Clarke Craw Limited or phone (03) 477 0004.

Auditing for Not-for-Profit Organisations

We are often asked to provide audit services for small not-for-profit (NFP) organisations ranging from Charitable Trusts to Sports Clubs and School PTA's.

The first question we ask in response to any enquiry is, 'why do you want an audit undertaken?' Invariably the answer is, 'because our financial statements have always been audited and it's a requirement of our rules or constitution'.

The second question we ask is, 'what do you expect to achieve by having an audit of your financial statements?' Again the most common response is, 'to provide assurance that there has been no theft or fraud in the operation of the organisations financial transactions'.

Having ascertained these motives we generally respond on the basis that in our experience and in most instances, an audit is not required and will not achieve the required result.

Simply to undertake an audit because we have always done so and it is in our rules, should now be questioned. This is particularly relevant with significant changes being required by the New Zealand Institute of Chartered Accountants in Auditing Standards and Practice. As a result we find a number of practitioners no longer undertake audits, and for those who do in order to maintain proper standards, they are finding that the simple tick checking that occurred in the past is now no longer satisfactory. As such an audit now entails significantly more work with obviously increased fees.

Consequently small organisations are now finding that the pool of available auditors is decreasing and the amount being charged is increasing.

An audit by its nature is not designed to uncover fraud or theft by those involved in the organisation. A modern audit involves a greater level of understanding of an organisation and a reduced amount of compliance and substantive checking to confirm that understanding. In earlier times, an audit generally involved a significant amount of testing without necessarily having an understanding of an organisation and its operations.

This change in focus now lessens the possibility of minor or non-systemic fraud being uncovered.

In our opinion, an organisation can achieve a better result than is provided by an audit, where the desired outcome is an overview of the integrity of the financial statements, by having a member of the governing body who is aware of the activities of the association or society reviewing the financial data, and satisfying themselves that the information displayed accurately reflects the results and activities undertaken.

In some instances the requirement to have an audit cannot be overridden. Generally this is where the organisation receives substantial grants and donations from charitable organisations such as Lotto, COGS etc, where financial stewardship is required to be demonstrated through the provision of audited financial statements.

Interestingly the Government has in recent times published guidelines as to the requirements for the preparation and presentation of financial statements and the auditing of these for not-for-profit bodies. These are based on size and level of activity. In most instances, the majority of small organisations fall within the first category which may require neither of these to be undertaken.

In our experience we are able to encourage most small organisations who request us to undertake auditing of their financial statements to seek a cheaper and more practical alternative.

We do however, offer a comprehensive audit service if required.

Strategies for Marketing Success

There's a subtle difference between marketing and selling.

If you ask enough people to buy something, someone ultimately will – at the right price. That's selling. But by essentially 'flogging something off' you are not setting yourself up for long-term success – you're not offering any after sales service, continuity of product lines or product knowledge.

Marketing, on the other hand, forces the small business operator to read the market very carefully. It involves a whole range of activities – from producing products that meet people's needs; to making those products available; to telling potential customers about them.

Marketing is concerned with everything involved in the transfer of goods and services to your customer. It's about working smarter, not harder, as long as you put the right strategies in place. Your marketing plan will need to include strategies on how your business will:

Answer the customer's need....

You need to be able to analyse customers' needs on an ongoing basis – what they want and why they would want your product or service. You have to be flexible to head in another direction if you perceive customers' needs have changed. Being successful is about answering the customer's needs.

Demonstrate benefits....

It's been said that people never buy the product – they only buy the emotional benefit that comes from it. You need to keep in mind that you are selling the benefits of the product and not the features. It's really important then to identify what purchasing benefits the customer is looking for.

Promote your competitive advantage....

What can you offer that none of your competitors do, even the bigger brands? Think of what will give your business a competitive edge.

Promote your business image....

Name and image of your business are very important. It is imperative that when someone thinks of your industry, they think of you first. Market exposure is important; you have to be seen.

Keep focused on the goal....

Develop a clear vision of where you want to be in your business and keep focused. Keep learning – about your customers' needs, your products, your industry. Never give up!

