IN TOUCH with Martin Jarvie PKF

Autumn 2006

INTRODUCTION

Refreshed and with renewed vigour following summer holidays, you will be in the perfect frame of mind to address some important issues.

- For most of us, March is the end of another reporting year, a crucial time to prepare for the next financial year, perhaps to instigate some much-needed changes or initiatives, and to ponder the future.
- Some business and tax issues should be acted upon prior to 31 March (see our article on page 2).
- Review the past year's performance, in conjunction with setting goals and profit projections for the coming year.
- Prepare, or dig out, your long-term strategic plans, which hopefully:
  - define the critical issues for success
  - assess the opportunities for business growth
  - help to choose your strategy and direction
  - set targets and action plans
  - provide an overview of the long-range financial goals, as well as a detailed financial plan for the next year.

Graham Langridge.

The Partners and team at Martin Jarvie PKF look forward to working with you on these issues and to making some real progress during 2006 in helping you achieve your goals. PKF

NEW LOOK COMING SOON

This is the last of the "old" newsletters as all of the firm's communications, stationery and signage will be changed in the coming weeks. The new look will be in line with the PKF Visual Identity Standards implemented across PKF member firms worldwide and emphasises the strengthening relationship within the international PKF group.

The new visual identity will ensure a consistent approach and reassures clients of our capabilities worldwide and that PKF operates as a consistent international organisation, with agreed values, a common focus and equivalent quality standards.

For Martin Jarvie PKF here in Wellington and, most significantly, for our clients, the changes are only on the surface. We will have a different look on our letterhead and stationery, our business cards and office signage, but we remain the same practice that clients have known over the last 65 years – a pre-eminent and well-respected mid-tier firm of Chartered Accountants and Business Advisors.

65 Years On...

It is an achievement worthy of note that Martin Jarvie PKF has reached its 65th Anniversary, having been founded by Henry Martin in March 1941. Over those years, the firm has been well served by partners and staff alike. In turn, we are confident that our numerous clients have been well served. At the same time, the firm has enjoyed excellent and fulfilling relationships with those clients.

Martin Jarvie PKF now looks ahead to many more years servicing our niche market of small to medium-sized businesses and individuals throughout the greater Wellington region and New Zealand. PKF

MARTIN JARVIE PKF

Our range of professional services

Business Services
Year End Financials and Accounting
Tax Compliance
Financial and Management Reporting
Profit and Cash Flow Forecasting

Business Advisory
Strategic Business Planning
Financial Health Analysis
Taxation Planning and Advice
Business and Share Valuations
Trusts and Asset Protection
Risk Management
Succession Planning

Business Recovery and Insolvencies
Business Recovery and Turnaround Management
Business and Corporate Restructuring
Receiverships and Liquidations

Audit and Assurance Services
Statutory Audits
Review Engagements
Due Diligence
Internal Control Reviews
One-off Investigatory Assignments
Scrutineering

Information Systems
Systems Review
Installation of Accounting Systems
Training
Setting Up and Documenting Procedures

Finance
Preparation, Review and Audit of Prospectuses
Preparation and Presentation of Finance Applications
Financial Information Memoranda PKF

Also In this issue

BE PREPARED ON 31 MARCH

Some tax matters just can't wait until April. As the end of the financial year looms fast, here are some pointers that will help you prepare information for your tax return and deal with issues affecting your income tax liability as they arise during the year.

Do you have stock?

If so, you need to do a physical stock count at 31 March and values recorded at cost excluding GST.

Bad debts

If you are going to write off a debt, then it is necessary that all reasonable efforts have been made to collect it. The debt must be physically written off your debtors ledger before 1 April, i.e. the debtor must not show on the list.
If you have a manual accounting system, the equivalent manual records would need to be provided.

Bank accounts

Your computerised records should be reconciled to the bank statement entry on 31 March (not just the end of the statement).

Debtors/Creditors, aged trial balances

Print these out after all transactions have been processed for March and before any processing for April.

Trial balance

Print out at 31 March and compare to aged listings and bank reconciliations.
Back up all computerised systems when processing has been completed for March before rolling forward to the next financial year.

Holiday pay

If you have significant holiday pay owing at 31 March, record amounts due to each employee. You will need to track whether this is paid within 63 days and advise us accordingly.

Remember

Once your information is sent to us, do not process any further transactions for the past year. If further information does come in, send it to us and we will advise on what adjustments you need to make to your accounting system.

Finally, if anything unusual has occurred during the year, gather appropriate information such as lawyers' loan documentation or settlement statements and send it to us with your usual information. PKF

EFFECTIVE INDUCTION – EFFECTIVE EMPLOYEE By Jan Polaschek

So you have hired a new employee and you think they are going to be great. How many times does the reality of this situation not meet our expectations or hopes?

You, the employer, can take action to tip the balance in favour of the new employee becoming a valuable staff member. The way you introduce them into your organisation will impact on their sense of belonging, loyalty and enthusiasm. If you provide an effective induction, the new staff member will not only feel welcome, but they will become productive and fit into your business more quickly. Even for a small business where time is constrained, the benefits of induction mean that the time you take to do this is well spent.

What is an effective induction plan? Begin by remembering that the new employee will have concerns about fitting in or getting up to speed with the job. Create a plan on that basis. Help them to relax and connect with their new environment.

Prepare the induction before the new person starts:

- Create an induction checklist to ensure that all essential information is covered.
- Make sure their workspace, computer, security passes and other necessary equipment is ready for them.
- Inform key people that they will be starting, and ask them to allow some time to meet the new employee and explain their role in the first week or two.

Cover the basics as soon as the new employee starts. Tell them:

- Where they will be working and the location of toilets, tearoom and stationery.
- Who they will be working with and who they report to.
- How any equipment they will be using works and safe work practices.
- Their terms and conditions of employment.
- Information about the organisation.

And then be really effective!

Jan Polaschek, our HR consultant.

- Welcome them with an introduction to other staff, maybe at morning tea or take them to lunch.
- Provide a trusted team member as a buddy, to explain rules and policies, and answer any questions they may have in their first few weeks.
- Encourage existing staff members to stop by and say hello.
- Arrange for the new person to spend some time with their immediate colleagues and key staff members to get to know them and gain an understanding of their roles.
- Make time in the first few days to discuss work standards and set some initial performance objectives. It is important to make sure that your expectations are clear.
- Have an informal meeting with the new staff member regularly for the first few months to review their objectives and progress.

Staff induction sets the tone of the relationship between the employee and employer. With a little thought and planning, you can get that relationship off to a very successful start. PKF

FBT and motor vehicles

Where a company makes a motor vehicle 'available' to an employee, including shareholder employees, for private use on a particular day, then FBT is generally payable.

It is clear that under the FBT regime, the IRD does not intend there to be a level playing field as this 'availability' test will catch all but the most careful employers, even where the vehicle is mostly used for business purposes during a particular day. FBT could then be payable at 64%!

Who said life was meant to be fair? Certainly not the IRD (although it's their job to be fair, isn't it?).

If your company provides a vehicle to its employees, then some ways out of the FBT regime include:

- Work-related vehicle exemption. For example, vans or utes that are not 'principally designed for carrying people'. So this rules out sedans in the first place. Remember that you must have the business' name/logo permanently displayed on the outside of the vehicle, and the vehicle must not be widely available for private use – other than driving from home to work that is incidental to the ordinary work duties.
- 24-hour business trip exemption. If you go out of town on business, then the day you leave until the day you return, and the intervening days, are exempt from FBT.
- Home Office. Where you can prove that substantial work is regularly and necessarily performed at both your home office and your ordinary worksite, then there may be a case for treating the home to work travel as being 'on work time' and therefore not subject to FBT.
- Reimburse the company for the FBT value. This may seem unattractive from a cost perspective, but may suit businesses that want their vehicles owned in a company.

'9 to 5' leases are another way of levelling the tax playing field by effectively eliminating this 'availability for private use' concept, and achieving an expense claim equal to the business use of the vehicle - without incurring FBT. However, the IRD is attempting to move the goal posts with draft legislation currently before Parliament that effectively signals the end of these leases. This law change will probably apply from 1 April 2006. In any event, if you have a 9 to 5 lease, then you should start planning to revisit that arrangement now.

Of course, where the vehicle is owned personally, by you as the shareholder, or an employee, reimbursement of costs or payment of an allowance (i.e. IRD mileage rates) by the business could be an option to recognise the business use of the vehicle.

If all else fails and you end up paying FBT, console yourself with the knowledge that all of the running and ownership costs are then fully deductible. It is then a matter of comparing the FBT cost against the benefits of deducting the associated ownership and running costs to decide whether company ownership is warranted. PKF

GST is simple – isn't it?

You pay GST on your income and claim it on your expenses – well that's how it works for most businesses. But, of course, not all GST returns are that simple…

Mixed supplies

Where you have a mixture of taxable and exempt income, then you may have to apportion the GST credits that you claim. Examples of 'mixed supply' businesses are:

- Commercial (taxable) and residential (exempt) properties.
- Insurance agents – fire & general (taxable); life insurance (exempt).
- 9 to 5 leases – by definition are partly business (taxable) and partly private (exempt).

To work the apportionment out, you have the choice of either:

- Using a simple ratio of taxable supplies made to total supplies.
- Direct apportionment, or identifying just those expenses that relate to the exempt supplies.
- Using a mixture of the above methods – as long as the IRD agree with it.

Overall, the method of apportionment must be fair – especially to you! We can, of course, help you with this.

Change in use

If your business use of an asset changes to private use, either wholly or partially, or you begin to use a private asset for business purposes, then you may have to make a GST output or input tax adjustment.

Examples of situations where an output tax adjustment may be required include:

- Serviced apartments that are subsequently rented out as long-term residential accommodation.
- Development properties that don't sell, and are rented out short term awaiting sale.

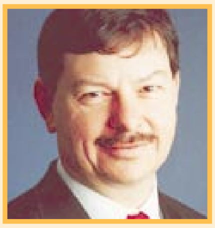
In these examples, the change from a business use to a private use will be treated as a deemed sale, and assuming that a taxable activity continues, then GST will be payable based on the lower of cost or market value of the asset in question.

Where the change in use is 'once and for all', then a one-off GST payment should be made. If the change in use is temporary, then that total GST payable can be spread over time. For example, when properties are involved, the GST payable is spread using depreciation rates.

Where your business activity ceases as a result of this change, then you no longer have the choice of using the lower of cost or market value as the basis for the GST payable. In this case, there is a deemed sale of all the assets used in the business activity at market value – which could well be much higher than cost . These adjustments can be complex, and often there is more than one way of working them out. We deal with these calculations every day, and can therefore assist you to get the best possible result. PKF

Mike Ruffell, our tax specialist.

WHAT TO DO ABOUT RISK By Robert Elms


Robert Elms.

Risk exists in all aspects of one's life, both business and private.

People have different attitudes to risk. Some are very risk averse and therefore wish to minimise all risks. Others are very risk tolerant and willing to accept a much higher level of risk.

Risk, regardless of your tolerance level, should be evaluated, minimised and managed as appropriate to your risk profile. Most risk control strategies require a holistic approach to considering the needs of the business and personal circumstances.

How to manage risk depends on the type of risk to be adopted and may involve insuring a risk or implementing controls, processes and procedures that minimise the chances of the risk event actually happening.

In business, risk is managed through a myriad of measures from the implementation of legal and financial structures, through implementation of appropriate internal controls and systems, to insurance.

A couple of examples of various risks faced and some of the considerations:

- One of the major risks to a small to medium-sized family-owned enterprise is the key person in the business not being able to work.
- Systems and processes should be implemented so that the business will continue in operation with other people stepping into the various functions. Legal structures should be adopted that protect the family assets should the business not be able to continue. Insurances (whether by way of insurance proceeds or dedicated funds) should be considered to enable the business to employ a manager to continue the business.
- Another risk is fraud. Again, a mix of "tools" can be utilised, including the implementation of internal controls, checks and balances to minimise the risk of income being diverted from the business or inappropriate expenditure being incurred.
- How does a business minimise risk associated with legislation – for example, tax legislation? Again, it's ensuring strong systems are in place that are regularly reviewed and updated as necessary to ensure all obligations are met.

Many of the "tools" for business risk minimisation relate to structures, systems and processes. In respect of these matters, Martin Jarvie PKF can assist you to review where things are at and assist in implementing improvements. Other matters such as insurances should be reviewed with your insurance broker. If you do not have a broker, we can suggest some to you.

The other area that you hear a great deal about in respect of risk is in the investment markets – the higher the risk, the higher the return. This area of portfolio risk, managing that risk to meet your objectives, is a rather complex area. We certainly recommend that you review your investment strategy and risk profile on a regular basis. Whilst we can assist in this review at a general level, a more detailed review requires the services of your financial planner. Again, if you don't have a contact in that area, we can suggest some to you.

The key to dealing with any risk is to identify it, implement minimisation strategies and regularly review the situation. PKF

GST

For property sales, make sure that you know when that contract goes unconditional – a GST liability may be triggered at this time (invoice accounting basis only).

GST claims on secondhand goods may be available when purchasing goods from an unregistered person. Remember only to claim on a payments basis, and that when you bought property from a related party, then the secondhand goods tax credit will be limited to the GST paid when that related party originally purchased the property.

Provisional tax

If you've missed an instalment, or underpaid, consider using Tax Pooling to minimise UOMI (use of money interest) and penalties. Contact us to find out more.

When commencing business, you may have less than 3 instalments in your first year of operation. This will be important for UOMI purposes.

FBT

Consider using a multi-rate calculation in order to minimise the FBT payable.

Is that staff carpark subject to FBT? Have us review the contract to see if it is a licence (subject to FBT), or a lease (not subject to FBT). PKF

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