<u>2010</u> ANNUAL NEWSLETTER

PROSSER QUIRKE LIMITED

Chartered Accountants & Business Advisors

DIRECTORS Peter Joseph Quirke, F.C.A., J.P. Donald Michael Robertson, B Comm., B Comm (Ag) C.A.
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Welcome to our Annual Newsletter. We attempt to summarise the main points for clients, but if you have any questions please contact our office.

Alternatively, we have a fully operational web page which you can view at:

www.prosser-quirke.co.nz

Our web page and reception area contains a number of handouts on various topics. Please feel free to download these handouts and/or request them when you are next in.

Staff Matters/Communication/The Personal Touch

In this respect we are mindful of the importance of having a good location and a pool of personnel that can always be available with skills to meet client demands. Should your first contact not be available for whatever reason we are confident that other personnel will be very approachable and keen to help.

Our communication with you is important to us. If we are unavailable please feel free to speak directly with:

Jennifer S– Specific tax payment/ Administration

Sharon/ Gill/ Adrienne/ Leanne – General Accounting/Coding

Bob Computer Support/Payroll/ KiwiSaver

Barbara – Company Administration/Debtors

Jennifer/Dallas/Elaine – GST administration/Coding

Sarah McIntyre: is our Staff Accountant. She is experienced with all types of clients in particular Commercial and Small to Medium Businesses. She also has a strong interest in Audit.

If you are calling after normal working hours please leave a message on our answer service.

We have quarterly Farming and Commercial Newsletters which we endeavour to circulate to clients. If you wish to be on the mailing list please contact Barbara and she can put you on it.

Annual Questionnaire

It is vital that this is filled in accurately as this enables us to process your draft financial accounts. You can now fill out the questionnaire electronically. If you wish to do so please contact Barbara who will e-mail it to you.

We have subscribed to another data base for forms and precedents under the umbrella of Business Fitness. If you require a checklist or form we may be able to supply it for a nominal charge. Please call us to enquire.

Tax Matters

As many of you will be aware the Government is in the process of reviewing both Individual, Company and Trust tax rates and also the methods of collecting their tax revenue. The proposals at the moment that appear to be gathering momentum are in relation to increasing the rate of GST and also some form of taxation on rental properties We will keep you updated as and when these changes come through and any effects they may have on you.

Tax Rates

The rates for the 2010 year are:

- On income $0 to $14,000 – 12.5%
- On income $14001 to $50,000 – 21%
- On income $50,001 to $70,000 – 33%
- On income over $70,001 – 38%
- Companies – flat 30%
- Trusts – flat 33%

For many of our closely held Companies we have been declaring dividends to clear out any retained earnings and imputation Credits at the old 33% rate. These need to have been done by 31 March 2010 otherwise the maximum Imputation Credits that you can attach to any dividends is 30% as opposed to the current 33%.

These dividends will flow through into the 2010 income tax year.

Donations

The maximum amount that you can claim for a donations rebate has been removed and now you are entitled to claim a rebate on qualifying donations not exceeding the taxpayers taxable income for that year at 33cents. Please make sure that you provide the necessary donation receipts when you drop off your annual information.

Wages to Children

You are entitled to pay your children a fair wage for any work they do. If you haven't paid them a wage yet it is not too late to pay a wage for the previous 12 months. We suggest this is done before 31 March. Remember, tax must be deducted if the child's wage for the year exceeds $2,340. Payment must be made to them or credited to their bank account and a wages book must be kept.

Holiday Pay/Bonuses

In order for a payment to an employee to be deductible in the year ended 31 March 2010 these have to be paid prior to 2 June 2010.

There are ramifications to both the employer and employee on these holiday pay/bonuses.

Valuation of small amounts of Trading Stock

Taxpayers with turnover of $1.3m or less, and Trading stock on hand under $5,000, now have the option of not changing the value of their Stock on Hand from one year to the next.

You can simply use the same figures for closing stock as the opening stock.

KiwiSaver

As many of you will be aware there is now an option with regards to contributions set at 2% therefore an employee can elect either 2%, 4% or 8% as their contribution level.

Clients up to 65 years of age should take advantage of KiwiSaver by paying into their nominated provider (AXA, AMP, Tower etc) $1,040 per annum (monthly $86.66) for a minimum of five years. After 5 years the return including the one $1,000 incentive is approx $13,000.

For further details visit www.kiwisaver.govt.nz

ACC

ACC will send you an estimate invoice for the current year based on the previous year's income. This is followed by a top-up or final invoice when the current year income has been finalised. (Basically more paper work to confuse all and sundry.)

Options within ACC are:

Cover Plus – Premiums based on actual income for current tax year.

Cover Plus Extra – You can elect to have cover based on a minimum of 60% of the previous 3 years income (effective to drive your premiums down).

A lot of clients are electing Cover Plus Xtra and "topping" up with Income Protection Insurance, thereby getting better cover which also takes into account illness not just accidents. Please discuss with us any queries as we consider this Cover Plus Extra a better option for business owners.

Asset Expense

Allowed to expense assets bought under $500.00 (GST Exclusive)

Family Scheme Tax Credits

There are a wide range of subsidies or entitlements available under the working for families scheme. Most are determined by income levels and number of children and other factors. The main ones are:

- Accommodation Supplement: Determined by the accommodation area (4 areas in NZ) and designed to help working people and beneficiaries with housing costs.
- Childcare Assistance: There are two entitlements under this term. Childcare Subsidies for low-middle income parents to subside the cost of childcare for pre-school children and Out of School Care & Recreation Subsidy for care of 5-13 year olds outside of school hours.
- Foster Care Allowance: For foster caregivers to meet the costs of children in foster care.
- Family Assistance: There are four entitlements under this area. Family Support is a payment to families with children to help with the day to day living costs. In-work Payment is a payment to working families with children. It is determined by the number of children and working hours.
- Family Tax Credit is a payment for families working for salary or wages and is designed to ensure families have a minimum income of $340 per week after tax.
- Parental Tax Credit is a payment to families to meet the cost of a new baby and is dependent on your income and other criteria.
- Paid parental Leave is a government funded entitlement when they take parental leave from their jobs to care for newborn or adopted children. This is dependent on ability to qualify for parental leave from their jobs.
- In-Work tax credit and minimum family tax credit these credits endure a minimum gross family income for those families fallen below its thresholds.

PROCESSING CLIENTS RECORDS IN HOUSE

Our Monitored Business Performance system is proving a very successful tool, enabling clients to keep track of their cashflows, and business profitability on either a one or two monthly basis.

Part of this process is the use of electronic bank statement processing. This system means we receive (after your authorisation) a copy of your bank statement electronically at the end of each calendar month.

We copy that information to our computer system and from that raw data produce:

- monthly cashflow statements,
- graphical trend statement reports
- GST returns

Client input involves either coding bank statements or calling into the office to code up with the accountant involved.

Profit reports can also be produced at any time of the year.

Accountancy costs can be kept down if these few simple rules are followed.

- Ensure availability of documents requested, especially the Annual Questionnaire and Interest and Dividend Certificates.

- Keep communication channels open and if considering significant transactions please liaise with your accountant with regards income tax, GST ramifications, etc

- Ensure your work is initiated with your accountant at your earliest convenience. This allows some opportunity for determining your taxation due and/or the timing for those taxation payments.

We would encourage all clients to take part in the above system. Not only does it save our clients having their own computers, using their own labour to input the details and then having to see us about the annual accounts at the end of the year. As hard as systems try it is not that easy to convert from a client's ledger to our MYOB system. Also it depends upon the quality of the coding and analysing, so it is better all round for the system to be used where possible.

TRUSTS & COMPANIES

We spend a lot of time reviewing structures and trading entities. There are a number of options depending on Personal and Business circumstances.
Trusts are very useful for Succession Planning, Asset Protection and Redistributing income.
Companies offer some limited protection along with options with regards to ownership, taxation and succession.
Each client is unique and it is important to understand the various options and which combination best suits your situation.
Please feel free to discuss with your accountant.

Financial Health Checklist

(1) Wills
Update required? Yes/No

Recently married or divorced? A good professional advisor will tell you that a Will is meant to be a living document. That is, your Will should be reviewed from time to time to take account of changing circumstances.

Please ensure that your Will is reviewed and updated appropriately.

(2) Risk Management
Health insurance, accident insurance, illness, key person protection, income protection insurance, retirement savings, buy/sell agreements.
(3) Business Structures
Update required? Yes/No

Are you considering the use of an alternative business structure to the one you are currently using, for example:

- Sole trader
- Partnership
- Trading trust
- Normal trust
- Company

Each of these entities has various advantages and disadvantages aside from the taxation implications. Please contact your Accountant to discuss these various advantages and disadvantages.

Alternatively, visit our web site.

(4) Refinancing
If you are considering refinancing we can help with advice with regards to appropriate structures, budgets/cashflows and liaising with the various lending institutions.

(5) Bad Debts and Solvency
It is important that any bad debts are written off prior to the end of your financial year. There are new rules regarding insolvency and registration of interest's that directors need to be aware of.

We assist with monitoring of solvency and business health with our monthly cashflow system.

Fee Payment

A lot of our clients are now electing to pay their accountancy fees by monthly automatic payment. This helps cash flow by spreading payments evenly through the year.

Like all businesses we face rising costs as well. We are being forced to pass on some of the costs in relation to bank connect. This will be a one off fee payable in November each year.

Also clients where we are providing our services as a Professional Trustee we now need to charge an annual fee for insurance purposes.

Drop Box

There are occasions when you want to drop something off at our office and we've gone for the day. To help with this we have a secure 'Drop Box' installed near our front door.

Estimating your Tax

It is often tempting, when you expect a low income year, to reduce your provisional tax by estimating it. Be very careful if you do this. You must ensure you have sufficient tax paid *at each instalment date* or you will be charged Use of Money Interest and under estimation penalties.

For example: You estimate your tax on 30 November at $6,000 and pay the amount to the IRD. Assuming 31 March balance date, you should have paid $2,000 at 28th August and $2,000 at 15th January. By estimating you have put yourself into the interest regime and you will pay interest on late payment of both those instalments. Your alternative would have been to have paid the tax based on the previous year and waited for your refund at the end of the year.

Use Of Money Interest

Please note that this use of money interest is generally chargeable from the previous provisional year and runs until the Terminal Tax date (which is normally the 7th April each year). Consequently this amount is based on two years as a percentage of around about 9% for any unpaid tax. Use of money interest is tax deductible and is applied in most cases where the IRD consider that the tax payer should have made an estimate some time before. We would remind clients that the earlier this is paid the less interest is then accrued.

Use-of-money interest rates on unpaid and overpaid tax have been reduced from 29 June 2009

The interest rate on **unpaid tax** is **8.91%**.

The interest rate on **overpaid tax** is **1.82%**.

This use of money interest is not a penalty and is fully tax deductible or taxable for the taxpayer.

Associated Person Asset Sales

There has been quite a rewrite in the Tax Legislation with regards to the definition of associated persons and in particular property sales between associated persons and the definition of a property developer etc.

The main thrust behind these changes are to broaden the tax base with regards to sub-divisions and entities buying and selling property.

It is very important that if you are contemplating land transactions especially short term land transactions to talk to your accountant as the whole area is becoming a bit of a mine field, but there are ways to hopefully structure your investments to mitigate some of the effects.

Qualifying Companies

Some of our Companies are either Qualifying Companies or Loss Attributing Qualifying Companies. It is important that the continuity of shareholding is maintained to preserve the status. If there has been any change in shareholding the Company has 63 days to notify the IRD of the change and re-elect the Company status.

Forestry issues

Once again there is quite a bit of information being circulated with regards to forestry obligations and the omissions trading scheme and carbon credits. This area does not appear to have crystallized either but as more information comes to hand we will circulate it to our forestry clients.

Succession Planning considerations

There are about 325,000 small to medium sized enterprises (SMEs) in New Zealand. That's over 96 per cent of the country's total number of businesses.

The average age of business owners in New Zealand is 58 years old. Forty percent of them plan to sell their business in the next five years. That's about 130,000 businesses on the market during that period. Most of them won't stand up to a great deal of scrutiny. However some could be potential gold mines for the right purchaser.

So what are the options for small business owners who want to fund their retirement by exiting their business?

To be frank, there are not many. They include:

- Prepare it for sale to another business or would-be business owner,
- Transfer it to the next generation of the family
- Sell it to the employees of the company
- Liquidate the assets of the business or
- Sell the share to the public.

A lot of small business owners hope to have a family member take over on their retirement. In practice we find that children increasingly have no interest in taking over the family business.

The key to planning for succession is to grow the business so that it is less dependent on the owner and more attractive for sale.

For buyers there are a number of considerations.

It is important to have a good understanding of what you are buying. This can be determined by adhering to a properly structured due diligence process.

Due diligence is a term for a number of concepts involving either the performance of an investigation of a business or person, or the performance of an act with a certain standard of care.

For prospective business owners, who follow the right process, there will be some nuggets out there.

Privacy Issues

At times we need to contact third parties with regards to obtaining information for preparing accounts.
As such we would request that clients sign the attached access authority to make life a bit easier when we need additional information.

Please refer to back page and return with annual information.

Conclusion

Communication with clients and the professionals we interact with is an area we place a great deal of emphasis on. Our communication systems allow for 24 hour a day communication.

Forms of communication within our firm include formal appointments, telephone, fax, e-mail, and an answer phone for after hours. All our team members have personalised e-mail addresses.

Once you have collated the necessary documentation (including the completion of your Annual Questionnaire and/or Personal Information sheet, please drop it into our office so we can commence account preparation.

For clients with balance dates other than 31 March we will forward questionnaires closer to the required time.

Please feel at ease in terms of liaising with other members of the team other than Peter, Don, Steve and Sarah. An emphasis is placed on training and we endeavour to keep everyone as up to date as possible with new developments.