



Newsletter Summer 2011

A Year in New Zealand Business Resilience

A year ago we were reeling following the Pike River Mine disaster and the first earthquake in Christchurch. One year on, another devastating quake with tragic loss of life and major property damage, Hawke's Bay being hit by a huge storm, NZ gold kiwifruit crops decimated by the PSA virus and most recently pollution by oil and debris from the Rena grounded on Astrolabe Reef.

These critical events apart, businesses have to cope with localised crises, such as losing a contract, a major bad debt or a key staff member leaving. How to cope when adversity strikes? Dr Hansen of the Resilience institute advises, "be calm, advance steadily, prevail".

To conclude, whatever the demands or pressures endured during the year from all of us here at Myers Business Solutions we wish you and your family all the very best for a wonderful Christmas and season's greetings for 2012. We look forward of being of service to you in the New Year.

Maurice Myers Director

Risk and Reward

Holiday pay - best practice

Kiwi businesses, especially those involved in contracting and service industries, often close for annual holidays just prior to Christmas and re-open in the New Year. Many businesses encourage their staff to take leave over the festive season 'when things are quiet'. Staff employment agreements will include provision for staff to take at least part of their annual leave during this close-down period. The calculation of holiday pay is an integral part of employees' final pay for the calendar year.

Employees are entitled to receive their pay for annual leave before they commence their leave. This provision provides an employee with money to pay for travel and accommodation.

The employer and employee can agree to leave the normal pay cycle undisturbed by the time off work. If so, it's recommended that the employees' employment agreements reflect this.

Calculating annual holiday pay

Whichever of the following is the larger becomes the rate of the weekly holiday pay:

- 1. Average weekly earnings:** Calculate 'total gross earnings' for the 12 months before the end of the last pay period before the annual holiday and divide this figure by 52.
- 2. Ordinary weekly pay:** Multiply the ordinary hourly rate of the employee's pay as at the start of the holiday by the number of hours worked in a 'normal' week.

Calculating pay for statutory (public) holidays

- 1. Relevant daily pay:** Find the amount of pay that the employee would have received if he or she had worked on the day concerned.
- 2. Average daily pay is used when using relevant daily pay is not possible or practicable or there is variation in the daily pay during the pay period when the holiday occurs.** Calculate gross earnings for the 52 weeks before the end of the immediately preceding pay period and divide by the number of whole or part days during which the employee earned those earnings including days of paid holiday or leave.

In the case of employees who have commenced employment during the year, their average weekly earnings are calculated by taking the amount of their gross earnings from starting work until the last pay period before the holiday and dividing that amount by the number of weeks worked. For examples on holiday pay please visit the Department of Labour's website: www.dol.govt.nz

Pay calculations can be complex especially when employees receive allowances, (e.g. travel) and have deductions made (e.g. KiwiSaver, student loan) so contact us if you need assistance in getting these important calculations right.

CHRISTMAS CLOSURE

Our office will be closed from midday
Thursday 22nd
December 2011,
until 8.30am
Monday 9th
January 2012.



Year end Computer Detox

By December most computers are feeling the effects of over-indulging. Perhaps not on Christmas wine and chocolate but as the result of viruses, document hoarding and other accumulative hangovers. Detox your computer to get it working faster, safer and more efficiently.

- Clean it. Literally. You'll be amazed what appears when you tip that keyboard upside down (only use anti-static wipes or a soft brush. NOT water!)
- Remove clutter, delete unwanted documents off the desktop and tidy up your folder structure
- Remove any programs that are no longer required
- Make sure your firewall is active
- Perform a last minute virus scan - check out Spybot Search & Destroy
- Perform a disk cleanup and disk defragmentation (set this to run overnight as it may take several hours)
- Perform routine backups of all files and settings
- Archive files offsite
- Empty your recycle bin!
- Check that all necessary updates have been installed
- Is it time to look at upgrading to Microsoft Office 2010 or 365...?
- Update your security passwords!
- Double check your antivirus protection is up to date and won't expire while you're on holiday

Computer systems vary. If you use an external IT provider to manage your computer requirements then liaise with them as to what they have planned and what you can carry out yourself.

And remember... your computer needs a holiday too - make sure to shut down and turn off before you leave the office!



Tax Talk

Let us entertain you

Let's look at the tax treatment of saying thanks to customers and staff typically with gifts, wining and dining. Inland Revenue's IR268 guide gives the following examples of where entertainment expenses are 50% deductible:

- Taking customers, suppliers & business associates out for dinner or putting on a function for them
- The traditional Christmas party for staff
- Shouting customers, suppliers and staff to an event, e.g. a rugby game or a show
- Taking them on a jaunt in your launch (running/hireage costs and food and alcohol)
- Giving them the use of your bach or time share apartment as a thank you gesture (the occupancy costs)

We've been asked 'why only 50% deductible?' Apparently it's because we get some personal enjoyment or benefit from quaffing a wine and tucking into a steak (too right!).

In lieu of a Christmas party you may give your employees restaurant vouchers to use at their discretion. This cost is fully deductible but is subject to fringe benefit tax (FBT), although there is an exemption of \$300 per employee per quarter (a maximum exemption can apply).

The same treatment applies to staff gifts: again fully deductible but subject to FBT under the 'other benefits' category.

As a thank you gesture, many firms give their customers gifts during the festive season. The cost of the gifts is fully tax deductible as marketing and promotion expenditure

Many firms pay their staff a Christmas cash bonus. These payments are classed as 'extra emoluments' and are fully deductible but have PAYE deducted at the employee's marginal tax rate e.g. 33% if earning over \$70,000 per annum.

If in doubt about where you stand tax deductibility wise with your generosity to customers and staff, check with us.

If in doubt about where you stand tax deductibility-wise with your generosity to



Book out your bach; avoid the tax headache

Recent years have seen a surge in popularity in the short-stay rental of holiday homes. The internet has made it easier to list, book and review baches and cribs which are available when owners aren't in residence.

Inland Revenue have recently issued a paper proposing new rules on mixed-use assets (including holiday homes) where there is a mixture of business and personal use, with revised criteria that should be adhered to when booking out the bach. But until the rules are formally changed, the current policies still apply.

Firstly, it's vital that your intentions are bona fide. You must market the holiday home in a commercial manner such as setting up and using a website for the property, registering the property with a reputable holiday home website or listing the property for short stay rental with local real estate agencies. These efforts cannot be seen to be 'token', you should be accepting offers from suitable renters.

Secondly, your own (plus family and friends') use of the property must be diarised so you can determine the days in a year that the property was available for renting out.

If the property is owned by an individual or a family trust the expenses relating to the property including the utilities (power, rates, insurance), maintenance and interest on debt will be apportioned according to the number of days in a year the house was available for rent.

There are GST issues too. Short stay accommodation is a taxable supply for GST purposes so if the annual rent you are receiving exceeds \$60,000, the owning entity (individual, partnership, company or trust) is required to register for GST and return GST on the outputs (rent) and inputs (expenses and improvements) made and received.

This threshold may seem high but some do have more than one holiday home in the same entity! This threshold includes the market value of free or cheap use of the bach by persons associated to the owner.

The value of the property becomes a taxable supply when registration occurs and when the property is sold or the entity de-registered. Both the income tax and GST issues can be quite tricky so we recommend consulting us to make sure all the tax bases are covered correctly.



Risk and Reward

'Tis the season to be jolly!

It's officially the silly season and you're probably faced with the dilemma of how to reward your team for their year's efforts. 2011 hasn't been easy but there are ways to make your team feel appreciated and boost job satisfaction without haemorrhaging cash.

Fun and fresh present ideas:

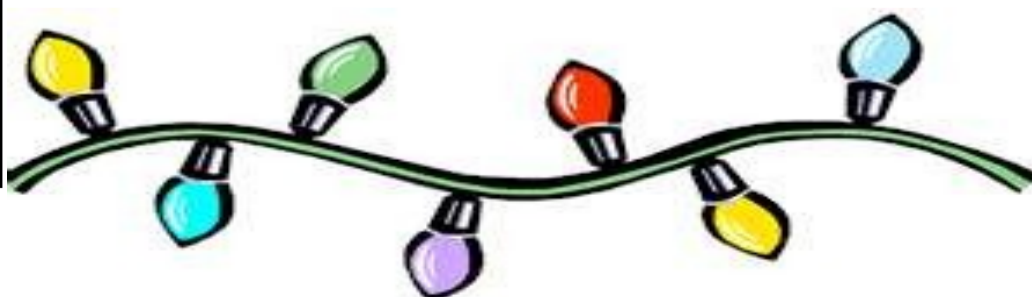
- A voucher for The Nile - NZ's biggest online book store
- Magazine subscriptions
- Get photos printed onto photo blocks or create a calendar online
- Send the girls off for a manicure
- Make your own gift baskets
- Secret Santa - cheesy but fun, and cheap!
- Make vouchers for an afternoon off to be used in December
- Hit Trade Me and source some retro desk ornaments, or wall hangings
- Organise a masseuse with a mobile massage table and treat everyone to a half hour de-stress
- Check out www.mrvintage.co.nz - for hilarious T-shirts to suit everyone

Frugal ways to treat the team and boost morale:

- Don't be a Grinch, a few decorations and a tree brighten the season spirit
- Take the team to a local walking track and enjoy the sights
- Organise a picnic at the beach
- Borrow a boat and head out fishing
- Arrange a potluck BBQ at your house
- Have you ever played a round of bowls?
- Take the team wine tasting at a local winery
- Surprise the crew with Friday sushi or pizza

And some of these ideas may work wonders with your clients too ...

Remember - It's not what you do but how you do it. Nothing beats the gift of giving. And so on with the corny yet true clichés...



Banking Relationships

With economic activity picking up, many small to medium sized businesses are re-assessing their banking relationships. The banking relationship for many of these businesses has been tumultuous during the last few years where the financial performance of the business has deteriorated, breaching banking covenants and thereby causing the bank to take a closer look at the activities of the business and how it is being run.

Depending on how "at risk" the business is, the relationship may be managed on a more formal basis by the bank's "at risk" division. This is a different relationship to the normal banking relationship as a whole and determines whether or not your business is getting what it wants out of that relationship, or if there is a better alternative.

Like any service provider, banks need to provide good client service. If as a business owner, and a recipient of that service, you are not happy with how you are being treated, it may be worth testing the offerings of other banks in conjunction with an honest discussion with your current bank to identify what is the best option for your business going forward. It is often at these times that the most change in banking relationship occurs. This can be dictated by different degrees of risk and exposure that certain banks want in particular industries. For example, in a farming context, one bank may wish to increase their exposure to the farming industry, whereas another may want to decrease it. It would also be wise to negotiate hard in relation to covenants and guarantees. Ensuring covenants are not unduly restrictive, nor securities over personal assets oppressive, will ensure a better working relationship. While both these factors protect the bank, they often constrain the ability for businesses to grow. If you intend to enter into a dialogue with a new bank you should be well prepared. This demonstrates that you are in control of your business and know your funding requirements. To assist the bank in gaining an understanding of your business you should be equipped with a recent business plan, annual financial statements, key performance indicators (such as gross profit margin, inventory turnover, creditor and debtor aging), budget and cashflow forecasts and a year to date profit and loss statement and balance sheet.

Entering into dialogue with another bank to test the market should be undertaken on a fair basis and probably should not be undertaken unless the business is ultimately prepared to move banks. If trust has been lost in the existing banking relationship, often this is difficult to repair and a change may often be best for both parties.

Disclaimer

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.



Snippets

Livestock Valuation Elections

Under the current legislation, it is easy to swap between the Herd Scheme and National Standard Cost (NSC) livestock valuation methods. An officials' issues paper has been released focusing on the Government's concerns about farmers having the ability to switch between the methods to derive tax free gains when livestock values are increasing or tax deductible write downs when livestock values are decreasing.

Government officials have suggested that the following changes be made:

- Once a farmer has elected to use Herd Scheme, the election is irrevocable, or
- Livestock election timeframes be altered to reduced advantages that can be acquired by farmers under the existing election framework.

Under the first alternative, any election would survive transfers between associated persons, to remove the ability to work around the changes by using multiple entities.

Lastly, the IRD proposes that the ability to use certain valuations, when trading ceases, should also become more restrictive.

Watch this space!!!

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We wish you a merry Christmas...

