

Newsletter

June/July 2008

DB CHARTERED
ACCOUNTANTS LTD

incorporating
Terry Ward
& Associates

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In this newsletter we look at the revised tax rates, gross margins, stock matters, PIE's, not forgetting two book reviews and a joke or two if we have room!

BUDGET 2008

The main topic of interest from the 2008 Budget was the reduction in personal income tax rates.

The 33% income tax bracket will start at \$40,001 on 1 October 2008 and \$45,501 from 1 April 2011 (an increase from \$38,000).

The 39% tax rate will start at \$70,001 from 1 October 2008, \$75,001 from 1 April 2010 and \$80,001 from 1 April 2011 (an increase from \$60,000).

For someone earning \$75,000 per year the difference to current tax paid will be \$1,460 (\$28/week) from October 2008 and \$2,570 (\$50/week) from 1 April 2011.

GST RETURNS – DUE DATES

Remember that the due date for filing the GST Return and payment of GST is the **28th of the month** following the GST period end date, e.g. 28 August for the GST period 1 June – 31 July. The IRD is now looking to charge a \$250 penalty for returns that are filed late (even if a refund is due).

We complete GST Returns for a number of our clients. If you are struggling to get your GST Returns in on time contact us to see how we can assist.

Why is it some people work 40 hours a week earning money but won't spend 40 hours a year to plan how to spend it?

PORTFOLIO INVESTMENT ENTITIES (PIE'S)

PIE's came into being from 1 October 2007 and are a portfolio investment which can be invested in. The investor is required to provide the PIE details of their Portfolio Investor Rate (PIR). This rate is used to deduct tax on income on behalf of the investor. This will either be 19.5% or 30% (from 1 April 2008). The PIE will request confirmation each year that they have the correct PIR rate.

What this means is that the PIE effectively pays the final tax for the investor and the investor is not required to include the income in their tax returns. (There are exceptions if the investor has not provided the correct PIR details.)

So while an individual investor may have a marginal tax rate of 33% or 39% their maximum tax paid through a PIE will be 30%.

GROSS PROFIT MARGINS

One area that those of you in business need to keep an eye on is your gross profit margin. With costs increasing, it is important to try to maintain your margin, which contributes to wages, overheads and your profit.



As an example, if a business has had a 10% increase in costs over the past year, that hasn't been passed on to customers, their position might look like this:

	June 2007	June 2008
Sales	50,000	50,000
Cost of Product/Services	<u>25,000</u> 50%	<u>27,500</u> 55%
Gross Profit	25,000	22,500
Gross Profit Margin	50%	45%

Over a year this is a decrease in gross profit of \$30,000!

(While some might think the increase in costs from 50% to 55% is only a 5% increase, it is actually a 10% increase: $50 + 10\% = 55$)

This means to get the same gross profit as June 2007, the business needs to:

- a. Increase its selling price by 10% or
 - b. Increase monthly turnover by \$5,500 ,
- to achieve the same gross profit.

The business owner needs to decide on what action to take to maintain profitability.

Firms that have wages as part of their direct costs would include these when calculating the gross margin.

So remember to keep track of the gross margin as part of managing your business and profitability.

STOCK & CASHFLOW

For those who hold stock, it is important to actively manage stock so the business has adequate stock levels. Too little stock may mean delays in fulfilling client orders/demands, while too much stock on hand will mean more funds tied up in stock, instead of being in the bank.



As an example:

	Example 1	Example 2
Cost of Goods Sold = Opening Stock	50,000	50,000
Plus Purchases	30,000	25,000
Less Closing Stock	(55,000)	(50,000)
	-----	-----
Total Cost of Goods Sold	25,000	25,000
	=====	=====

In both these examples the Cost of Goods Sold is \$25,000. However, in Example 1 the business purchased \$30,000 of goods and had closing stock \$5,000 higher than opening stock. The impact of this is that the business will have to pay for the extra stock on hand next month (on the 20th), but may not get to sell the stock until a later date.

This means money will be sitting in the suppliers bank account and not the businesses, due to overstocking.

Of course, it may be that the increase in stock was warranted, and was a planned decision that the business made.

As well as a drain on cashflow, overstocking can lead to greater chances of theft or wastage and is an inefficient use of the business assets. If your business buys and sells product make sure you have good stock controls in place.

(For more details on calculating the Stock Turnover see our June 2007 newsletter.)

Joke # 1

A cheerful truck driver pulled up at a roadside stop in the middle of the night for a meal. While he was eating, three wild-looking motorcyclists roared up – tattooed, leather-jacketed, filthy.

Spoiling for a fight, they started bullying the truckie. One threw salt at him, another stole his chips, the third poured tea into his lap. But the truck driver refused to be drawn. Without saying a word, he stood up, paid his bill and left.

“That bloke ain’t much of a fighter,” sneered one of the bikers to the girl behind the counter.

Suddenly there was a terrible racket from outside. Peering into the night, the girl said, “He’s not much of a driver, either. He’s just reversed his rig right over three motorcycles.”

BOOK REVIEWS

“YOUR MONEY PERSONALITY – UNLOCK THE SECRET TO A RICH & HAPPY LIFE” – Liz Koh (2008)

Why can some people save and others cannot stop spending? Ever had the situation where you and your partner can't agree how money should be spent?

In this book Liz defines four money personalities – The Hoarder, The Achiever, The Entrepreneur and The Thrillseeker, and looks at each ones strengths and weaknesses. The book provides good ideas on how to take control of your finances and offers suggestions for each personality on how they can improve their financial position.



“SECRETS OF SMALL BUSINESS OWNERS EXPOSED” – Dale Beaumont (2007)

This book interviews 15 business people from a range of business sizes from small to large. Each person offers their views on what makes a business successful and what they have learnt along the way. Accepting that it can be a hard road to maintain and grow a business, the book offers some inspiration and ideas for people in business.

If you can't make it to the bookshop or library, these books are available online @ www.fishpond.co.nz

Joke # 2

One Sunday, a minister played truant from church so he could shoot a round of golf. St Peter, looking down from Heaven, seethed. “You're going to let him get away with this, God?”

The Lord shook his head.

The minister took his first shot. The ball soared 400m through the air and dropped into the cup for a hole in one.

St Peter was outraged. “I thought you were going to punish him!”

The Lord shrugged. “Who's he going to tell?”



PAT DONALD

It is with much sadness that we inform you of the death of one of our staff members, Pat Donald. Pat had been with our firm (previously Terry Ward & Associates) for 17 years and died after a short illness on 11 June. She was a valued and respected member of our team and will be sadly missed by us all.

DB CHARTERED ACCOUNTANTS ...

Assisting business owners and individuals in their business and personal affairs by providing a friendly and efficient service by a helpful and experienced team, in a welcoming environment.

GIVE US YOUR FEEDBACK

Remember to let us know what topics you would like covered in the future, and if you need to discuss anything mentioned in the newsletter, give us a call.

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