

# Newsletter

September 2008

DB CHARTERED  
ACCOUNTANTS LTD

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- ACC CoverPlus Extra
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*This month we cover options with regards to ACC, PIE Investments and the new donation rules. We also look at the Cash Flow Cycle and how it impacts on your business and we review two books by Gareth Morgan.*

## ACC COVERPLUS EXTRA

### Self-Employed and Partnership Income

If you are a sole trader or in a partnership, you are automatically covered by ACC CoverPlus when you register for GST or when you file your first tax return. This cover is limited by time in business, net self-employed income or share of partnership income. ACC is based on the prior years earnings. If it is your first year in business you will not have a history of business income and any claim will be based on a minimum payment (\$21,320 per year). As a result, the 80% received in ACC compensation may not be sufficient. Payments decrease once you are able to return to part-time work. If you are in a partnership situation the cover is based on the split of income as per your tax return.

Although slightly more costly, the option to join **ACC CoverPlus Extra** could be a life saver. The advantages are that:

- providing partners apply together, you can get coverage of up to 120% of the average of your last three years liable earnings.
- if you are new to business, the amount of cover is based on industry experience, replacement labour costs and underwriting.
- you are able to split the income for compensation to account for the amount needed to sustain the level of income based on input by the partners. For example, in a farming partnership, one partner may do most of the physical work and should perhaps opt for the larger percentage of the ACC CoverPlus Extra levy to cover the cost of replacement labour.
- the weekly benefit is guaranteed until the incapacitated person is fit to return to full time work.
- you do not need to provide financial information to prove loss of earnings at the time of the injury.

ACC CoverPlus Extra is assessed annually so you are able to nominate a new level of cover or cancel altogether depending on changed circumstances.

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*"Nothing is as simple as we hope it will be."*

# ACC COVERPLUS EXTRA Continued

## Shareholder Employees

ACC CoverPlus Extra is available to shareholder employees providing they are receiving 100% non-PAYE remuneration. In the first year of trading, the guaranteed protection of ACC CoverPlus Extra could make a significant difference. You should note, however, that the levy is invoiced to the individual so GST is not recoverable. The levy for all shareholder employees would be based on the business activity of the company which may be higher than the actual classification of the individual.

We recommend that where it is your first year of business or where you want to be insured for a guaranteed sum, you look at the option of ACC CoverPlus Extra.

## PIE INVESTMENTS

Further to our June newsletter, you may have seen banks advertising PIE Term Deposit Funds, which offer a higher effective rate of return, for those income earners on a 39% marginal tax rate, (i.e. they earn over \$70,000 per year).

A normal **Bank Term Deposit** may give the following return:

Investment \$100,000 @ 8%	Gross Interest	8,000
	Less Tax @ 39%	3,120
		-----
	Net Interest Received	\$4,880
		-----

A **PIE Term Deposit Fund** return may be:

Investment \$100,000 @ 8%	Gross Interest	8,000
	Less Tax @ 30%	2,400
		-----
	Net Interest Received	\$5,600
		-----

The PIE income tax paid is a final tax and this income is not included as taxable income in the taxpayers tax return for that year.

What does this mean?

- i. In the above example the taxpayer has an extra \$720 net cash income after tax.
- ii. For an individual taxpayer to achieve a net interest received of \$5,600 (in the PIE example) on a normal term deposit would require a term deposit rate of 9.20%.

Investment \$100,000 @ 9.20%	Gross Interest	9,200
	Less Tax @ 39%	3,590
		-----
	Net Interest Received	\$5,610
		-----



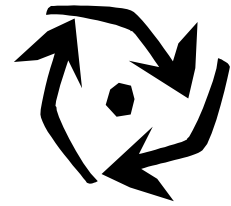
And you will, therefore, see the banks advertising the PIE Term Deposit Investments “as a similar return on a 9.20% investment”.

Note, there are many different types of PIE investments (some will include shares and other investments). The above example specifically looks at term deposits. However, all PIE investments will be taxed in the same way, and of course, actual returns may differ.

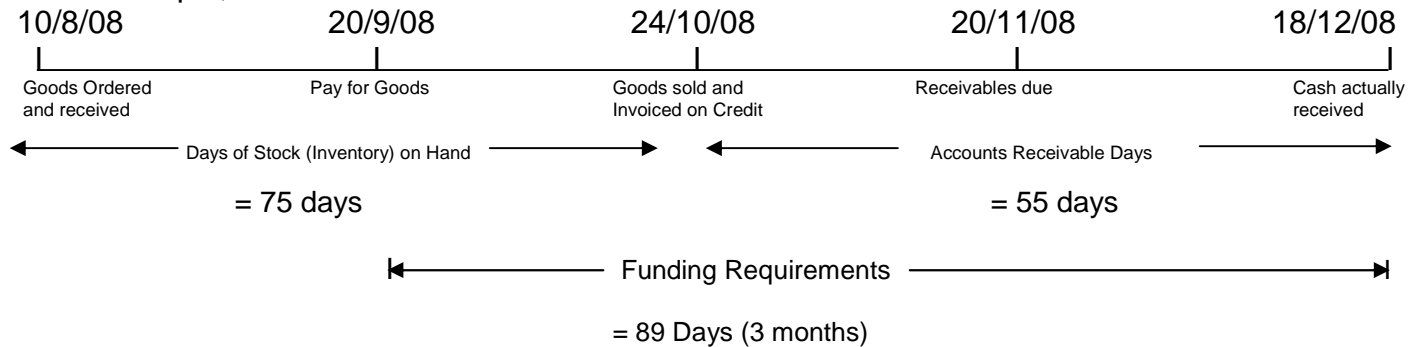
## THE CASH FLOW CYCLE

### What is this and how does it affect my business?

The Cash Flow Cycle looks at how long funds are tied up in stock or work in progress before you actually receive payment for your product or service supplied.

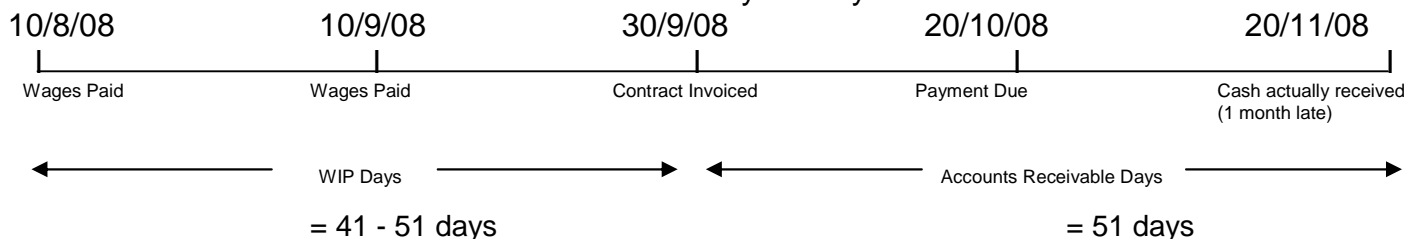


As an example,



Two ratios we have previously discussed come into play here - The Inventory Days and Accounts Receivable Days (June 2007 Newsletter). If stock is not turned over quickly or the days that stock is held increases before it is sold, it will increase the funding requirements the business needs. Additionally, if accounts receivable days are not kept at acceptable levels, more funding will be required to meet the business and financial obligations.

For a business with labour contracts the cash flow cycle may look like this:



As a business owner, it is important to monitor stock levels and accounts receivables collection. As the above examples show, if these items are not controlled it will impact on the funds in your bank account. You can put your own figures into the above cycle to see the effect in your business.

## CHARITABLE DONATIONS

There have been changes to the tax incentives for charitable giving applicable from 1 April 2008, to encourage a culture of generosity in New Zealand.

**Individuals** can now claim one-third of all charitable or other public benefit gifts that exceed \$5, up to their taxable income. The rebate is not regarded as taxable income. Donations need to benefit a charitable, benevolent, philanthropic or cultural purpose within New Zealand or be otherwise approved by the IRD.

**Companies** are allowed a deduction for charitable gifts and are limited to the amount of its net income in the corresponding tax year.

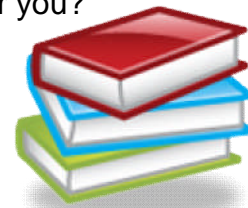
**So remember to keep your donation receipts  
so you can claim your donations as allowed.**

## BOOK REVIEWS

### “KIWISAFER – HOW TO KEEP YOUR MONEY SAFE IN KIWISAFER” – Gareth Morgan (2007)

The aim of this book is to get you to consider two questions. Is KiwiSaver good for you?

Is KiwiSaver good for the country? Gareth Morgan, although registered as a KiwiSaver Provider, casts a fairly jaundiced eye over the scheme as set up by the Government but not guaranteed by the Government! It explains, in an easily readable vein, the good, the bad and the ugly of KiwiSaver plus advice on alternate ways to save for your retirement and what level of savings you may actually need.



### “PENSION PANIC – TOUGH TALK ON SORTING YOUR FINANCES” – Gareth Morgan (2006)

As Gareth notes, creating wealth is a different skill to preserving it. Having worked hard and saved up a nest egg the real hard work starts when we try to invest these funds to provide for our retirement. This book looks at what you should consider when making investment decisions and some of the basics when it comes to portfolio investments.

*If you can't make it to the bookshop or library, these books are available online @ [www.fishpond.co.nz](http://www.fishpond.co.nz)*

## TAX PLANNING

For businesses with a March balance date, the end of September will represent six months trading for the 2009 income year.

It is a good time to assess whether you have made the right allowance for tax for the year or whether you need to be setting additional funds aside.

If you need a hand working this out, let us know.

### STAFF UPDATE

Welcome to Maree Rodgers who has joined our staff. Maree is our tax administrator and works with our clients and the IRD to ensure taxes are paid on time and that the IRD get their calculations correct.

### DB CHARTERED ACCOUNTANTS ...

*Assisting business owners and individuals in their business and personal affairs by providing quality accounting, taxation and planning services.*

### 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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