

Newsletter

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DB CHARTERED
ACCOUNTANTS LTD

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Welcome to the first newsletter of the year. This time we have an update on some of the latest tax changes, changes on employers responsibilities and what to watch out for when discounting. On the back page we have a reminder about year end records.

LATEST TAX CHANGES

The latest round of tax changes will soon be in place. These include:

Provisional Tax – instead of paying 105% of the previous years tax, provisional taxpayers will now pay 100% (i.e. the same tax as the prior year).

GST Registration Threshold – from 1 April 2009 this will be \$60,000 (up from \$40,000) of GST turnover.

Low Value Trading Stock – Currently, if your trading stock is \$5,000 or less you do not have to complete a stock take each year. For the 2010 income year this increases to \$10,000 (which is the next financial year, not this year).

Personal Tax Rates – These have been reduced. See the update on Page 2.

Use of Money Interest – For Companies, Trusts and higher taxed individuals the interest rate for underpayment of tax has reduced to 9.73% (previously 14.24%) and for overpayment of tax to 4.23% (previously 6.66%).

Joke #1

A police officer in a small town stopped a motorist who was speeding down Main Street. "But officer," the man began, "I can explain." "Just be quiet," snapped the officer. "I'm going to let you cool your heels in jail until the chief gets back." "But, officer, I just wanted to say ..." "And I said to keep quiet! You're going to jail!" A few hours later the officer looked in on his prisoner and said, "Lucky for you that the chief's at his daughter's wedding. He'll be in a good mood when he gets back." "Don't count on it," answered the fellow in the cell. "I'm the groom."

"The successful man is the one who finds out what is the matter with his business before his competitors do."

HOW WILL DISCOUNTING AFFECT MY PROFIT?

When aiming to increase sales some businesses may implement a discounting strategy. Before doing this it is important to look at the impact this will have on profit.

An example:

A business supplies a product (or service) for \$100, with a gross profit of 40%.

Product sold	\$100
Cost of Sales	\$60
Gross Profit (40%)	\$40



If this product was discounted by say 10%, the gross profit percentage would drop to 33%.

Product sold (10% discount)	\$90
Cost of Sales	\$60
Gross Profit (33%)	\$30

At this gross profit margin the business has to sell 20% more product to achieve the same gross profit ($\$120 \times 33\% = \40).

As a comparison the business could lose 20% of its current business and still achieve a gross margin of \$32 ($\$100 \times 20\% = \$80 \times 40\%$ Gross Margin = \$32) which provides a higher return than a discounting policy with no increase in sales.

While in some cases a discounting policy may be useful, as a business owner you need to calculate how these decisions will impact on profits.

NEW PERSONAL TAX RATES

The latest changes to the tax rates are as follows:

Income Tax Rates	From 1 April 2009	Income Tax Rates	From 1 April 2010	Income Tax Rates	From 1 April 2011
\$0 - \$14,000	12.5%	\$0 - \$14,000	12.5%	\$0 - \$14,000	12.5%
\$14,001 - \$48,000	21%	\$14,001 - \$50,000	21%	\$14,001 - \$50,000	20%
\$48,001 - \$70,000	33%	\$50,001 - \$70,000	33%	\$50,001 - \$70,000	33%
\$70,001 and over	38%	\$70,001 and over	37%	\$70,001 and over	37%

For someone earning \$70,000 per year they will be \$750 per year better off for the 2010 income year.

EMPLOYERS: Is your payroll system up to date?

Remember these changes come into force from 1 April 2009. By now you should have received your updated PAYE deduction tables from the IRD. If you use a computer software payroll package you need to ensure your system is updated before 1 April 2009.

ARE YOU PREPARED?

The unexpected can often occur when you least expect it! Take time regularly to review your situation, especially when your circumstances change.

Wills – Do you have an up-to-date will? Are the executors, beneficiaries and terms still relevant? Have you appointed a Power of Attorney to act on your behalf if anything happens to you?

Asset Protection – Are your business and personal assets sufficiently insured against loss? Have you reviewed the level of cover to ensure you will be able to actually replace your assets?

Loan Protection – Is your business or family exposed to high loans that they would have trouble repaying if the main income earner died or was disabled?

There may be other areas of your life, whether financial, business, wealth and assets, relationships or health, where you should think about risks you may face and then assess what can be done to minimize, or at least make yourself comfortable with, the risk you face. Remember, it's only a crisis if you are not prepared.

EMPLOYERS – LATEST CHANGES

KiwiSaver Contributions

- From 1 April 2009 employers are required to contribute 2% of employees gross salary or wages to the KiwiSaver scheme (if the employee is registered for KiwiSaver).
- From 1 April 2009 the Government (taxpayer) **no longer contributes \$20 per week** towards the Employers Contribution. This means that employers will not be able to claim the KWS Employer Credit from 1 April 2009.
- If employers contribute **more than 2%** they are required to pay Employers Superannuation Contribution Tax.

Rest & Meal Breaks – From 1 April 2009 employers are required to provide workers with paid rest breaks and unpaid meal breaks as follows:

One 10 minute paid rest break for a work period between 2-4 hours.

One 10 minute paid rest break and one unpaid 30 minute meal break for a work period from 4-6 hours

An additional 10 minute paid rest break for a work period of 6-8 hours.

Trial Period For New Employees – From 1 March 2009 employers who employ 19 or fewer employees will be able to employ new employees on a trial period of up to 90 calendar days. Any trial period must be in good faith and be included in the employment agreement. For more information go to www.ers.dol.govt.nz

PLANNING AHEAD

Remember that now is a good time to plan ahead for the next year for your business. This may involve setting your business goals and having an action plan for each goal. In the current environment it is important to know where your business is heading. Included in this will be completing sales and profit targets as well as forecasting your cashflow on a month to month basis. If you need assistance putting your business plan together, with your financial projections, or monitoring your month to month progress, give us a call.

BOOK REVIEWS

“CRISIS EXPOSED - RECESSION PROOF YOUR BUSINESS AND INCOME” - Mal Emery (2008)

As this book points out, ‘Money is always spent, money moves in exchange for value’. This book shows you marketing strategies and techniques to move money to you and not your competitors. Its primary focus is on marketing as being the biggest factor in the success of any product or service. It also advises on quality relationships with clients and customers. Lots of ideas, high energy reading.



“WINNING THE MONEY WAR - 122 STRATEGIES TO TAKE YOU FROM FINANCIAL CASUALTY TO MONEY HERO” - Lisa Dudson (2008)

This book is based on the TV3 Series ‘Money Man’ and, like the program, aims to educate people about the basics of money management. It covers all aspects of budgeting, saving, investing, insurance, retirement, setting up in business and buying a house. It also provides follow up interviews with participants in the TV series. Although this book doesn’t go into great depth on each topic, it does provide internet sites that provide additional information. It is certainly enough to make you stop and think about your financial position.

END OF FINANCIAL YEAR REMINDER

We will soon be sending out our Annual Questionnaire/Checklist. In the meantime, for those of you with a March balance date, below is a reminder of some of the things you need to attend to at this time:

1. **Reconcile Bank Account** – whether you use a computerised or manual cash book system, make sure the cash book reconciles to the bank statement as at 31 March 2009.
2. **Accounts Receivable** – ensure your accounts receivable list is accurate as at 31 March 2009. If you have any bad debts, ensure these are written off prior to 31 March.
3. **Accounts Payable** – collate a list of all unpaid invoices dated 31 March and prior. We are able to claim these as expenses in the 2009 income year even though they are not paid until April.
4. **Stock on Hand & Work in Progress** - Complete a stock-take and record stock and/or WIP as at 31 March 2009. If your stock as at 31 March 2009 is \$5,000 or less you do not need to calculate a stock value – we can use last years figure.
5. **Computer Reports** - If you are using an accounting package, print out copies of the general ledger transaction report, trial balance, accounts receivable & accounts payable and bank reconciliation as at 31 March 2009 – and don’t forget to do a backup, especially before rolling into a new year.
6. **Other Information to Compile**
 - Bank interest certificates
 - Dividend notices
 - Details of any other income received that has not been banked to your business account
 - Income Protection Insurance details
 - Donation Receipts for your rebate claim
 - Provide any information relevant to child support and family assistance claims

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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