

# Newsletter

June 2007

DB CHARTERED  
ACCOUNTANTS LTD

incorporating  
**Terry Ward**  
& Associates

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*Welcome to another newsletter. This time around we cover a few items from the Budget, sale of investment properties and what happens to the profit made by a business. There are a couple of book reviews and for Cashmanager clients, a reminder about the latest upgrade.*

## BUDGET 2007

### COMPANY TAX RATE

The company tax rate is to reduce from 33% to 30% from the 2008/2009 income year. For the majority of taxpayers this will be from 1 April 2008. This is good for companies that reinvest their profits back into the business, as the profits retained in the company will be taxed at the lower rate. Where shareholders wish to transfer the profits to themselves (which is often the case) the profits transferred will still be taxed at the shareholders' marginal tax rate (19.5 - 39% for individuals and 33% for trusts).

### DONATION REBATES

It is intended that for donations made from 1 April 2008 individuals will be able to claim a 33% rebate for all charitable donations up to the level of their annual net income. This will effectively remove the limit for rebates on donations. Currently taxpayers are limited to a rebate of 1/3 on donations up to a maximum rebate of \$630 (being total donations of \$1,890).

Additionally, companies and Maori authorities will be able to make tax deductible donations from earnings from 1 April next year.

However, the legislation for donations is yet to be finalised.

### KIWISAVER

The main announcement in the budget was the fact that employers will be required to contribute to Kiwisaver. From 1 April 2008 this will be a 1% contribution moving to 4% by April 2011.

The Government will assist employers up to \$20 per week per employee and will also contribute on behalf of employees by up to \$20 per week.

All employers should have by now received the "Kiwisaver Employer Guide" (KS4) from the Inland Revenue Department. Make sure you take the time to read through this and understand how Kiwisaver will work.

For employees and employers there is good information provided on websites [www.kiwisaver.govt.nz](http://www.kiwisaver.govt.nz) and [www.sorted.org.nz](http://www.sorted.org.nz). Remember the start date is **1 July 2007.**

*"We must be careful not to let our current appetites steal away any chance we might have for a future feast."*

## TAX RATES

How is my tax calculated?

Individuals:

On earnings up to \$38,000	- 19.50c/\$
On earnings \$38,001 - \$60,000	- 33c/\$
On earnings over \$60,000	- 39c/\$

Companies & Trusts:

Taxed at 33c/\$

## INTEREST RATES

Interest rates on loans are continuing to increase. If you are on a fixed term at the moment you need to think about the effects of higher loan payments. Are you able to:

- Increase income
- Analyse other expenses to see if savings can be made
- Save additional funds now to set against the loan balance when it comes off fixed term.

Planning for this now will mean you are prepared when the loan repayments actually increase.


### THINGS MUM WOULD NEVER SAY ...

“How on earth can you see the TV sitting so far back?”

“Yeah, I used to skip school a lot too.”

“Let me smell that shirt – Yeah, it’s good for another week.”

“The curfew is just a general time to shoot for. It’s not like I’m running a prison around here.”

“I don’t have a tissue with me ... just use your sleeve.” 

“Don’t bother wearing a jacket – the wind-chill is bound to improve.”

## WHERE DOES THE PROFIT GO?

So your business has made a profit – Why doesn’t the bank account have more money in it?

First up, the balance of profit is not necessarily the total “cash” that your business has received. What can affect this?

- Accounts Receivable – These are included as sales at the end of an accounting period. If you have allowed accounts receivable to increase this will mean less money in your bank account.
- Stock – A business has to pay for stock in cash or credit. If stock is slow to sell this will tie up cash until stock is sold.

A couple of useful measures to keep a check on this are:

**Accounts Receivable Days =**

$\frac{\text{Accounts Receivable (excluding GST)}}{\text{Annual Credit Sales}} \times 365$	For example	$\frac{\$100,000 \text{ (Receivables)}}{\$700,000 \text{ (Credit Sales)}} \times 365 = 52 \text{ days}$
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*In this case, if the accounts receivable days were reduced by 10 days, the business would have an additional \$20,000 in the bank.*

**Inventory Days =**

$\frac{\text{Closing Inventory}}{\text{Annual Cost of Goods Sold}} \times 365$	For example	$\frac{\$70,000}{\$350,000} \times 365 = 73 \text{ days}$
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*The higher the number of days means the longer your cash is tied up in debtors or stock.*

Profit is also used to pay for:

- Shareholders’ drawings. If these are creeping up and are higher than business earnings, this will place a strain on business cashflow.
- Loan principal – The interest component of loan repayments is treated as an expense. The principal component of loans must be paid from profit.
- Asset purchases – If assets are not financed by way of a loan or hire purchase then the purchase will be paid from profit.
- Tax – Provisional and Terminal Tax.

If you think about your own situation, can you see where the profit in your business goes? Is it as you expected?

## SALE OF INVESTMENT PROPERTY – TAX ISSUES

If you have a **rental property** that you intend selling you need to be aware that if the property is sold for more than the book value (original cost less accumulated depreciation) there will be tax implications.

Depreciation that has been previously treated as an expense (i.e. the total of accumulated depreciation) will become “depreciation recovered” and treated as taxable income in the year of sale. Funds will, therefore, need to be set aside to cover any tax obligations.

Any part of the value of the property sold that exceeds the original purchase price is generally not taxable as this is a capital gain.

It is worth keeping in mind, if you intend buying an investment property, that you have the choice, only in the first year of ownership, of claiming depreciation or forgoing the claim so that there will be no depreciation recovered issues when the property is sold.

*This morning on the way to work I rear-ended a car at some lights whilst not really paying attention. Anyway, the fella who was driving got out and he was a dwarf!*

*He said “I’m not happy.”*

*I said “Well, which one are you then?”*

*I am picking he was Grumpy!*

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## EMPLOYMENT OF CHILDREN

From 1 April 2006 the annual child rebate increased from \$156 to \$351. This means that if you pay wages to your own or other children, they can now earn \$45 per week or \$2,340 per annum before you are required to deduct PAYE. This will apply in particular to children working on the family farm. You do, however, need to keep in mind that the \$2,340 includes income from all employers.

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## CASHMANAGER

Cashmanager is one of our most popular accounting software packages. Cashmanager is very user-friendly and many of our clients previously using manual systems or other more complicated cashbook programs have commented that they find Cashmanager very beneficial and a great time saver.

Cashmanager now has invoicing, debtors and creditor options. If you are currently using a manual cashbook system, you should definitely look at the advantages of Cashmanager. Please phone Pam at our office to arrange a short demonstration or discuss whether Cashmanager would be a suitable option for your business.

If you are one of our many clients already using Cashmanager - Are you receiving the benefits of the support program?

An annual membership to the Awesome Support and Update Programme entitles you to:

- Unlimited 0800 phone support (8am-9pm Mon-Fri)
- Software Updates
- Access to online Cashmanager knowledgebase
- Unlimited Cashmanager support via email or fax
- Free database fixes if required
- Regular Cashmanager tips via email

### SPECIAL DEAL

If you have an older version of Cashmanager, until 31 July 2007 you can upgrade your Cashmanager system and have the choice of:

- Free 1Gb Kingston USB Flash Drive (ideal for backing up your data) **or**,
- Receive 18 months support for the price of 12 months

To take advantage of this offer please phone 0800 707 111

Version 12 has many new features, a complete list of which can be found at

[www.accomplish.co.nz/products\\_cashmgr\\_whatsnew.jsp](http://www.accomplish.co.nz/products_cashmgr_whatsnew.jsp)

If you are already on the support program please ensure you have the latest version 12. If you do not please visit [www.accomplish.co.nz](http://www.accomplish.co.nz) to upgrade or phone 0800 707 111

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## BOOK REVIEWS

### “LIVE THE DREAM – BECOME RICH AND FREE THROUGH YOUR BUSINESS”

– Joan Baker (2006)

The book emphasizes that a business should:

- a) create an income stream, or
- b) create value on sale – optimally it will do both

If your business is not doing either of these two things, this book provides a good checklist and some ideas to get you thinking about how you can improve the situation and profitability of your business. Even if your business is going ok, you may find some useful ideas to improve things.

If you are a partnership or a husband and wife team, it will be worthwhile for you both to have a read to see if you are on the same wavelength regarding the business.

If you want ideas on more money from your business and more time for your life, this is a useful read.

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### “FAMILY TRUSTS – A NEW ZEALAND GUIDE” – Martin Hawes (2006)

We are sometimes asked about how a Family Trust works and whether it is worthwhile to set one up. Some of you may already have a Family Trust but do not really understand how it all works. (It was all legal and accounting jargon at the time).

This book explains how Trusts work and their advantages and disadvantages.

As well as protecting assets a Trust allows more options for distributing assets or retaining assets in the family. The book also has a section on the Relationship Property Act which at some stage could affect you or someone in your family.

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*Both of these books should be available from your public library or bookshop.*

***If you're a local, Dinsdale Stationery & Lotto (aka "Take Note" - across from Woolworths in Whatawhata Road) have these books available. Tell them that you're a client of DB Chartered Accountants, show them this newsletter, and they will give you a 15% discount!***

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### **GOVERNMENT SEEKS VIEWS ON SME TAX COMPLIANCE COSTS**

Owners and operators of small and medium-sized businesses are being invited to express their concerns about tax compliance costs via the government's Business Consultation Website ([www.businessconsultation.govt.nz](http://www.businessconsultation.govt.nz)). **CHECK IT OUT AND HAVE YOUR SAY!**

### **GIVE US YOUR FEEDBACK**

Thank you to those who have given us feedback on the newsletter.

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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