Newsletter

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DB CHARTERED ACCOUNTANTS LTD

Contents:

"If you want something you've never had, you must be willing to do something you've never done."

This newsletter looks at the latest changes regarding vehicles and FBT, some ideas when assessing asset purchases and words of wisdom on customer service. We also cover why family loan paperwork is important, book reviews and upcoming tax dates.

COMPANY MOTOR VEHICLES – LATEST FBT CHANGES.

When a Company vehicle is available for private use it is subject to Fringe Benefit Tax (FBT). FBT is calculated on 20% of the original cost of the vehicle with the FBT tax rate generally being 49.25%.

From 1 April 2017 the IRD has modified the rules so that when a close Company purchases a vehicle they have the option to keep a log book and claim vehicle expenses based on an apportionment of business/private use. Certain rules apply here:

- This method can only be used when the only (fringe) benefits supplied by the Company is at maximum 2 vehicles to shareholder-employees. This means that if other fringe benefits are provided to employees or vehicles are provided to non shareholders this method cannot be used.
- The vehicle must be purchased after 1 April 2017 to use the new rules.
- A vehicle log book must be kept for a minimum of 90 days, once every 3 years to determine the business portion of expenses.

FBT & WORK RELATED VEHICLES

FBT exemptions apply when the Company vehicle is a "Work Related Vehicle" which includes ute's or vans. To be eligible for the Work Related Vehicle exemption:

- the design of the vehicle cannot be for carrying passengers.
- the vehicle must be sign written (a sedan or SUV, even if sign-written, will not qualify for this exemption)
- the only private travel is home to work to home (or travel incidental to this). This is to be notified to employees in writing.
- the employer is to make regular checks to confirm that there is no private use of the vehicle.

Where a work related vehicle is available for private use in the weekends (which is often the case) FBT may be calculated based on 2 days out of 7 for the week which reduces the FBT obligation.

In our October 2014 newsletter we covered off other options including a "FBT Reimbursement" adjustment which we will often complete for clients.

ASSET PURCHASES – WILL IT STACK UP?

Often a business will need to make a decision about replacing an asset or obtaining a new asset. This may include vehicles, plant, equipment or property. As part of the decision-making process it is useful to consider the financial impact that the asset purchase will have on the business. Below we cover 3 decision options.

Lets consider a new item of replacement plant that may cost $60,000. The new plant will reduce the annual repair and maintenance costs by $8,000. Additionally it will increase production and reduce downtime, compared to the old plant, by 30% which will contribute an additional $25,000 to annual gross profit. In this example the cost savings plus additional gross profit total $33,000.

Payback Period – to calculate the payback period we take the cost of plant and divide by the annual benefits.
In the above example the Payback Period calculation will be:
$60,000 Costs / $33,000 financial benefits = 1.81 years (being 21 months).
In some circumstances it may be necessary to calculate when the actual cash benefits will be achieved. For example while the cost savings may be made in year 1, the profit improvement may not occur until the end of year 2. This would push the payback period out to just over 3 years.

Return on Investment (ROI) - this looks at the percentage return that will be provided on the investment cost. Using the above example a return of $33,000 on a cost of $60,000 is a ROI of 55% (if achieved in the first year). If interest rates were 10%, the return of 55% is well ahead of the interest cost.
A more formal calculation of ROI may consider the reduction in the value of the plant over time. Businesses may also set themselves a minimum ROI they would expect to achieve before investing in new plant.

Break Even analysis - this looks at what the return needs to be to cover costs.
If in the above example, a loan was taken out for the $60,000 this would equate to annual loan repayments of $23,000 (based on a 3 year loan at 10%).
The proposal would need to create profit/savings of at least $23,000 per year to “Break-even”.

The above analyses can be useful to compare options and get a feel for whether an investment choice is worth progressing. It puts some analysis around the “gut feel” a business owner may have.
Other considerations can also be taken into account such as the tax effect or the reduction of the value of the asset over time. It is also important to ensure that all set-up or installation costs are considered when establishing ‘Cost”.

Payback Period	**Return on Investment**	**Breakeven Analysis**
Cost of Investment / Net Income achieved = Payback in Years	Net Income achieved / Cost of Investment x 100 = % ROI	Net Income achieved = Additional Costs incurred

CUSTOMER SERVICE – HOW DO YOU RATE?
(more Words of Wisdom from a long term client)

- An acknowledgement, a smile and a friendly greeting doesn't cost you or your staff anything and is so often remembered.
- Remembering a clients name is one of best compliments you can give them.
- Don't give unrealistic time frames that you know you cannot supply.
- If promising a deadline date and you find you can't deliver, always contact the client and explain why and when it will be sorted.
- Communication is the name of the game, a phone call can take just a few minutes.
- Honesty ensures the client will come back.
- Always follow up with any enquiries, if you don't know the answer, tell the client you will get back to them as soon as you can and make sure you do.
- If a job turns to custard, and sometimes they do, communicate and discuss it with your client.
- You must finish every job, a job is not finished until it is paid for, therefore, send out the account ASAP and follow it up until it is paid in full.
- A win/win for the client and yourself is the objective.
- The use of a daily diary is imperative, be it hard copy or electronic, and always carry forward any uncompleted tasks. Crossing out the completed tasks can be mentally rewarding.

FAMILY LOANS – IS IT A LOAN OR A GIFT?
A recent High Court case reiterated the importance of ensuring correct documentation is completed when lending funds to family members.

In this instance Mum & Dad had advanced their daughter and son-in-law $335,000. When the daughters marriage dissolved the son-in-law tried to argue that the $335,000 was a gift and therefore formed part of the relationship property and was not required to be repaid. No documentation had ever been completed for the advance of funds. The final Court decision was that the funds were a loan and had to be repaid.

The lesson here is that if you are lending funds to family (or anybody else for that matter) ensure you have a signed loan document which confirms details of the loan, repayment terms (this can be "on demand" if required) and if any interest is to be charged. While you may intend that eventually it will be a gift, having a loan document gives you choices if something unexpected happens (and a loan document is more economical than a High Court case).

JOKE #1
A husband was having difficulty getting along with his wife – nothing but arguing and friction – so he decided to consult a marriage counsellor. After they had talked for a while, the counsellor said, "I suggest you run five miles each day for a week. It'll give you some space and the exercise will help you blow off steam. At the end of the week, please call me back." A week later the counsellor received a call from the husband, "Well" asked the counsellor "how are things going with your wife?"
"How should I know?" said the husband. "I'm thirty-five miles away."

“POCKET MONEY TO PROPERTY – How to Create Financially Independent Kids”.
Hannah McQueen 2017.

This book aims to teach children and young adults about good money habits. Many children learn financial habits from their parents. If parents do not have good financial skills the book encourages that parents improve their skills to set a good example (it is never to late to learn!)

The book looks at money personalities (Shopper, Saver, Plodder) and risk personalities (Adventurer, Safe-keeper, Dreamer). It then considers 6 age groups split between 5 and 30 years and provides ideas at each age group including what children should know and what responsibilities they should learn for each age group.

The book covers pocket money, working for money, learning how much it costs to live and also getting children to think about their career choices and whether the chosen career will pay for the lifestyle that they hope to live.

From a young age the book encourages that children should decide to save, spend or give and this carries on through their life (just on a bigger scale). Investments including property and shares are covered as well as reminding readers that marketers and marketing is very effective when trying to convince you to part with your hard earned money.

“THE BAREFOOT INVESTOR - the only Money Guide You'll Ever Need”. Scott Pape 2017

This book offers practical advice on how to get your money affairs sorted. It is not a book for people who like to make excuses but a book for people who want to take action.

It starts with planning and looks at setting up three buckets for your income. 1 for expenses, 1 for safety and 1 for long term wealth. One of the buckets is used to reduce debt and then eventually to create long-term wealth.

The book does not buy into the notion of incurring more debt to buy a flasher house but suggests that debt should be cleared to provide financial freedom. Once debt is cleared then funds can be set aside for retirement.

The book has good practical applications (and doesn’t think too highly of banks or credit cards) and again reinforces that banks and marketers are more than happy to assist you to part with your money. This book is by an Australian author so some of the superannuation requirements may not be relevant however the overall principles are relevant. The book also looks at what your retirement number is and how you can work towards having a comfortable retirement.

IMPORTANT TAX DATES

30 September	Student loan repayments due for overseas-based borrowers
28 October	2 & 6 monthly GST Returns due. 1st 2018 Provisional tax payments due (May balance date and & 6 monthly GST payers).
28 November	2 monthly GST Returns due
15 January	2 monthly GST Returns due (October/November period). 2017 Provisional Tax instalments, student loan interim payments.

JOKE#2

An older, tired-looking Dalmatian dog wandered into my yard the other day. I could tell from his collar, tags and well-fed belly that he had a home and was well taken care of. He calmly came over to me wagging his tail. I gave him a few pats on his head. He then followed me into my house, slowly walked down the hall, curled up on my leather couch and fell asleep.

An hour later, he went to the door, and I let him out.

The next day he was back, greeted me in my yard, walked inside and resumed his spot on the couch and again slept for about 2 hours. This continued off and on for several weeks.

Curious, one day I pinned a note to his collar reading: 'I would like to find out who the owner of this wonderful sweet dog is and ask if you are aware that almost every afternoon your dog comes to my house for a nap.'

The next day the dog arrived again for his nap, with a different note pinned to his collar: 'He lives in a home with 6 children, 2 under the age of 3 – he's trying to catch up on his sleep. Can I come with him tomorrow?'

If you would like to discuss anything mentioned in our newsletter please contact us at:
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