

Newsletter

March - May 2006

FISHER

CHARTERED ACCOUNTANTS

HEASLIP LTD

SYSTEMS & SOLUTIONS FOR SUCCESS

Best wishes for 2006, we trust it will be a very successful and prosperous year for you. Remember we are here not only to do your regular compliance work, but also to assist you achieve your business goals.

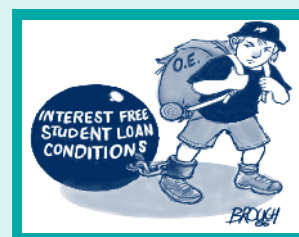
The office will be closed all day on Friday 31st March.

Due to a team building/staff training day. It will be business as usual on Monday 3rd April.

Interest-free student loans

FROM 1 April 2006, former students will be entitled to a write off of all their student loan interest, subject to these conditions:

1. Initially, they must stay in New Zealand for 183 consecutive days. The write-off is then backdated to the first day.
2. They may go overseas during this time on condition they are not away for more than 31 days within this period.
3. Once borrowers have qualified for the write-off, they remain entitled to it unless they become absent from the country (see 4 below). This means your daughter could take five months off and go to Europe and still not lose her entitlement to the write-off. However, when she becomes aware she will be absent from New Zealand for more than three months, she must write and tell Inland Revenue as soon as possible.
4. If your daughter was away from New Zealand for 184 or more consecutive days, she would become absent and lose her loan write-off from the day she left.
5. The 184 days rule can't be avoided by popping back here for a few days. She would need to be back for more than 31 days out of the 184 days.
6. An absentee can re-qualify by complying with condition 1 (above) again. If your daughter went away for two years, she would cease to get the write-off during this time. However, on returning, she could serve her 183 days and get her rights back. She would pay interest on the loan for the two years she was away.
7. Part days in New Zealand are treated as being present for the whole day. The day your daughter leaves and the day she returns count as being in New Zealand.



Exemptions are available:

A borrower may apply to IRD for an exemption from the 183 day rule. The following are acceptable reasons for an application:

1. She is working overseas for the New Zealand Government.
2. She is working for a "charity" on no pay, or very little, for a maximum of 24 months.
3. She is accompanying a life partner on conditions set out in the Act, including proof of the relationship.
4. She experiences an unexpected delay as specified in the Act.
5. She has an unplanned personal absence as specified in the Act.
6. She is employed or is in a business requiring her to be overseas on conditions set out in the Act. These are designed to ensure she is earning income which will be taxed here.
7. She is absent for post-graduate study on provision of specified information.

Amnesty for those who have skipped and not made loan payments

Non resident borrowers, or someone on their behalf, can apply to have penalties cancelled provided:

- They are non-resident at 31 March 2006.
- They meet all their obligations under the Act for two years from the date IRD receives their application.
- Their application is received by IRD by 31 March 2007.

Contents

Interest-free student loans

Check BEFORE you get to annual accounts

Tax Traps - Do it yourself?

Tax Dates

On the job market research

New business? 10% risk free!

Client Profile:

Geoff Taylor Goldsmith & Jeweller

How to boost consultants' incomes

Shareholder agreements

Setting your goals for 2006-2007

Rental properties

Invest wisely

Will You Have Sufficient Money to Retire?

Check BEFORE you get to annual accounts

HERE are some reminders of things to do to minimise tax risks:

- It is smart to pay company tax due on 7 April by 31 March. The company Imputation balance (company tax available for attaching to dividends) is calculated at 31 March and if too big a dividend has been paid, early payment of tax could save you a penalty.
- Don't forget to write off bad debts by balance date (**not after**). Whatever system you use to keep a track of money owing to you, be sure it is clear the debt was written off in time. For example, you keep copies of the invoices and work off these. In this case, write a note on the invoice to show you have written it off. **Initial it and date it.** Take it out of the pile of invoices awaiting payment and put in a Bad Debts folder. **You are still permitted to chase your bad debts.** If you get a payment, this becomes income in the year of receipt.
- If you have stock worth \$5000 or more, be sure to count and value it. Keep the evidence to show IRD, if it ever asks for it. If less than \$5000 you may use the same figure as the previous year.
- If your taxable profit is likely to exceed \$112,000, you could have to pay interest to IRD. Review your potential tax liability and get in touch with us, NOW, if in doubt. Interest back-dated at 13.08 percent hurts.
- If you have a family trust owning shares in your company and want to pay some of its income to one or more beneficiaries, you may need to pay a dividend before the individual's balance date.



Tax Traps - Do it yourself?

THE most ruinous do-it-yourself decisions are probably those affecting taxation. Here are some cautionary tales:

Share transfers

Some people organised their own share transfers. Their company was a Loss Attributing Qualifying Company (LAQC), a company permitted to distribute its losses to its shareholders. They failed to notify IRD within the required 63 days and lost LAQC status and could no longer distribute company losses or capital gains to shareholders. Fortunately, they did not lose

imputation credits (tax credits available to attach to company dividends) as well, as the shareholding change was less than 34 percent. This could have cost a fortune in extra tax.

Sale of property from company

Another do-it-yourselfer narrowly escaped a capital gains tax on selling property from a company to himself. We intervened in time.

Dividends

Do-it-yourselfers distributed dividends to themselves without complying with the Companies Act solvency test and without even a signed minute. Fortunately, the transaction was invalid. Their imputation credit account would have been overdrawn, resulting in a tax penalty of 10 percent plus accumulating interest.

Preparing accounts for a family trust

This person prepared his own accounts for a family trust which owned a rental property. He failed to claim the maximum possible depreciation. The effect will continue for as long as the trust owns the property. If you don't claim depreciation when you should, the shortfall is taxed at the time of sale. He could have distributed some of the profit to a beneficiary, who would have paid tax at 19.5 percent instead of 33 percent.

IRD has no sympathy for do-it-yourselfers. They are expected to seek professional advice.

Tax Dates

April 7

1st Instalment 2007

Provisional Tax
(December balance date)

Terminal Tax 2005
(March, April, May and June
balance dates)

7 May

3rd instalment of provisional
tax for May Balance Dates

7 June

3rd instalment of provisional
tax for June Balance Dates

On the job market research

ASSISTANTS ringing up sales have a chance, at that time, to gather information about customers by asking them a question. I recently made two purchases in a departmental store and noticed I was asked, on both occasions, which part of the city I lived in.

If you are a retailer, you might wish to gather more information about your customers, such as how often they shop at your store. Frame your question carefully. The assistant should use the same words every time to ensure you get the response you want.

New business? 10% risk free!

NEW businesses, started after 31 March 2005, can pay their income tax early and the Government will pay them 6.7 percent tax free on the early payment. As you would expect, conditions apply. One of them is payment has to be made **by the last day of their financial year** (for most people this will currently be 31 March 2006). Conditions include:

1. You must be a sole trader or partnership.
2. No interest is paid on any amount which is more than 105 percent of the final (known as Residual) Income Tax.

6.7 percent tax free is equivalent to 10 percent taxable for those paying tax at 33 percent, and nearly 11 percent for those on the 39 percent rate.



Client Profile

Geoff Taylor Goldsmith & Jeweller

The Cambridge Collection

www.taylor-made.co.nz



Left to right: Susan, Chele, Geoff and Paul

Geoff Taylor (Goldsmith and Jeweller) and the Cambridge Collection have been in business in Cambridge for over 20 years and have developed a healthy “niche” market with their jewellery and equestrian range.

They specialise in one-off designs or remodelling old jewellery so that it is affordable but also unique.

As they are a small “open” workshop they are now “by appointment” so they can offer privacy, in an environment that is peaceful and creative.

There is no charge for consultations or to view. Geoff and Chele wish to give their clients informed choices and options and this can only be achieved by one on one appointments.

There is a wonderful range on display of chains, bracelets and bangles, rings, pendants and earrings. All the jewellery is available in any metal and they are always happy to help you choose what is right for you.

Pictured are just a few examples of some of the pieces made at their workshop.

To visit please phone

Chele or Susan on (07) 827 5577 or
email us at Goldsmith.Taylor@extra.co.nz

Fax: (07) 823 1150 •• PO Box 474 Cambridge

Interested in profiling your business?

If you are interested in doing a similar article for your business, please contact us so we can advise you of the steps to set up your profile in one of our future newsletters.

How to boost consultants' incomes

HERE is a checklist to help you increase your bottom line. You sell your time. You have only 2000 hours in any one year. Choose the ideas which suit your practice, arrange them in order of your preference and start implementing them.

- Increase your capacity by using more staff or contracting work out.
- Save time by reusing documents already typed for other clients - get a good system for filing, even if it means filing the same document in two or more ways.
- Look at all the ways to promote your business and select the most effective, for example seminars, newspaper articles, direct mail, newsletters. Brainstorm with your team and make up a list.
- Increase fees.
- Make sure you charge for everything by accounting for all your time every day as you go.
- Count and analyse your non chargeable time and control it. Set a monthly maximum.
- Set yourself a weekly target of chargeable time. Daily is no good because of unexpected interruptions.
- Be selective in your choice of clients or choice of work so you get the better paying work. If you have plenty of work, keep culling your worst clients.
- Become more specialised so you are doing work others can't. This attracts a premium.
- Work more hours - undoubtedly the worst option to choose.

Shareholder agreements

THE value of shareholder agreements lies in providing internal mechanisms to deal with unforeseen circumstances and to avoid costly disputes.

- At a minimum the following matters should be addressed:
- A company overview that provides vital background information about the company's purpose and objectives.
- Management guidelines that stipulate the power of shareholders to appoint directors, the authority of directors, voting thresholds and reporting requirements.
- Share structures and capital funding arrangements, including dividend policies and agreed valuation methods.
- Exit strategies, including where appropriate any pre-emptive purchase rights and insurance policy requirements.
- Dispute resolution procedures.

Setting your goals for 2006-2007

FOR most people, a new financial year starts on 1 April. Set some goals for the 2006-07 financial year but be SMART. Goals need to be:

Specific

Not vague. More sales is vague. New corporate clients is specific.

Measurable

quantified, like get 12 corporates as new clients.

Attainable

be realistic. You should stretch but it is good for team morale to win.

Relevant

must relate to the direction you want your business to take.

Time limited

goal has to be achieved within a defined time.

Rental properties

EXPERTS say the most profitable rental properties are usually found in the lowest socio-economic areas. The worst yields are in up-market suburbs, but these often register the highest capital gains. Most people seem to go for the crowded middle where yields are not as exciting and capital growth is slower.

Invest wisely

YOU can make more money, but you won't get more time. Treat your time as expensive because it is limited.

The fastest capital growth comes from investments you actively manage – usually businesses and real estate.

Grow your wealth by investing others' money, for example a bank loan, profitably. This is financial leverage.

Lending your own savings is a slow way to success. It lacks leverage. However, for some, it may be a lot safer.

Will You Have Sufficient Money to Retire?

- What retirement strategies have you put in place?
- Have you a well-funded superannuation fund?
- What other personal assets do you have which will assist you in retirement?
- Have you calculated what your financial needs are going to be?
- Can an effective superannuation fund still be established, so as to give you adequate funds for retirement?

Lack of forward planning with regards to superannuation and other assets to fund retirement is one of the major problems affecting successful succession in small businesses.

This is usually caused through business people ignoring retirement planning until they are very close to retirement age. By then it's often too late to accumulate enough retirement assets.

We now have a process which allows us to predict and highlight the likelihood of you achieving your retirement goals, if you are interested in us showing you how this process works please contact us

If you have any questions or comments, please don't hesitate to get in touch with us at any time, call 827 6006 or email us at: admin@fisherheaslip.co.nz or visit our website: www.fisherheaslip.co.nz. We'd love to hear from you!

If you have received the hard copy of this newsletter and wish to receive as electronic format please let us know.

PS. If there are other people you know who would like to subscribe to this newsletter, they can sign up by emailing us at: admin@fisherheaslip.co.nz