

Newsletter

September - November 2006

FISHER

CHARTERED ACCOUNTANTS

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SYSTEMS & SOLUTIONS FOR SUCCESS

Welcome to our spring newsletter. With the days getting longer and brighter we can look forward to summer!

Capital Gains Tax on shares affects all savers

IF YOU are saving for retirement, you will be affected if the proposed changes to taxing overseas-listed company shares and local managed funds go ahead.

The proposed changes would not affect those who hold overseas shares in their own name or family trust (as the law is currently proposed) up to a cost of \$50,000, or if owned before 1 April 2000 the figure is \$100,000.

The Government intends to tax the gain in value of shares held in all overseas countries. The exceptions are publicly listed shares in Australian resident companies and some overseas companies listed on the New Zealand Stock Exchange, having a high proportion of New Zealand shareholders. The plan is to tax 85 percent of the gain in the value of shares. In the USA, for example, many companies never pay dividends. This means New Zealand citizens never pay tax on profits from holding these shares. Our government wants a share of the action.

The Government is also changing Capital Gains Tax as it affects managed funds. Currently all managed funds are taxed on profits from selling shares. The Government sees this as inequitable.

The private investor is not generally subject to the tax.

Those funds which conform to their new rules will be called Portfolio Investment Entities (PIEs) and will cease to be taxed on profits from sale of shares, as long as they do not become share traders. You should also note:

- Contributors to PIEs will be taxed at their own tax rate, instead of 33 percent as applies now.
- For those with incomes of \$48,000 or less, this will be 19.5 percent.
- The maximum tax payable by a PIE is 33 percent - an advantage for those on incomes exceeding \$60,000.
- Investments in PIEs will not have to be taken into account for family support and student loan purposes.

We will provide more information about Capital Gains Tax on shares once the law has crystallised. Our purpose, now, is to draw your attention to some of the possible effects of the changes.

Some of those with overseas shareholdings are selling out before the Capital Gains Tax takes effect from 1 April 2007. They will have to re-invest somewhere. If they choose Australian shares, they will not be able to use franking credits (tax credits on dividends for tax paid by the company). Consequently, they may increase their holdings of New Zealand shares. More money is likely to be chasing a relatively fixed supply of shares. So share prices will tend upwards or may not fall as much as they might have done. This may already be happening in anticipation of the law change.

Investment money returning to New Zealand and money no longer being sent overseas might also find its way into fixed interest and the property market; in the latter case holding up or increasing the value of rental property.

What should you do if you hold overseas shares?

You could wait and see. Even if you still hold shares in overseas companies when the new law comes into effect on 1 April 2007, you will not have done much harm by sitting on them. There is no plan to tax your paper profits made up to 31 March 2007. If your later capital gains are substantial and you have to pay some tax, you might still be better off than you would have been investing locally. We suggest you compare investing in Australasia with continuing your holding overseas. It's time for some homework. Consult us if you want full details of the proposals.

Consider switching your overseas investments by putting fixed interest investments offshore. Overseas interest rates are mostly very much lower than ours, but you can get a reasonable return on your money if you look around. For example, British Gilts (government stock) will probably show about 5 percent, but banks will pay you 3 percent if you are lucky. Your investments will need to be valued each year in New Zealand dollars and will be subject to tax on gains and losses from fluctuations in the value of our dollar. Investing some of your money outside Australasia spreads your risks.

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Marketing Expertise - 10 Tips for a Well-Run Business

You've got to be business savvy to run a successful business these days. And small business-owners, who often do not have the support of skilled consultants, have to call on their own experience, knowledge and common-sense. That's why, just for starters, they need to have good leadership skills, establish good systems, ensure staff understand about product knowledge and have great rapport with customers.

Another useful characteristic for any business owner to have is the ability to recognise and assess opportunities in the market place. Here are ten tips to keep in mind:

1. Understand and monitor the prevailing economic and industry conditions - look for opportunities.
2. Analyse the demographics of your customer base and customer profiles: what are their needs, disposable income?
3. Determine what pricing strategies can be implemented.
4. Know what your competitors are doing.
5. Determine promotional strategies to suit your target customers eg, media, word-of-mouth referrals; and plan promotional schedules around specific activities that will affect your customer base.
6. Develop a budget for each promotional activity prior to commencing, highlighting what you hope to achieve, what it is going to cost to promote and then analyse the performance against the budget expectation at the conclusion of the activity.
7. Measure the success of media advertising or promotion.
8. Checklist for maintaining sales:
 - Increasing the number of customers can be affected by: location, effective advertising, in store displays, demonstrations and special events
 - Exterior appearance is important
 - Effective hardworking employees are vital assets to a business
9. Hints on increasing average sales:
 - Companion selling
 - Merchandising/display
 - Stock mix
 - Selling higher quality
 - In-store signs
10. Increasing repeat visitors by customers:
 - Staff attitude
 - Staff sales ability
 - Stock range
 - Direct mail
 - Customer clubs, outings, etc.
 - Staff product/service knowledge
 - Business image/appearance/housekeeping
 - Birthday and Christmas cards
 - Newsletter

Timesaving

WE mentioned the sorting board in our June newsletter. Here are some more tips to help you save time:

Write it once

Never rewrite anything. Use the photocopier or your computer, and copy and paste.

Dictating machine

Dictating machines can save a ton of time. Let someone who can type faster than you do the writing for you. Use the machines to delegate jobs to someone whose time costs less than yours. You can send dictation by email so a typist working from home could attend to it.

You seldom make money driving

Unless you drive a taxi, you usually earn a living when you stop driving. Therefore, minimise your travel. Plan your driving and group work into geographical areas. Get people to come to you.

Get rid of pests

Some customers waste your time. An old man was talking to a shop proprietor telling her all sorts of trivia. A customer waited. He turned to the customer and said, "I hope I am not holding you up" and then continued talking. Learn to handle these time wasters.

Interruptions

You have to be accessible. However, you also need to plan your work so there are times when someone will have to take messages for you. Constant interruptions can make your work impossible.

Conclusion

Books have been written and seminars are frequently presented on this subject. It's worth learning more. Time saving is an easy way to make more profit.

Staff are Vital to Your Business - Treat Them So

Without your staff would you have a business?

If the answer is 'no' your staff obviously play a huge role in your business. In fact they are worth their weight in gold. And part-time and casual staff are just as important as full-timers. They need to be treated as part of the team.

There's a big job involved here. To be effective in business you must be able to properly manage people. Communication, listening to your team, showing them that you care and understand their problems, explaining where the business is and where it's going - these are essential leadership ingredients.

And bear in mind, managing people takes time. Don't assume a half-hearted approach by squeezing staff issues into a weekly specified time slot.

Think about what motivates people at work. Numerous surveys indicate salary is not the most important thing from an employee's point of view. More important are:

- Full appreciation of a job well done
- Feeling 'in' on things (in other words being communicated with and listened to)
- Interesting work
- Job security
- Wages at a proper level
- Sympathetic help on personal problems
- Promotion and growth
- Personal loyalty to the worker
- Good working conditions
- Tactful discipline

Keeping them informed

Many of these points, for example, communication, are especially important for part-time workers. They may not be there to attend meetings, or hear the latest news, but that shouldn't prevent them from being informed.

Good, open communication is critical for a well-run business. If necessary find other ways to communicate with staff who are not at work all the time.

Doing interesting work is another bugbear of part-timers. Rather than being left with the duller aspects of the job, part-timers should feel just as empowered as full-timers to take on more responsibilities. Personal development should be a high priority.

Don't overlook the valuable work your staff are doing for your business. They deserve your thanks as well as your inspired leadership.

Tax Dates

October 7

1st instalment of provisional tax
(June Balance Dates)

2nd instalment of provisional tax
(February Balance Dates)

3rd instalment of provisional tax
(October Balance Dates)

November 7

1st instalment of provisional tax
(July Balance Dates)

2nd instalment of provisional tax
(March Balance Dates)

3rd instalment of provisional tax
(November Balance Dates)

Terminal Tax
(October balance dates)

December 7

1st instalment of provisional tax
(August Balance Dates)

2nd instalment of provisional tax
(April Balance Dates)

3rd instalment of provisional tax
(December Balance Dates)

Tax holiday for returning Kiwis and others

BEWARE the 10 year rule. Immigrants and New Zealanders who have been away from the country for more than 10 years, may be exempt from income tax on income derived from overseas. The exemption applies for four years plus the month in which they establish a permanent place of abode here. Anyone claiming this tax break is not entitled to Family Support.

Check with us for full details and conditions.

IRD and ATO swap info

Expect the Inland Revenue Department to know everything about your business or investing activities in Australia. The New Zealand Inland Revenue Department and the Australian Tax Office have full access to each other's records.

CoverPlus Extra

CoverPlus Extra premiums are tax deductible for a sole trader and a partner in a partnership, provided they are incurred in deriving taxable income. However, since the premiums are a personal cost, they are not claimable in a company, nor by a shareholder, because the money from a company is a salary and no expenses can be claimed against salaries.



Tax Traps - Negotiating with IRD

OCCASIONALLY clients who have trouble paying their tax try to negotiate their own payment arrangements with IRD instead of discussing it with us. Recently, one of them (figures are fictitious) had income of \$100,000 a year and agreed to pay \$4000 a month to clear tax arrears. IRD expected him to also maintain normal provisional tax payments, which were about \$10,000 every four months, but he did not understand this.

He stuck to his agreement and maintained the payments, while further arrears built up in the form of provisional tax. These payments were not subject to the arrangement. Penalties and interest accrued on them. When asked to relent because the taxpayer had not understood, the IRD merely extended the arrangement and agreed to reduced instalments. The penalties stood.

When negotiating an instalment arrangement, clients must reduce the amount they think they can pay, to allow for their provisional tax as it falls due plus any terminal (wash-up for last year) tax yet to be paid.

IRD will cancel penalties if they accept an arrangement to pay off tax in instalments. Penalties are cancelled from the time the arrangement is accepted so penalties in arrears stand.

The department also charges interest at 13.08 percent on the outstanding balance of tax owing, including penalties. Interest continues to be calculated on the reducing balance until all arrears are fully paid.

Working for Families

"I THINK I'm going to have another addition to the family," said Wendy. "I haven't told Ross yet. Do you think he'll be surprised?"

"Are you saying you're pregnant?" I asked.

"Not yet, but it's a good idea don't you think? I've been into the IRD website and there are huge payouts under this new Working for Families scheme. For a start, I could get Paid Parental Leave at \$357.30 a week for 14 weeks. That's five grand and all I have to do is work for 10 hours a week for six months and pay myself at least this amount to qualify!

"Then there's family assistance. Ross can work a bit harder and between us we'll pull in say \$75,000 a year. This'll give us another \$512 a week, because we'll have a family of six children. What's more, it's tax free money, which is equivalent to getting on for \$40,000 a year of earnings."

"Wendy, take it easy," I responded. "You already have five children so qualify for \$388 a week on that income. Still, I can see the initial attraction. And even the fine print's good - when each kid turns 13 you get an increase."

"I've got another idea," she went on. "I'm surprised you didn't point this out. You know you told me to form a company and let my family trust own most of the shares. You realise I can leave as much money as I like in the company and I never have to count the profit for family assistance purposes? Ross and I can just about nominate our income and then get as much as we like back through our family trust as debt repayments to us."

"Subject to the dentist's case W33 (for income tax purposes) and there being no law change," I added.

"Now tell me I'm the smartest client you've got," she called out as she walked out of the office.

"Don't forget the Childcare subsidy," I yelled out after her. "Get your income below about \$69,160 a year and you'll qualify for some of that as well. And," I threw in for good measure, "as you live in WINZ's area 3, get your income below \$50,700 a year and your cash assets below \$16,200 and you'll qualify for a bit of the accommodation supplement as well." She smiled.



Accounting for family trusts

FAMILY trusts are formed for beneficiaries. Trustees have to account to them. They should never mix their personal transactions with those of the trust.

If you sell a mortgaged family home to your trust, either lend money to it to pay the mortgage or, if you pay it yourself, increase the trust's debt to you by the amount you have paid. If you do not do this, you will be deemed to have made a gift to the trust of the amount of the mortgage you have paid on its behalf. This gift will be added to your gifting programme, if you have one, and could result in a liability for gift duty.

Most trusts need financial accounts. Accounting for a trust can be time-consuming. Examples include:

- Transfers of money from one investment to another, perhaps through a share broker, without putting the transactions through the trust's bank account. The trail can be hard to follow.
- A client pays \$200 a fortnight into five different trusts, with different amounts apportioned to each and payments varied. The value of the investments has to be confirmed at the end of each year. Often, one of the difficulties is getting clear statements from fund managers.

In the interests of saving accounting fees:

- Keep your trust investments simple.
- At the end of each year, supply us with documents showing the movements in investments during the year and the balance at the end of the year.
- Get your bank to provide up-to-date statements of mortgages.

What's Important For Customers?

According to various surveys it's not about price. In fact, the price people are prepared to pay is the cost price of the article plus perceived added value, i.e., the extra value they feel they are getting from the organisation's investment in things like staff training, product knowledge and after sales service.

The only time price becomes important is when all the other factors are equal. Here are some other factors which are considered important:

- **Make yourself convenient**
Convenience is hugely important for today's consumers. Are you in a handy location and is there plenty of car parking nearby? Can you adjust opening hours to better suit customers? Can you put your most highly trained staff on busiest days i.e., weekends?
- **Be welcoming and attentive**
Receptionists and retail staff need to greet visitors as soon as they arrive at the business, in a manner that encourages conversation. Don't give the telephone preference over a waiting customer.
- **Solve problems**
If you can solve the problem, you've saved the customer wasting time looking elsewhere. They'll pay your price, come back again next time and probably even recommend you to friends. It pays to spend time finding that solution.
- **What's in it for me? (WIIFM)**
What's the benefit to a customer of doing business with you? As a small business you may not have the power of a big brand behind you, but you might be unique in other ways. If it's a benefit to the customer - that's important. For example, toys to occupy small children can be godsend to harried parents especially when they need time to make a decision.

Design/Artwork Service

Jenni is not only our friendly Receptionist/Administrator but she also has more than 10 years design/artwork experience from her previous career here and in the UK, she holds a BA(HONS) in Graphic Design from her studies in the UK. If you need anything designed or artworked (from business cards to packaging), please contact us on 07 827 6006. Jenni will be happy to show you her portfolio.

Networking - The Way of the Future

To many observers, networking is the way of the future for small to medium-sized businesses. Essentially a network is a group of enterprises pooling their talents and resources to get results that otherwise would be impossible.

The Benefits to business:

- Sharing the enormous amount of expertise now required to survive in business
- Overcoming common problems of limited resources, limited skills, limited capital base and overall insufficient critical management skills
- Gaining access to a repository of knowledge in relation to markets and other suppliers and their products
- Overcoming barriers for growth through lack of financial resources and marketing expertise
- Accessing new markets, customers and suppliers
- Increasing muscle from their combined strength, ensuring they can continue to compete in the future
- Overcoming the difficulties of insufficient size - while successful in their own right, many SMEs are too small to be competitive head-on with major companies
- Providing a scale of economy or buying power and offering a broader range of financial and human resources with which to expand their businesses
- Producing individual items and services that, when put together, create a product that none of the members could have produced on their own

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BankLink Invoice Plus is an easy-to-use invoicing application which enables you to raise quotes, create invoices and track your receipts and debtors - all in a very straight forward way. BankLink Invoice Plus works well as a standalone application, but can also be used in conjunction with any of the three BankLink Client Tools: BankLink Coding Report, BankLink Notes and BankLink Books. It is very easy and simple to use. **This product is available FREE to existing customers of BankLink only.** Please contact us on 07 827 6006 for more information free of charge.

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