

Newsletter

Sept/Oct 2005

FISHER

CHARTERED ACCOUNTANTS

HEASLIP LTD

SYSTEMS & SOLUTIONS FOR SUCCESS

Over the next few issues we will be bringing a more personal feel to our newsletter with articles based around your needs.

Purchase and Sale

We would like to highlight the importance of these agreements and the implications on you as a client in the event where the agreement terms may not be in your favour. We recommend that we are given the opportunity to review the following types of agreements before they become unconditional to attempt to avoid some of the common pitfalls highlighted below.

- Purchase and Sale of Land & Buildings.
- Purchase and Sale of a Business.
- Purchase and Sale of Plant & Equipment.
- To Own or to Lease an Asset.

In fact the purchase and sale of any item of any significance may have terms and conditions which may be able to be reviewed by ourselves to your benefit. Some of the most common things to consider are as follows.

Ownership

There are often a number of ownership alternatives for the purchase of an asset or business which we can review with you to determine what is most suitable when considering Asset Protection, Tax Deductions, Succession Planning etc. These options often include Companies, Trusts, Partnerships & Individual ownership all of which have their "Pros & Cons" so please let us know before you go unconditional where possible. We also suggest using the "*Or nomine*e" clause next to purchasers name which will generally allow you to use another type of business to purchase the property or business if that is more suitable up to the date of settlement.

Timing

The dates where the purchase and sale agreement become unconditional and are settled are significant. These dates can affect the timing of GST and taxation payments depending on your GST return periods and end of year balance dates. For example the sale of \$200,000 worth of land on the 1st of April vs the 31st of March could mean that you do not have to pay the GST on the sale for six further months (if on six monthly GST).

Values

While the total price for the purchase and sale is agreed, the breakdown of the individual items can have a significant affect on income taxes and GST. The items which need to be considered are as follows;

- **Business Purchase and Sale** – Goodwill, Stock and Plant & Machinery Allocations.
- **Land & Buildings** – Allocation of Land, Buildings & Related Fittings, Sheds and Capital Improvements.
- **Other Assets** – General Value & Trade-in Allowances.

While all of these need to be at market value the individual allowances for all of these need to be considered so please make sure you know what these are and where possible call us for advice. Please refer to our article on Depreciation Clawback for more information.

Capital Gains?

In an environment where subdivision is so popular, there is often a misconception that any profit received from doing so will not be taxable. These types of activities have quite complicated rules which are assessed on a case by case basis but are usually affected by the following two factors.

1. How long have you owned the land.
2. How much work was performed to complete the subdivision.

Income Tax and GST can substantially reduce the net cash profit from completing a subdivision, so please ask for advice before you commence this type of activity.

We hope that this article has highlighted the fact that the Purchase and Sale of assets is not always straight forward from a tax and asset protection point of view and the cost of taking advice prior to an agreement becoming unconditional may save a lot of headaches at a later date.

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Assignment of income

A CLIENT, taking the advice of his financial advisor, gave his wife a large sum to invest so she could derive the interest and the pair of them could save some tax. When we suggested this transaction amounted to an assignment of income, the financial advisor said she thought we were being pedantic. Be sure to take tax advice from those who know tax.

If you lend money to another person for investment, so the interest can be taxed at a lower rate than it would be in your own hands, you are assigning your income. This is not permitted.

You can do several things:-

- 1 If you are the bread-winner, get all your income paid into a joint account. This now becomes family money. When invested the income belongs to both partners and can be split equally between the two tax returns. Half a cake is better than no cake.
- 2 You can enter into a matrimonial settlement. You agree some of your assets will, in future, belong to you jointly and in this way you can share the income. This choice could be useful if you own rental properties and you want the rent to be shared.
- 3 You could sell your investments to a family trust. Your spouse could be a beneficiary and all the income could be allocated just as you want it.
- 4 There are several other ways of achieving the desired result, such as having a company owned unevenly.

Your decision should not be tax motivated.

Adding 20% to bottom line

HOW many retailers remember the McDonald's suggestion "Will you have fries with that?"

It's a powerful marketing tool. We know of a retailer who has made a point of adopting the idea for his business.

He has a staff of eight. He ensures they all look for added-value sales by reciting a sales script, with variations for the different stock items they sell.

He keeps track of the add-on sales with computer software, measures employee performance and reports to each staff member monthly.

He has found that for every original sale, he is achieving an extra 40 percent for other sales made at the same time. His goal is to achieve a 75 percent add-on. He rewards his staff, not individually, but as a team.

Our retailer is in a highly competitive industry. In spite of this, he has lifted his profit by 20 percent in one year.

We give you these real-life examples in our newsletter to show you the theory really does work for those who take the trouble to apply it.

Depreciation Clawback

WOULD you like an unpleasant surprise? Try selling a rental property.

Some years ago the tax law was changed. Before this, it was assumed that when you sold your rental property, the depreciation you had claimed on the building was a fair expense, which did not require correcting at the time of sale. The rules changed.

When you buy a rental property, we divide the cost into three parts – value of the land, value of the building and value of chattels.

When your rental property is sold, we calculate the proportion of the selling price which applies to the building. We compare this with its depreciated value. If this results in a gain, you will have to pay tax on the difference between the written down value and the amount you originally paid for the building. Clients often believe all the money they receive when they sell their rental property should be a non-taxable capital gain. If you sell a rental property, be sure to put some money aside for tax: if you want to know how much, call us.

Tax Dates

October 7

2nd instalment of Provisional Tax
(June balance date)

3rd Instalment of Provisional Tax
(October balance date)

November 7

1st instalment of Provisional Tax
(July balance date)

2nd Instalment of Provisional Tax
(March balance date)

Terminal Tax

(October balance date)

Fisher Heaslip team

We thought we would provide you with an update of our current staff, over the next few issues we will be introducing them to you.

Maree Fisher

Grant Heaslip

Gary Lorigan

Alison Wiseman

Brad Cooper

Dave Mundy

Dominique Johnson

Donna Gerrand

Gaileen Geary

Hamish Scott

Jenni Hoogeveen

Sam Fletcher

Stewart Mitchell

Client Profiles

We are considering introducing a section in our newsletter which will include client profiles. This will include some background information on that business, and ideally some form of promotion to readers of the newsletter to encourage client networking.

If you are interested in profiling your business please contact us to find out more details.

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